Annual Report
for Year Ending
December 31, 2011

UNITYMEDIA GMBH

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Germany

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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 forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *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 defined in this annual report);
- 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, including as a result of the LGI/KBW Transaction;

- 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 "Unitymedia" refer to Unitymedia 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 states of North Rhine-Westphalia and Hesse, Germany, providing digital and analog cable television and broadband internet and telephony services to our customers. The two federal states have a population and combined number of households of 23.9 million and 11.6 million, respectively, and are home to ten of the twenty largest cities in Germany including Cologne, Dortmund, Dusseldorf, Essen and Frankfurt. We are the second 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, a wholly-owned subsidiary of Liberty Global, acquired (the LGI/KBW Transaction) all of the outstanding shares of Kabel BW Musketeer GmbH, the indirect parent company of Kabel BW GmbH (KBW). The acquisition was completed in order to achieve certain financial, operational and strategic benefits through the integration of KBW with our company, 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 KBW with several conditions primarily concerning certain agreements and relationships our company and KBW 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**
Footprint		
Homes Passed[1]	8,674,200	8,718,900
Two-way Homes Passed[2]	8,304,900	8,183,600
Subscribers (RGUs[3])		
Analog Cable[4]	2,692,400	2,954,200
Digital Cable[5]	1,735,800	1,533,800
Total Video	4,428,200	4,488,000
Internet[6]	1,032,500	780,300
Telephony[7]	1,028,400	779,300
Total RGUs	6,489,100	6,047,600
Penetration		
Digital Cable as % of Total Video Subs[8]	39.2%	34.2%
Internet as % of Two-way Homes Passed[9]	12.4%	9.5%
Telephony as % of Two-way Homes Passed[9]	12.4%	9.5%

Customer relationships		
Customer Relationships[10]	4,534,900	4,555,100
RGUs per Customer Relationship	1.43	1.33
Customer bundling		
Single-Play..	76.9%	82.5%
Double-Play	3.2%	2.2%
Triple-Play	19.9%	15.3%

(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.

(3) Analog Cable Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our analog cable service over our broadband network.

(4) Digital Cable Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our digital cable service over our broadband network. We count a subscriber with one or more digital converter boxes 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. As we migrate customers from analog to digital cable services, we report a decrease in our Analog Cable Subscribers equal to the increase in our Digital Cable Subscribers.

(5) 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. We offer a 128Kbps wholesale internet service to housing associations on a bulk basis. As of December 31, 2011, our Internet Subscribers include approximately 6,000 subscribers within such housing associations who have requested and received a modem that enables the receipt of our wholesale internet service.

(6) Telephony Subscriber is a home, residential multiple dwelling unit or commercial unit that receives voice services over our network.

(7) Digital cable penetration is calculated by dividing digital cable RGUs by the total of digital and analog cable RGUs.

(8) Internet and telephony penetration is calculated by dividing the internet and telephony RGUs by two-way homes passed.

(9) 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.

Our predecessor company was formed on September 20, 2002, as a German limited liability company (*Gesellschaft mit beschränkter Haftung*), which we refer to as Old Unitymedia. Old Unitymedia's operations resulted from the acquisition by iesy Hessen GmbH & Co. KG of ish NRW GmbH (ish NRW) in 2005 and the integration of the assets and liabilities of the cable network business of Tele Columbus which were located in North Rhine-Westphalia and Hesse. The combinations allowed Old Unitymedia to interconnect the broadband cable networks in North Rhine-Westphalia and Hesse and build the first fully integrated cable network in Germany. In May 2007, Old Unitymedia introduced a single Unitymedia brand for its products and services and, in its upgraded network coverage area, began to offer a triple-play product, combining digital cable television services with broadband internet access and telephony services.

We were formed by Liberty Global on October 15, 2009, in contemplation of the issuance of debt financing in connection with our then potential acquisition of Old Unitymedia. On January 28, 2010, we acquired 100% of Old Unitymedia (the LGI/Unitymedia Transaction) and on September 16, 2010, Old Unitymedia was merged with us and we were the surviving entity in the merger.

We are registered with the commercial registry of the local court (*Amtsgericht*) of Cologne under number HRB 68501. Our principal business address is Aachener Straße 746-750, 50933 Cologne, Germany. A copy of this annual report, our quarterly reports and our other releases are available on Unitymedia's (www.unitymedia.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 states of North Rhine-Westphalia and Hesse, Germany. In addition, in the upgraded portion of our network coverage area (which covers 96% of our total network coverage area), we offer our customers access to triple-play services under the brand "Unity3play" consisting of digital cable video, broadband internet and telephony. In some cases, we offer a quadruple-play that includes mobile services. 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 began offering our customers mobile phone services in December 2011.

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.

Prior to September 2010, our predecessor company operated a national satellite digital pay-TV platform called "arenaSAT". We closed down this service effective September 30, 2010 and it is presented as a discontinued operation in our consolidated statements of operations and cash flows.

Video Business

We market our video services under the integrated "Unitymedia" 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 near-video-on-demand (NVoD) (our pay-per-view service). During 2012, we expect to launch our full video-on-demand (VoD) service. To receive our digital services, a subscriber must rent from us a set-top box, or have an integrated digital tuner in the television set, and obtain a smart card. 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 8.7 million homes or 75% of all households in North Rhine-Westphalia and Hesse.

There are 1.7 million RGUs that subscribe to our digital products and 2.7 million RGUs that subscribe to our basic analog 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 digital products was 39.2%, compared to 34.2% as of December 31, 2010.

Basic and Digital Cable Services. Our basic cable digital product, "Digital TV BASIC," offers an entry level digital cable product with up to 75 digital channels, including the analog simulcast, and 70 radio channels. Our basic analog package consists of up to 36 television channels and up to 34 radio channels. Digital TV BASIC also provides access to NVoD and HD content from public broadcasters. Three public HD channels are included in our Digital TV BASIC product. We regularly update our basic cable program offerings to reflect changes in viewer interest.

Premium Digital Cable Services. Our premium digital cable services include premium HD channel offerings, DVR functionality and premium programming channels that we assemble into packages.

During February 2012, we started to offer an HD option that includes HD free-to-air content from commercial broadcasters (currently the key channels from private broadcaster ProSiebenSAT.1 group) that our digital video customers can subscribe to for an additional monthly fee if they have a suitable HD set-top box. We also offer our interactive HD DVR, which customers rent for an additional monthly fee or as part of a Unity3play bundle at a discount. 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 and a one-time activation fee. In December 2011, we broadened our set-top box offerings by launching our HD zapper set-top box in addition to our HD DVR, standard definition (SD) boxes and CI+ modules, which is subject to a monthly subscription fee and a one-time activation fee. The HD zapper offers HD compatibility, includes a smart card and will enable the customer to access our VoD product when it becomes available. It does not include DVR functionality and is more affordable to rent than the HD DVR set-top boxes.

We offer two premium content packages, which can be ordered individually or bundled at discounted rates within our Unity3play offering. Digital TV HIGHLIGHTS offers 17 film, series, documentary, children and music channels. Digital TV ALLSTARS contains 53 channels, including the channels offered in Digital TV HIGHLIGHTS. In addition, subscribers to Digital TV HIGHLIGHTS or Digital TV ALLSTARS can also upgrade to premium HD packages for an additional monthly fee, including an incremental five and 13 HD channels, respectively. Our video customers may also subscribe to premium content offered by Sky Deutschland AG (Sky Deutschland) through a smart card on our network. In total, we offer 22 HD channels, including free-to-air and premium channels by public and commercial broadcasters. During 2012, we expect to expand the number of HD channels offered.

We also offer digital foreign language packages. For example, Digital TV INTERNATIONAL consists of our individual foreign language programming packages in Arabic, Bosnian, Croatian, Greek, Italian, Japanese, Polish, Portuguese/Spanish, Russian, Serbian and Turkish (Basic, Premium and Professional). Furthermore, we offer an "International Komplett" package, including a variety of foreign language packages.

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 web-based 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 with our residential subscribers and deliver targeted marketing directly to this market segment.

In the MDU market segment, subscription fees are paid by housing or condominium associations, administrators, landlords and others that own or manage the MDUs. Of our basic video RGUs, 65% are with MDUs.

We generally have the billing relationship with the landlord or housing association or with a third party that operates and administers the in-building network on behalf of housing associations (Professional Operator). Many of these agreements allow us to offer our digital video, broadband internet and telephony services directly to the tenant. Professional Operators may procure the basic video signals from us at volume-based discounts and generally resell them to housing associations with whom the operator maintains the customer relationship. We have entered into agreements with Professional Operators, such as Tele Columbus Multimedia GmbH, that allow us to market our digital video, broadband internet and telephony services directly to the Professional Operator's subscriber base. In order to provide these premium and 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 as-needed or success-based basis.

Although the majority of our service agreements with housing associations have multi-year terms, in connection with the LGI/KBW Transaction, our company and KBW have agreed to grant early termination rights on certain agreements that our company and KBW 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 KBW 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 Digital TV BASIC product are charged a 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 Digital TV BASIC or any of our 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, for example 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

We provide broadband internet services on a retail and a wholesale basis to 1.0 million 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 to 97% of our two-way homes passed. We market our broadband internet services through a product portfolio under the brand name "Unitymedia" with particular focus on our "Unity3play" bundled triple-play offerings. As part of our standard internet product portfolio, we currently provide broadband internet services to our customers at a download speed of up to 128 Mbps without any time or data volume restrictions. Customers can choose between three different packages, each of which includes our broadband internet access. 1Play offers the broadband internet services on a standalone basis, 2Play offers our broadband internet services bundled with telephony access with a flat rate to national landlines, and Unity3play, our core product, offers our broadband internet services bundled with telephony access with flat rate national landline and our digital video access product Digital TV BASIC. We provide wholesale internet access services through Multimedia Anschluss (MMA). Our MMA offer is a service tailored for housing associations to purchase our broadband internet services (at download speeds up to 128 Kbps) on a bulk basis and enable their properties with plug-and-play internet access. Tenants in MMA-equipped apartments have the opportunity to upgrade to our high-speed broadband and flat rate telephony services, as well as premium digital cable services.

Subscribers to any of our internet/telephony packages receive the cable modem free of charge (except MMA customers, who pay a one-time modem fee for a service tailored for housing associations). For households located in the upgraded portion of our network who do not subscribe to our cable video services, we market and sell broadband internet and/or telephony services. In addition to monthly subscription fees, subscribers pay an activation fee as well as an installation fee upon subscribing to one of these products. To date, these one-time charges have often been waived for promotional reasons.

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, and other value-added services, such as an upload booster and online storage and web space. We charge the customer a monthly fee for each of these add-on services after a free trial period.

Telephony

We provide our telephony services to 1.0 million 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 as part of our 2play and Unity3play product portfolios. 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 “Spar International,” an option that can be added to existing telephony contracts under which customers, for a fee, can benefit from significant savings on their international and fixed-to-mobile calls. In addition, we offer an international flat rate that allows subscribers to make landline calls without any time restrictions to 27 countries for a monthly subscription fee. We further provide an incremental option for our telephony subscribers, called “Telefon Flat PLUS,” representing a premium router with additional functionalities such as “ISDN” compatibility and a second line for an additional monthly fee and a one time activation fee.

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. In general, carriage fees are charged on a monthly basis, depending on the number of subscribers. Under a collective agreement with all public broadcasters, we have flat-fee arrangements with each of the public broadcasters in connection with the transmission of their analog, digital and HD programming. Beginning in November 2011, we started to carry the HD channels from the private broadcaster ProSiebenSAT.1 group on our network and our digital cable customers that have a suitable HD set-top box or CI+ module can watch the ProSiebenSAT.1 group and kabel eins channel. As a result, the total number of HD channels we offered as of December 31, 2011 was 21. Beginning in February 2012, we started offering “Sixx” in HD, which increased the total number of HD channels we offer to 22. We are currently negotiating with broadcasters to extend our feed-in agreements to HDTV. We invoice the carriage fees directly to all broadcasters. These fees, which represented approximately 8% 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 2014. 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

In November 2011, we launched a new portfolio of broadband internet and telephony services for business-to-business (B2B) customers, targeting the small offices and homes offices segment in the market. These products are presently similar to our 1play and 2play broadband residential offerings, including 32 Mbps to 128 Mbps high-speed internet connection and fixed-line telephony services. Our product offerings to B2B customers are characterized by additional features, such as higher upload speeds, more extensive customer service and a premium pricing structure. In March 2012, the upload speed was upgraded to 10 Mbps and we also offer static IP addresses for our B2B customers. During 2012, we plan to expand the services offered to B2B customers with additional features to further differentiate these offerings from our residential products.

Mobile

In December 2011, we launched mobile telephony services to provide the full scope of quadruple services for our customers who prefer receiving all multimedia services from a single source. The mobile service is provided over the wireless network of mobile phone operator Telefónica Germany. Mobile services are presently offered as an option to our customers who subscribe to a double-play or triple-play bundle or on a standalone basis, in each case, to customers that live in our network footprint. Each household in our footprint can order up to five subscriber identification module (or SIM) cards. Calls placed by our mobile phone subscribers into our fixed and mobile network are free-of-charge. Out-of-network calls are billed according to different tariff plans, which include a per minute or monthly charge and, in certain circumstances, include unlimited mobile internet surfing with a smart phone. Our mobile phone offerings have been introduced as part of our strategy to offer our customers a full product portfolio from a single source, with the aim to increase customer loyalty and satisfaction and reduce churn.

Operations

Marketing and Sales

We market and sell our products to customers using a broad range of sales channels, including our own retail stores, third-party retailers and partner shops, web sales, inbound and outbound telemarketing and direct sales as well as informal "customer-gets-customer" promotions. The manner in which we target customers depends on the customer segment. We market all of our products and services under the "Unitymedia" brand, which according to independent research commissioned by us, is one of the brands most strongly associated with triple-play services in North Rhine-Westphalia and Hesse.

We have a team of dedicated in-house sales support managers who work exclusively with our key account customers. These include housing associations, housing administrations, real estate investors and wholesale partners and carriers, who have more than 300 units under contract. This in-house sales staff develops and cultivates close working relationships with our key account customers and works with residential sales teams to generate customer sales leads and increase retention of existing customers. In addition, this in-house sales staff develops and maintains contact with local authorities and construction companies to ensure that new buildings will be connected to our cable network in North Rhine-Westphalia and Hesse.

We promote our products and services to landlords and residential customers through direct marketing by direct sales agents working with small and medium enterprises (typically, MDUs with less than 300 units) (SME) and field sales agents working to sell our products and services to residential customers. The field sales agents are responsible for sales of our basic cable video service, digital and premium digital video offerings, broadband internet and telephony services, and also manage disconnections of services. Our direct sales agents are independent contractors who work on commission. We have over 160 Unitymedia stores and partner shops in several cities in our network coverage area including rural areas. In addition, we target residential customers through partnerships with retail outlets, such as multi-media retailers, electronics and telecommunications stores.

In addition, we started a cooperation in February 2012 with Mobilcom/Debitel group, a German telecom reseller, offering Unitymedia's products in their shops in North-Rhine Westphalia and Hesse, increasing our overall retail presence to over 310 shops. We also develop partnerships with construction companies to assist in promoting our basic cable video services and use our "Info-Mobil," a mobile point of contact for tenants in so-called "MMA buildings," to allow people to test and order our retail products.

Customer Service

The customer service function is responsible for all customer care activities, including handling customer queries and complaints. In addition, customer service also provides inbound telemarketing and sales support functions for the residential and SME segments. We operate dedicated customer service centers in Bochum and Marburg with 450 customer service agents, supplemented by outsourced call-center capacity. All of our customer service agents are skilled in multiple areas, including marketing campaigns and customer care for a variety of analog and digital products. Our customer service organization is structured as a process-oriented organization with special teams for the various processes, such as order entry, number porting and complaint management. We also have special teams in Marburg for SME sales and retail services and a department in Bochum that is dedicated solely to providing customer service to all Professional Operator customers.

Our Network

Our network passes 8.7 million homes, or 75% of the households, in the federal states of North-Rhine-Westphalia and Hesse. Our network utilizes the hybrid fiber coaxial cable and consists of approximately 141,000 kilometers of coaxial cable and approximately 3,000 kilometers of fiber cable. Average annual network availability of our network and product platforms is high, at over 99.9% for both 2010 and 2011.

The original infrastructure, which was a single direction broadcast network, was based on the homogeneous topology developed by the predecessor Deutsche Telekom AG (Deutsche Telekom) and its predecessor's companies. 96% of our homes passed are served by a two-way upgraded network with full bi-directional capability. This enables us to provide advanced bi-directional cable services such as broadband internet at very high speeds, telephony and ultimately VoD, and the distribution of digital and analog signals, including HD channels, over a 862 MHz band. During 2010 and 2011, we accelerated the roll-out of EuroDOCSIS 3.0 technology over our network to offer broadband speeds of over 100 Mbps. Of our two-way upgraded network, 97% has been upgraded to the EuroDOCSIS 3.0 standard.

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, towers, fiber optic transmission systems, and equipment locations) are shared by both the Deutsche Telekom telephony network and our cable television network. In general, the network is comprised of fiber and coaxial cable that is either buried in the ground (85%) or housed in cable ducts (15%). The ducts are typically owned by Deutsche Telekom, and we lease duct space for our network from Deutsche Telekom under long-term contracts. The distribution plant is powered by over 65,000 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 the master headend, regular headends, hubs and amplifiers through Deutsche Telekom and Vattenfall. Purchasing the power from Deutsche Telekom is necessary because, in many cases, the same power source supplies Deutsche Telekom's telephone plant and our cable plant. In general, Deutsche Telekom sells the power to us at cost plus a margin of 5%. From 2012, all feeding points for outdoor amplifiers which are currently served by Deutsche Telekom will be moved to Vattenfall. For a description of our agreements with Deutsche Telekom, see *"Material Contracts—Material Supply Contracts—Agreements with Deutsche Telekom"*.

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 second largest cable television provider in Germany based on the number of video cable subscribers, with operations in the two federal states of North Rhine Westphalia and Hesse. 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 North Rhine-Westphalia and Hesse is limited to up to 24, 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 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 43% of the homes passed by our network. This penetration exceeds 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 North Rhine-Westphalia and Hesse 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 43% 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. In addition, we face competition from local operators and city carriers, such as NetCologne Gesellschaft mbH, (NetCologne) in regional clusters. Additional internet access technologies comprise FTTH and fiber-to-the-building (FTTB) that are usually deployed in densely populated areas. NetCologne, for example, is rolling out FTTB in the city of Cologne and 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 November 2011, we began to actively offer specific products to meet the broadband internet and fixed-line phone needs of small offices and home offices and small sized enterprises. In our view, our main competitors in this business area include Deutsche Telekom, Vodafone, QSC AG, Telefónica Germany, Colt Telecom GmbH, Versatel AG and NetCologne.

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 states of North-Rhine-Westphalia and Hesse require us to carry 25 and 30 analog television channels, respectively, 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. Sky Deutschland made a claim against us alleging discriminatory treatment as to the provision of bandwidth and conditional access services. The Federal Network Agency, however, rejected Sky Deutschland's claim with respect to the bandwidth usage and it has not yet considered Sky Deutschland's claim on conditional access service.

LGI/KBW Transaction Imposed Conditions

On December 15, 2011, the FCO approved the LGI/KBW Transaction, subject to our company's and KBW'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 KBW will be distributed in unencrypted form commencing January 1, 2013. This commitment is consistent with KBW's 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 KBW made a commitment that, through December 15, 2015, the annual carriage fees received by our company and KBW 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 KBW as of January 1, 2012.

- Effective January 1, 2012, our company and KBW 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 KBW 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 KBW, 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 KBW 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 KBW'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 230,000 and 110,000 are located in the footprints of our company and KBW, 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 KBW, 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 in April 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 3.3% 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 or equipment fees). On December 31, 2010, we signed 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 2014, subject to minimum annual 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.

In addition, GEMA may demand fees under the German Act on Copyright and Related Rights regarding the distribution of our premium channels. In December 2009, GEMA brought a claim against us in the Munich arbitration court of the German Office for Patents and Trademarks for an indeterminate amount of fees relating to the distribution of our premium channels. At this time, we are unable to predict the outcome of this litigation or estimate our potential liability. Under nearly all of our agreements with our suppliers of premium channels, 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 premium channels we distribute. 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 2010, the FCO has been investigating us and other German cable network operators and premium channel providers 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. To our knowledge, the FCO proceedings have been suspended. 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 in the second half of 2011. To date, the FCO has not reopened these proceedings. As a result of the LGI/KBW Transaction, we are required to deliver an unencrypted signal beginning on January 1, 2013. Accordingly, 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 imposes burdens and restrictions on us, which could have a material adverse effect on our business, results of operations or financial condition.

FCO Warning. On February 23, 2012, we received a warning letter from the FCO regarding a contract we have with the housing association GAG, Cologne, based on a complaint made in 2010 by one of our competitors, NetCologne, alleging predatory pricing by us. While not addressing the allegations of predatory pricing, the FCO indicated that the contract term of 10 years may be an infringement of European and German antitrust laws. We disagree with the FCO's assessment in this respect and will defend our interests vigorously, but we can give no assurances that we will be successful in this regard. An adverse ruling with respect to this proceeding could have a significant impact on our ability to secure long-term revenues, and could have a material adverse effect on our business, results of operations or financial condition.

MANAGEMENT

Management of Unitymedia

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 or partners' meeting, as the case may be, on the business activities and strategy of the applicable company, and the shareholders or partners, as the case may be, may request additional reports at any time. The Managing Directors must obtain prior approval from the shareholders or partners, as the case may be, with respect to certain material matters, but the shareholders or partners, as the case may be, are generally not entitled to assume management functions or interfere with the day-to-day management of the business.

We currently have four Managing Directors:

Name	Age	Position	Year First Appointed
Lutz Schüler	43	Managing Director	2011
Dr. Herbert Leifker	58	Managing Director	2005
Jens Müller	40	Managing Director	2010
Jon Garrison	36	Managing Director	2010

Lutz Schüler was appointed our Chief Executive Officer in January 2011. Mr. Schüler has a great track record in the German telecommunications market, with many years of strategic and operational experience and extensive experience in marketing, sales and operations across a wide range of products. He has served in several senior management roles with Telefónica Germany since 1998, lastly leading the integration of Hansenet Telekommunication GmbH as its CEO in Hamburg, when it was acquired by Telefónica Germany in early 2010. From 2006 to 2010, he was Managing Director, Marketing & Sales for Telefónica Germany. Before joining Telefónica Germany in 1998, he worked as product manager with VIAG Interkom GmbH and T-Mobile. After an apprenticeship in a German bank, Mr. Schüler studied business administration at the University of Augsburg and holds a masters degree in business administration.

Dr. Herbert Leifker has been our (or Old Unitymedia's) Chief Commercial Officer since 2005, following the Tele Columbus acquisition. He was previously the CEO of Tele Columbus which he developed from 1990 until the merger with Old Unitymedia and subsequent sale of the regions outside North Rhine-Westphalia and Hesse. Dr. Leifker holds a doctorate in law and after completing his studies started his career in the banking industry.

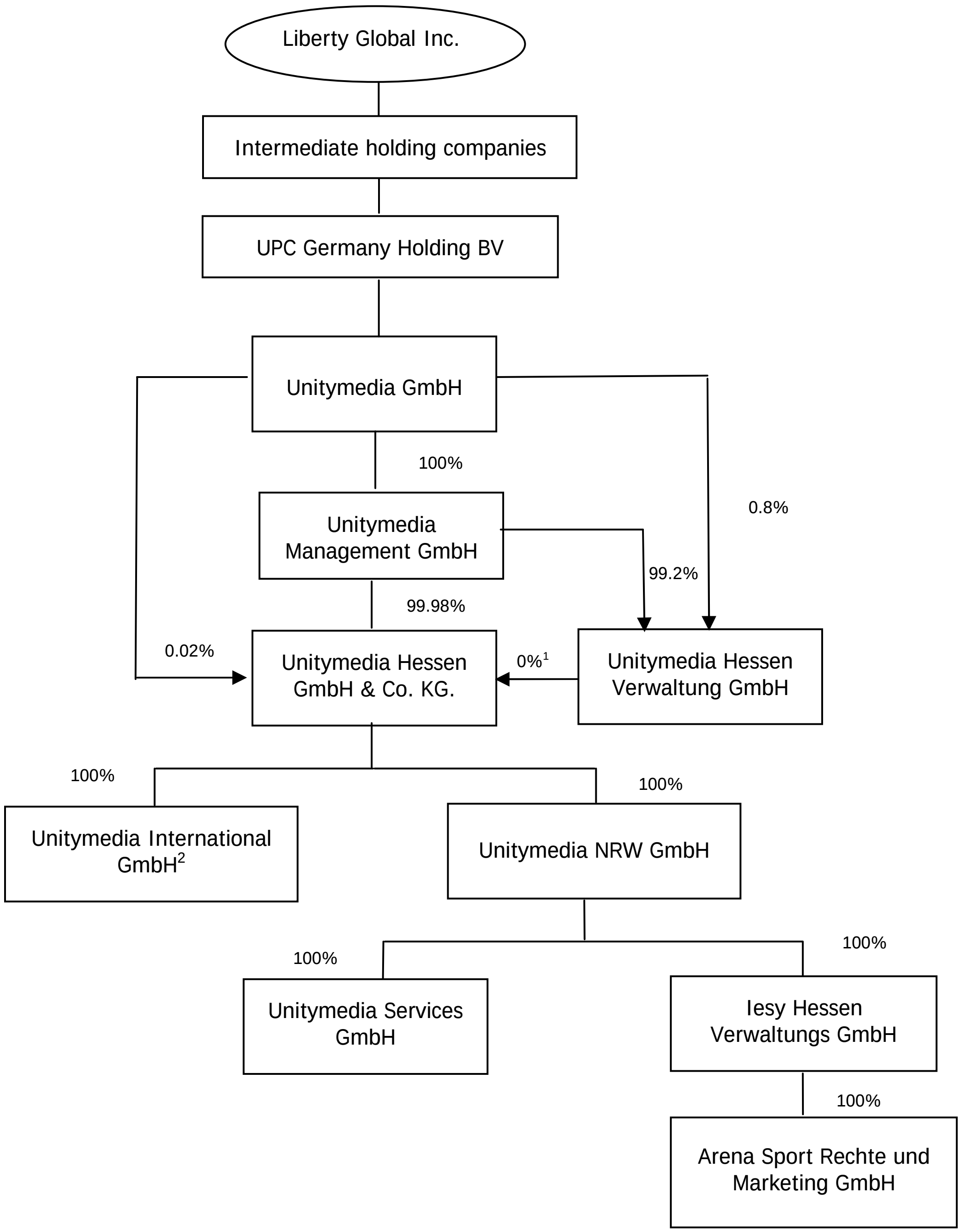
Jens Müller was appointed our Vice President Finance Operations and Co-CFO in July 2010. He is responsible for our finance operations, including controlling, billing, collection and procurement. Before his current role as Vice President Finance Operations and Co-CFO, Mr. Müller held various senior positions within our finance department as well as in the predecessor company 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 Bochum and Helsinki.

Jon Garrison was appointed our Vice President Accounting and Co-CFO in August 2010. He is responsible for our accounting, tax, treasury, investor relations, corporate development and compliance operations. Before his current role as Vice President Accounting and Co-CFO, 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 in England. Mr. Garrison obtained his masters in accountancy at the University of Denver.

The business address of all the Managing Directors named above is Aachener Str. 746-750, 50933 Cologne.

Shareholder and Current Corporate Group Structure

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



[1] Unitymedia Hessen Verwaltung GmbH is the general partner of Unitymedia Hessen GmbH & Co. KG.

[2] Not consolidated.

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 November 20, 2009, we issued (i) €1,430.0 million principal amount of 8.125% senior secured notes (the UM Euro Senior Secured Notes) at an issue price of 97.844%, resulting in cash proceeds of €1,399.2 million, (ii) $845.0 million (€652.0 million) principal amount of 8.125% senior secured notes (the UM Dollar Senior Secured Notes and together with the UM Euro Senior Secured Notes, the UM Senior Secured Notes) at an issue price of 97.844%, resulting in cash proceeds of $826.8 million (€556.8 million at the transaction date) before transaction costs and (iii) €665.0 million principal amount of 9.625% senior notes (the UM Senior Notes and together with the UM Senior Secured Notes, the Unitymedia Notes) at an issue price of 97.652%, resulting in cash proceeds of €649.4 million, before transaction costs. The UM Senior Secured Notes mature on December 1, 2017 and the UM Senior Notes mature on December 1, 2019. The net proceeds from the sale of the Unitymedia Notes (€2,541.0 million at the transaction date), were placed into two escrow accounts. On January 28, 2010, we used €849.2 million of cash from the escrow accounts to fund a portion of the purchase price in the LGI/Unitymedia Transaction.

On March 2, 2010, the remaining balances in the escrow accounts were released in connection with the repayment of our then-existing indebtedness, which consisted of the following:

- €1,350.0 million senior secured floating rate notes due 2013 (the Old Floating Rate Notes), of which €1,024.0 million was outstanding;
- €235.0 million 10.125% senior notes due 2015 (the Old €235m Senior Notes) and payment of applicable call premium of €11.9 million;
- €215.0 million 8.75% senior notes due 2015 (the Old €215m Senior Notes and together with the Old €235m Senior Notes, the Old Euro Senior Notes) and payment of applicable call premium of €9.4 million;
- $151.0 million (€116.5 million) 10.375% senior notes due 2015 (the Old Dollar Senior Notes and together with the Old Euro Senior Notes, the Old Senior Notes) and payment of applicable call premium of $7.8 million (€6.0 million); and
- €100.0 million term loan facility (the Old Term Loan and together with the Old Senior Notes and the Old Floating Rate Notes, the Old Indebtedness).

Also on March 2, 2010, (i) the obligations under the UM Senior Secured Notes were assumed by Old Unitymedia's indirect subsidiaries Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen) and Unitymedia NRW GmbH (Unitymedia NRW and together with Unitymedia Hessen, the UM Senior Secured Notes Co-Issuers), (ii) the obligations under the UM Senior Notes were assumed by Old Unitymedia and (iii) the obligations under the Unitymedia Revolving Credit Facility, as defined and described below, were assumed by Unitymedia Hessen and Unitymedia NRW. Additionally, Old Unitymedia's existing undrawn €130.0 million revolving credit facility was cancelled. Accrued interest on the Old Indebtedness of €12.8 million in the aggregate was also paid. Old Unitymedia used approximately €198.0 million of its existing cash to repay a portion of the Old Indebtedness. The remainder was paid by utilizing the escrow cash from the November 20, 2009 Unitymedia Notes offering. These debt assumption transactions and the above-described repayments of the Old Indebtedness are collectively referred to as the "Unitymedia Debt Pushdown".

Unitymedia Notes

The UM Senior Secured Notes and the UM Senior Notes are senior obligations of the UM Senior Secured Notes Co-Issuers and Unitymedia (each a Unitymedia Issuer), respectively, that rank equally with all of the existing and future senior debt and are senior to all existing and future subordinated debt of the UM Senior Secured Notes Co-Issuers. The UM Senior Secured Notes are secured by a first-ranking pledge over the shares of the UM Senior Secured Notes Co-Issuers and certain other asset security of certain of our subsidiaries. The UM Senior Notes are secured by a first-ranking pledge over our shares and junior-priority share pledges and other asset security of certain of our subsidiaries.

The Unitymedia 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 €25.0 million or more in the aggregate of a Unitymedia Issuer or any of the Restricted Subsidiaries (as defined in the applicable indenture) is an event of default under the Unitymedia Notes.

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

At any time prior to December 1, 2012 in the case of the UM Senior Secured Notes and December 1, 2014 in the case of the UM Senior Notes, the applicable Unitymedia Issuer may redeem some or all of the Unitymedia Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, (ii) the excess of (a) the present value at such redemption date of (1) the redemption price on December 1, 2012 and December 1, 2014, respectively, as set forth in the applicable indenture, plus (2) all required remaining scheduled interest payments due through December 1, 2012 and December 1, 2014, respectively, computed using the discount rate specified in the applicable indenture, over (b) the principal amount of the applicable Unitymedia Notes on the redemption date and (iii) accrued but unpaid interest and Additional Amounts (as defined in the applicable indenture), if any, to the applicable redemption date.

The applicable Unitymedia Issuer may redeem some or all of the Unitymedia Notes at the redemption prices set forth in the applicable indenture plus accrued and unpaid interest and Additional Amounts, if any, to the applicable redemption date.

In addition, at any time prior to December 1, 2012, the applicable Unitymedia Issuer may redeem up to 35% of the Unitymedia Notes (at a redemption price of 108.125% of the principal amount in the case of the UM Senior Secured Notes and 109.625% of the principal amount in the case of the UM Senior Notes) with the net proceeds from one or more specified equity offerings.

At any time prior to November 20, 2012, the applicable Unitymedia Issuer has the option, following completion of a UPC Exchange Transaction (as defined below), to redeem all, but not less than all, of the Unitymedia Notes. The redemption price in such case (expressed as a percentage of the principal amount thereof) would be 102%. A UPC Exchange Transaction means an exchange offer by UPC Broadband Holding B.V. (UPC Broadband Holding) or UPC Holding B.V. (UPC Holding), as applicable, pursuant to which one or more series of senior notes issued by UPC Broadband Holding or UPC Holding, as applicable, are, subject to certain terms and conditions (including consent by holders of a majority in aggregate principal amount of Unitymedia Notes to participate in the exchange offer), offered in exchange for Unitymedia Notes.

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

Unitymedia Revolving Credit Facility

On December 21, 2009, we entered into an €80.0 million secured revolving credit facility agreement with certain lenders (the Unitymedia Revolving Credit Facility). The interest rate for the Unitymedia Revolving Credit Facility is EURIBOR plus a margin of 3.75%. Borrowings under the Unitymedia Revolving Credit Facility, which mature on December 31, 2014, may be used for general corporate and working capital purposes. Upon completion of the Unitymedia Debt Pushdown, our obligations under the Unitymedia Revolving Credit Facility were assumed by Unitymedia Hessen and Unitymedia NRW. In addition to customary restrictive covenants and events of default, the Unitymedia Revolving Credit Facility requires compliance with a Consolidated Leverage Ratio, as defined in the Unitymedia Revolving Credit Facility. The Unitymedia Revolving Credit Facility is secured by a pledge over the shares of the borrowers and certain other asset security of certain of our subsidiaries. The Unitymedia Revolving Credit Facility provides for an annual commitment fee of 1.25% on the unused portion.

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

The various services offered by Deutsche Telekom are defined under so-called "Term Sheets" that are based on two master service agreements (MSAs), one with our subsidiary Unitymedia Hessen and one with our subsidiary Unitymedia NRW. The Term Sheets govern the co-use of cable ducts, the use of cable protection tubes, the offer of co-use of further cable ducts, the use of fiber optic transmission systems, the lease of space for broadband cable technology and the purchase of energy for broadband equipment. Except for the Term Sheets on the offer for co-use of further cable ducts, which have already expired, the terms of the Term Sheets are generally indefinite, but the Term Sheets are subject to certain termination rights and, according to German law, lease agreements are subject to a mandatory statutory termination right of either party after a term of 30 years. Furthermore, under the MSAs and most of the Term Sheets 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. There are limited exceptions related to situations in which Deutsche Telekom discontinues the use of assets previously used for the provision of the respective services, intends to transfer the assets to a third party or intends to abandon leased space in its function as space used for technical purposes.

The charges for the individual services are set out in the Term Sheets. The MSAs include price adjustment clauses related to a change of Deutsche Telekom's costs. Under the MSA with Unitymedia NRW, price increases may not exceed the increase of the German cost of living index and a decrease may not fall below the prices as of October 1, 2002 set out in the individual Term Sheets. From time-to-time we have disputes with Deutsche Telekom as to the charges, quality and accessibility of leased surfaces under the Term Sheets, but no litigation regarding these agreements has been initiated. We have also entered into various other license, rental and operating lease agreements with Deutsche Telekom, all of which are expensed as services are provided. In accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS), we treat these leases as operating rather than capital leases.

Other Significant Supply Contracts

Sky Deutschland

On July 19, 2007, entered into agreements with Sky Deutschland concerning the feed-in and marketing of Sky Deutschland's premium video packages. The agreements also removed the restrictions preventing our cable subscribers in North Rhine-Westphalia and Hesse from having access to both our digital premium channel offerings and Sky Deutschland's content via a single smart card. This new set of agreements includes the distribution of the Sky Deutschland content in a pass-through model for a six-year term commencing January 1, 2008. We receive fees from Sky Deutschland for leasing the bandwidth to them and a monthly fee for each enabled smart card. Currently, we are renegotiating this agreement with Sky Deutschland.

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. These agreements have terms ranging from 2012 to 2014. Revenue from feed-in agreements accounted for approximately 8% of our revenue in 2011. 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, 65% reside in MDUs, and the top 20 key accounts accounted for approximately 9% 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 KBW have agreed to grant early termination rights on certain agreements that our company and KBW 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 KBW 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 with Liberty Global

We have various related-party transactions with certain of our and Liberty Global's affiliates and with other Liberty Global subsidiaries, including UPC Holding. These related-party transactions are reflected in operating expenses, allocated stock-based compensation expense, fees and allocations, net, and interest expense in the Unitymedia Consolidated Financial Statements. For additional information, see note 17 to the Unitymedia Consolidated Financial Statements.

Operating Expenses

Related-party operating expenses represent certain charges from other Liberty Global subsidiaries, including UPC Holding, to Unitymedia primarily for (i) technology-related costs based on Liberty Global's global contract for encryption services and (ii) certain backbone costs. We recorded related-party operating expenses of €6.8 million during the year ended December 31, 2011.

Allocated Stock-Based Compensation

Beginning in 2011, Liberty Global allocates stock-based compensation to us associated with the Liberty Global stock incentive awards held by certain employees of our subsidiaries. We recorded allocated stock-based compensation of €0.5 million during the year ended December 31, 2011.

Fees and Allocations, Net

Fees and allocations, net, represent charges from other Liberty Global subsidiaries, including UPC Holding, to our company, including charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations. The amounts charged generally are based on our company's estimated share of the applicable costs (including personnel-related and other costs associated with the services provided) incurred by the other Liberty Global subsidiaries, plus a mark-up. The monthly amounts charged are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified. We recorded fees and allocations, net, of €35.8 million during the year ended December 31, 2011.

Interest Expense

Related-party interest expense relates to our loans payable to UPC Germany Holding B.V. (UPC Germany Holding). Accrued interest is transferred to the loan balance annually on January 1. We recorded related-party interest expense of €99.9 million during the year ended December 31, 2011.

Capital Expenditures

Related-party capital expenditures represent our purchases of network-related equipment from UPC Holding. We recorded €5.6 million of these capital expenditures during the year ended December 31, 2011.

UPC Germany Holding Loan Receivable

We have a loan receivable with UPC Germany Holding in the amount of €54.0 million. We can require the repayment of all or part of this loan within five-days of providing notice to UPC Germany Holding. Amounts loaned to UPC Germany Holding pursuant to this agreement are subject to certain restrictions included in the indenture for the UM Senior Notes. The interest rate on this loan, which can be adjusted at any time with the mutual consent of the parties, was 2.25% through December 31, 2011. Interest income on this loan through December 31, 2011 was not significant.

Investment in Associate

Investment in associate represents amounts invested in Unitymedia International GmbH (UMI). UMI was formed for the purpose of effecting certain asset purchase and related leasing transactions involving certain of UPC Holding's subsidiaries, including certain purchase and leaseback transactions that were initiated in December 2011. UMI is considered a special purpose entity and is consolidated by UPC Holding. Although UPC Holding has no equity or voting interest in UMI, UPC Holding has the substantive ability to direct the major activities of UMI, and all of the activities of UMI are conducted directly on behalf of UPC Holding. As such, UPC Holding is required by the provisions of EU-IFRS to consolidate UMI. As a result, we use the equity method to account for our investment in UMI.

Shareholder Loans Payable to UPC Germany Holding

We have shareholder loans payable to UPC Germany Holding resulting primarily from (i) transactions that were completed in connection with the LGI/Unitymedia Transaction and (ii) fees and allocations charged from UPC Holding and other Liberty Global subsidiaries. All principal (€179.2 million at December 31, 2011) and accrued interest (€13.9 million at December 31, 2011) outstanding under these loans is due and payable on January 1, 2030. The amounts outstanding under these loans bear interest at 8.58% per annum. Accrued interest is transferred to the loan balance annually on January 1. The net decrease in the principal of the loans payable–related party during 2011 includes (i) the conversion of €1,014.0 million of principal to equity, (ii) the transfer of €85.8 million in non-cash accrued interest to the loan balance, (iii) cash borrowings of €82.0 million, (iv) cash payments of €82.0 million and (v) a €26.2 million non-cash increase related to the settlement of intercompany charges and allocations.

Parent Guarantee

One of our indirect parent companies, Liberty Global Europe Holding B.V., granted a financing commitment dated September 30, 2010 to our company in the amount of €75.0 million, of which €58.0 million was unused at December 31, 2011. This financing commitment expires on December 31, 2012 if not otherwise extended. The terms of any amounts loaned under this parental guarantee are the same as those for our shareholder loans payable to UPC Germany Holding, as described above.

Third-Party Copyrights

We have certain agreements with the GEMA and VG Media 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*".

UNITYMEDIA GMBH

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

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Independent Auditor’s 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 Unitymedia 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 Auditor’s Report

We have audited the consolidated financial statements prepared by Unitymedia GmbH, Cologne, comprising the consolidated balance sheets, the consolidated statements of operations, the consolidated statements of changes in shareholder´s equity (deficit), the consolidated statements of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2011 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a I HGB (Handelsgesetzbuch “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 comply with IFRS, as adopted by the EU, and 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 Unitymedia GmbH 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

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by:

Wallraf	Laue
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

UNITYMEDIA GMBH

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2011	2010
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	€ 20.1	€ 58.7
Trade receivables and unbilled revenue, net (note 9)	44.7	35.2
Loan receivable – related party (note 17)	54.0	—
Other current assets (note 6)	13.8	11.4
Total current assets	132.6	105.3
Property and equipment, net (note 8)	2,041.2	2,029.2
Goodwill (note 8)	1,436.1	1,436.1
Intangible assets subject to amortization, net (note 8)	562.3	656.8
Investment in associate (note 17)	61.0	—
Other noncurrent assets (notes 6, 9 and 10)	96.3	72.7
Total noncurrent assets	4,196.9	4,194.8
Total assets	€ 4,329.5	€ 4,300.1

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

UNITYMEDIA GMBH

CONSOLIDATED BALANCE SHEETS – (Continued)

	December 31, 2011	December 31, 2010
	in millions	
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	€ 32.7	€ 34.3
Accrued liabilities (note 11)	112.1	133.2
Accounts payable and accrued liabilities – related party (note 17)	13.4	4.2
Corporate income taxes payable	10.1	1.1
Current provisions (note 12)	18.4	24.3
Deferred revenue and advance payments from subscribers and others	64.3	73.7
Current portion of debt and finance lease obligations (note 13)	22.7	21.8
Other current liabilities (note 6)	5.9	17.1
Total current liabilities	279.6	309.7
Noncurrent debt and finance lease obligations (note 13):		
Third party	2,722.4	2,689.8
Related party	193.1	1,167.0
Deferred tax liabilities (note 15)	307.1	333.3
Noncurrent provisions (note 12)	9.1	8.4
Other noncurrent liabilities	7.8	9.3
Total noncurrent liabilities	3,239.5	4,207.8
Total liabilities	3,519.1	4,517.5
Commitments and contingencies (note 14)		
Shareholder's equity (deficit) (note 16):		
Share capital	—	—
Additional paid-in capital	1,178.5	17.0
Accumulated deficit	(368.1)	(234.4)
Total shareholder's equity (deficit)	810.4	(217.4)
Total liabilities and shareholder's equity	€ 4,329.5	€ 4,300.1

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

UNITYMEDIA GMBH

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2011	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
		in millions	
Revenue	€ 1,025.2	€ 866.9	€ —
Operating costs and expenses:			
Operating (other than depreciation and amortization) (OpEx) (note 17)	271.9	251.4	—
Selling, general and administrative expenses (other than depreciation and amortization) (including stock-based compensation) (SG&A) (note 17)	140.6	130.4	—
Restructuring and other operating charges (note 5)	0.5	26.7	—
Related-party fees and allocations, net (note 17)	35.8	23.8	—
Total operating costs and expenses	448.8	432.3	—
Earnings before interest, taxes, depreciation and amortization (EBITDA)	576.4	434.6	—
Depreciation and amortization	388.3	324.5	—
Earnings before interest and taxes (EBIT)	188.1	110.1	—
Financial and other expense:			
Interest expense:			
Third party	(244.7)	(257.0)	(27.1)
Related party (note 17)	(99.9)	(85.8)	—
Foreign currency transaction losses, net	(20.2)	(16.1)	(0.6)
Realized and unrealized gains (losses) on derivative instruments, net (note 6)	27.7	38.8	(35.7)
Other income (expense), net	(0.8)	1.4	0.9
Net financial and other expense	(337.9)	(318.7)	(62.5)
Loss from continuing operations before income taxes	(149.8)	(208.6)	(62.5)
Income tax benefit (note 15)	16.1	35.5	—
Loss from continuing operations, net of taxes	(133.7)	(173.1)	(62.5)
Earnings from discontinued operations (note 5)	—	1.2	—
Net loss / comprehensive loss (a)	€ (133.7)	€ (171.9)	€ (62.5)
Further details of OpEx and SG&A:			
Direct costs (interconnect, programming, copyright and other)	€ 87.5	€ 79.3	€ —
Staff-related costs (excluding restructuring charges)	96.7	85.4	—
Network operating costs	85.9	83.6	—
Sales and marketing costs	62.0	68.4	—
Other indirect costs	80.4	65.1	—
	€ 412.5	€ 381.8	€ —
Further details of restructuring and other operating charges:			
Staff-related costs	€ 0.4	€ 3.4	€ —
Direct acquisition costs	0.1	23.3	—
	€ 0.5	€ 26.7	€ —

(a) There were no items of comprehensive earnings or loss in the current year or prior periods other than the loss for the period and, accordingly, no statements of comprehensive earnings or loss are presented.

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

Unitymedia

UNITYMEDIA GMBH

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (DEFICIT)

	Additional paid-in capital	Accumulated deficit	Total shareholder's equity (deficit)
		in millions	
Balance at October 23, 2009	€ —	€ —	€ —
Net loss	—	(62.5)	(62.5)
Balance at December 31, 2009	—	(62.5)	(62.5)
Net loss	—	(171.9)	(171.9)
Equity contribution (note 16)	17.0	—	17.0
Balance at December 31, 2010	17.0	(234.4)	(217.4)
Net loss	—	(133.7)	(133.7)
Conversion of related-party loans to equity (notes 13 and 16)	1,100.0	—	1,100.0
Equity contribution (note 16)	61.0	—	61.0
Stock-based compensation (note 17)	0.5	—	0.5
Balance at December 31, 2011	€ 1,178.5	€ (368.1)	€ 810.4

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

UNITYMEDIA GMBH

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2011	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
		in millions	
Cash flows from operating activities:			
Net loss	€ (133.7)	€ (171.9)	€ (62.5)
Earnings from discontinued operations	—	(1.2)	—
Loss from continuing operations	(133.7)	(173.1)	(62.5)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Stock-based compensation expense	0.5	—	—
Restructuring and other operating charges	0.5	26.7	—
Related-party fees and allocations, net	35.8	23.8	—
Depreciation and amortization	388.3	324.5	—
Amortization of deferred financing costs and non-cash interest accretion	12.1	10.9	1.2
Non-cash related-party interest expense	99.9	85.8	—
Foreign currency transaction losses, net	20.2	16.1	0.6
Realized and unrealized losses (gains) on derivative instruments, net	(27.7)	(38.8)	35.7
Deferred tax benefit	(26.1)	(36.2)	—
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions	(52.4)	(14.0)	25.9
Net cash used by discontinued operations	(2.9)	(9.9)	—
Net cash provided by operating activities	314.5	215.8	0.9
Cash flows from investing activities:			
Capital expenditures	(298.6)	(243.3)	—
Investment in associate	(61.0)	—	—
Advances to a Liberty Global subsidiary	(54.0)	—	—
Cash paid in connection with acquisitions, net of cash acquired	—	(1,880.1)	—
Other investing activities	0.2	0.2	—
Net cash used by investing activities	(413.4)	(2,123.2)	—
Cash flows from financing activities:			
Repayments of third-party debt and finance lease obligations	(160.7)	(1,770.6)	—
Borrowings of third-party debt	160.0	165.0	2,605.3
Contributions from parent	61.0	17.0	—
Decrease (increase) in cash collateral	—	2,593.6	(2,541.1)
Net related-party borrowings	—	1,050.9	—
Net cash paid related to derivative instruments	—	(66.6)	—
Payment of financing costs and debt premiums	—	(27.0)	(65.1)
Other financing activities	—	3.8	—
Net cash provided (used) by financing activities	60.3	1,966.1	(0.9)
Net increase (decrease) in cash and cash equivalents	(38.6)	58.7	—
Cash and cash equivalents:			
Beginning of period	58.7	—	—
End of period	€ 20.1	€ 58.7	€ —
Cash paid for interest (excluding payments related to derivative instruments)	€ 231.9	€ 265.3	€ —
Net cash paid for taxes:			
Continuing operations	€ 3.6	€ 12.8	€ —
Discontinued operations	—	4.3	—
	€ 3.6	€ 17.1	€ —

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

Unitymedia

(1) General and Basis of Presentation

Unitymedia GmbH (Unitymedia), is an indirect subsidiary of Liberty Global, Inc. (Liberty Global). Unitymedia was formed by Liberty Global on October 15, 2009 and registered with the trade register on October 23, 2009 in contemplation of the issuance of debt financing in connection with Unitymedia's then potential acquisition of the entity (Old Unitymedia) that owned the second largest cable operator in Germany. The sole shareholder of Unitymedia is UPC Germany Holding B.V. (UPC Germany Holding), an indirect subsidiary of Liberty Global. In the following text, the terms "Unitymedia," "we," "our," "our company," and "us" may refer, as the context requires, to Unitymedia or collectively to Unitymedia and its subsidiaries.

Unitymedia, which operates in the German states of North Rhine-Westphalia and Hesse, provides video, broadband internet and telephony services to its customers. In addition to this core business, Unitymedia's arena segment operated a direct-to-home satellite (DTH) digital pay-TV platform that, as further described in note 5, we closed down effective September 30, 2010. We have presented Unitymedia's arena segment as a discontinued operation in our consolidated statements of operations and cash flows. As such, all statement of operations and cash flow statement amounts presented in the notes to these consolidated financial statements relate only to our continuing operations, unless otherwise noted.

On September 16, 2010, Old Unitymedia merged with Unitymedia and Unitymedia became the surviving entity (the Unitymedia Merger). The Unitymedia Merger, along with the new basis of accounting that resulted from Unitymedia's January 28, 2010 acquisition of 100% of Old Unitymedia (the LGI/Unitymedia Transaction), has been given effect as of January 28, 2010 in the accompanying consolidated financial statements. Accordingly, Old Unitymedia is not included in our historical consolidated financial statements prior to January 28, 2010. For additional information concerning the LGI/Unitymedia Transaction, see note 5.

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 UM Senior Secured Notes and UM Senior Notes, as defined and described in note 13, 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).

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

These consolidated financial statements were approved for publication by the Managing Directors on March 28, 2012.

(2) 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.

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.

(3) 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, useful lives of long-lived assets, and stock-based compensation. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, including the reclassification of capitalized labor from other indirect costs to staff-related costs within our OpEx and SG&A.

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 and special purpose entities over which we exercise control. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in special purpose entities that we do not control are accounted for using the equity method.

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

Name of subsidiary (a)	Headquarters location	Share of equity %
Unitymedia Management GmbH (b)	Cologne, Germany	100.0
Unitymedia Hessen Verwaltung GmbH	Cologne, Germany	100.0
Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen) (c)	Cologne, Germany	100.0
Unitymedia NRW GmbH (Unitymedia NRW) (b)	Cologne, Germany	100.0
Unitymedia Services GmbH (b)	Cologne, Germany	100.0
iesy Hessen Verwaltungs-GmbH	Cologne, Germany	100.0
Arena Sport Rechte und Marketing GmbH	Cologne, Germany	100.0

(a) Unitymedia International GmbH (UMI), an entity in which Unitymedia owns a 100% equity interest, is excluded from our list of subsidiaries as UMI is a special purpose entity which is controlled by UPC Holding B.V. (UPC Holding), another Liberty Global subsidiary. For additional information regarding our accounting for UMI, see note 17. We will publish statutory accounts for UMI.

(b) Exempt from publishing statutory accounts pursuant to Sec. 264 (3) HGB.

(c) Exempt from publishing statutory accounts pursuant to Sec. 264b HGB.

Cash and cash equivalents and restricted cash

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.

Restricted cash includes cash held in escrow and cash pledged as collateral. Restricted cash amounts that are required to be used to purchase noncurrent assets or repay noncurrent debt are classified as noncurrent assets. All other cash that is restricted to a specific use is classified as current or noncurrent based on the expected timing of the disbursement.

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 3 to 30 years. Support equipment and buildings (including leasehold improvements) have estimated useful lives ranging from 3 to 20 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 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). We have determined that our property and equipment is part of a single cash-generating unit for purpose of impairment testing. 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 restructuring and other operating charges.

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. We have identified one cash-generating unit to which all goodwill is assigned. 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.

Customer relationships and trade name are recognized at their fair values in connection with business combinations and are amortized over lives of approximately 7 years and 5 years, respectively. 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.

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, which generally approximate 3 years. Where no internal-use intangible asset can be recognized, development expenditures are expensed as incurred.

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.

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 13.

Derivative instruments

All derivative instruments are recorded on the balance sheet at fair value. Although we enter into derivative instruments to manage foreign exchange risk, we do not apply hedge accounting to any of our derivative instruments. Changes to the fair value of our derivative instruments are recognized in the line item 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.

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.

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 15.

Segments

Through September 30, 2010, we had two segments, cable and arena. Following the September 30, 2010 closure of our arena segment, as discussed in note 5, we operate in the cable segment only. 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.

Our revenue by major product category is as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
	in millions	
Subscription revenue (a):		
Video	€ 625.3	€ 571.7
Broadband internet	126.5	83.0
Telephony	148.6	109.4
Total subscription revenue	900.4	764.1
Non-subscription revenue (b)	124.8	102.8
Total revenue	€ 1,025.2	€ 866.9

(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.

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

(4) 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.

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.

Our maximum exposure to credit risk is represented by the carrying amounts of our financial assets, excluding our loan receivable – related party, as discussed above. For information concerning these carrying amounts, see note 6.

In light of the related-party nature of our current loan receivable with UPC Germany Holding (the UPC Germany Holding Loan Receivable), we have not considered this financial instrument in our credit risk assessment.

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting our financial obligations. We evaluate our liquidity risks at the parent (Unitymedia) and operating subsidiary levels. As a holding company, our primary assets other than cash and cash equivalents are our investments in consolidated subsidiaries. Our ability to access the financial assets of our operating subsidiaries is restricted by the terms of the indentures for the Unitymedia Notes, as defined and described in note 13. Tax considerations and other factors may also limit our ability to access the financial assets of our subsidiaries.

Our sources of liquidity at the parent level include (i) our cash and cash equivalents, (ii) our UPC Germany Holding Loan Receivable, (iii) funding from UPC Germany Holding (and ultimately from Liberty Global or other Liberty Global subsidiaries) in the form of loans or contributions, as applicable and (iv) subject to the certain restrictions, proceeds in the form of distributions or loans from Unitymedia Hessen, Unitymedia NRW or other subsidiaries. At December 31, 2011, substantially all of our consolidated cash and cash equivalents was held by our subsidiaries.

In addition to cash and cash equivalents, the primary sources of liquidity of Unitymedia Hessen, Unitymedia NRW and our other operating subsidiaries is cash provided by operations and, in the case of Unitymedia Hessen and Unitymedia NRW, any borrowing availability under the Unitymedia Revolving Credit Facility, as defined and described in note 13. At December 31, 2011, the Unitymedia Revolving Credit Facility was fully drawn.

The ongoing cash needs of Unitymedia include (i) corporate general and administrative expenses and (ii) interest payments on outstanding debt. From time to time, Unitymedia may also require cash in connection with (i) the repayment of outstanding debt, (ii) the satisfaction of contingent liabilities, (iii) acquisitions or (iv) other investment opportunities. No assurance can be given that funding from UPC Germany Holding (and ultimately from Liberty Global or other Liberty Global subsidiaries), our subsidiaries or external sources would be available on favorable terms, or at all.

The liquidity of Unitymedia Hessen, Unitymedia NRW and our other operating subsidiaries generally is used to fund capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time. Our subsidiaries may also require funding in connection with (i) the repayment of outstanding debt, (ii) acquisitions and other investment opportunities or (iii) distributions or loans to Unitymedia. No assurance can be given that any external funding would be available to our subsidiaries on favorable terms, or at all.

Our most significant financial obligations are our debt obligations, as described in note 13. 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 the operations of our subsidiaries, any available borrowings under the Unitymedia Revolving Credit Facility and a €75.0 million financing commitment from another Liberty Global subsidiary, of which €58.0 million was unused at December 31, 2011, 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 subsidiaries' various debt instruments. In this regard, if our Adjusted EBITDA were to decline, we could be required to repay or limit our borrowings under the Unitymedia 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 millions			
Debt principal:							
Third party	€ —	€ —	€ 80.0	€ —	€ —	€ 2,747.0	€ 2,827.0
Related party	—	—	—	—	—	179.2	179.2
Debt interest:							
Third party	231.5	231.5	231.5	227.5	227.5	355.5	1,505.0
Related party	15.4	15.4	15.4	15.4	15.4	199.9	276.9
Finance lease obligations-principal	2.0	0.1	0.1	0.1	0.1	2.7	5.1
Finance lease obligations-interest	0.3	0.3	0.3	0.3	0.3	2.4	3.9
Accrued liabilities (including related-party accrued liabilities)	119.2	—	—	—	—	—	119.2
Accounts payable (including related-party accounts payable)	39.0	—	—	—	—	—	39.0
Total	€ 407.4	€ 247.3	€ 327.3	€ 243.3	€ 243.3	€ 3,486.7	€ 4,955.3

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 Unitymedia Revolving Credit Facility.

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 the interest expense on the Unitymedia Revolving Credit Facility to changes in interest rates, we present the change 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 Unitymedia Revolving Credit Facility was 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 interest rates for the year ended December 31, 2011 are as follows:

	Increase of 0.50%	Decrease of 0.50%
	in millions	
Increase (decrease) in interest expense	€ 0.4	€ (0.4)
Increase (decrease) in loss from continuing operations before income taxes	€ 0.4	€ (0.4)

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 UM Dollar Senior Secured Notes, as defined and described in note 13. 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 UM 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 UM 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 UM 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 euro relative to U.S dollar	
	10% increase	10% decrease
	in millions	
Decrease (increase) in foreign currency transaction losses	€ 65.2	€ (65.2)
Increase (decrease) in gain associated with change in fair value of cross currency swaps	(81.8)	81.8
Increase (decrease) in earnings before income taxes	€ (16.6)	€ 16.6

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 13.

(5) Acquisition and Discontinued Operation

Acquisition

On January 28, 2010, Unitymedia completed the LGI/Unitymedia Transaction, whereby Unitymedia paid cash of €2,006.0 million (the Old Unitymedia Purchase Price), to acquire from Unity Media S.C.A. all of the issued and outstanding capital stock of Old Unitymedia. In addition to the €2,006.0 million Old Unitymedia Purchase Price, we acquired Old Unitymedia's net debt (aggregate principal amount of debt and capital lease obligations outstanding less cash and cash equivalents) of €1,586.3 million at January 28, 2010 and incurred direct acquisition costs of €23.3 million, which were recorded during the first quarter of 2010 and which are included in restructuring and other operating charges in our consolidated statements of operations. The LGI/Unitymedia Transaction was completed in order to achieve certain financial, operational and strategic benefits through the integration of Old Unitymedia with Liberty Global's existing European operations.

The Old Unitymedia Purchase Price was funded with (i) €849.2 million of cash from certain escrow accounts associated with the Unitymedia Notes, as defined and described in note 13, and (ii) loans payable to UPC Germany Holding, as further described in note 13.

We have accounted for the LGI/Unitymedia Transaction 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 summarized financial position of Unitymedia (after giving retrospective effect to the Unitymedia Merger) as of January 28, 2010 is presented in the following table. The opening balance sheet presented below reflects our final purchase price allocation, including certain purchase accounting adjustments that were recorded prior to the finalization of the purchase price allocation (in millions):

Cash	€	125.9
Accounts receivable		197.0
Other current assets		20.3
Property and equipment, net		2,028.4
Goodwill (a)		1,436.1
Intangible assets subject to amortization (b)		732.2
Other assets, net		23.4
Current portion of noncurrent debt and capital lease obligations		(0.7)
Other current liabilities		(437.6)
Noncurrent debt and capital lease obligations		(1,711.5)
Other noncurrent liabilities		(407.5)
Total purchase price	€	2,006.0

(a) The goodwill recognized in connection with the LGI/Unitymedia Transaction is primarily attributable to (i) the ability to exploit Old Unitymedia's existing advanced broadband communications network to gain immediate access to potential customers and (ii) substantial synergies that are expected to be achieved through the integration of Old Unitymedia with Liberty Global's other operations in Europe.

(b) Amount primarily includes intangible assets related to customer relationships, which had a useful life of approximately 7 years at the acquisition date.

The following pro forma statement of operations data of Unitymedia for the year ended December 31, 2010 gives effect to (i) the Unitymedia Merger, (ii) the LGI/Unitymedia Transaction and (iii) the refinancing of Old Unitymedia's debt as if such transactions had been completed as of January 1, 2010. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such dates. The pro forma adjustments are based on currently available information and certain assumptions that we believe are reasonable (in millions).

Revenue:	
Subscription revenue:	
Video	€ 618.0
Broadband internet	88.8
Telephony	117.5
Total subscription revenue	824.3
Non-subscription revenue	110.9
	935.2
Operating costs and expenses:	
OpEx	273.6
SG&A	140.7
Restructuring and other operating charges	26.7
Related-party fees and allocations, net	23.8
	464.8
EBITDA	470.4
Depreciation and amortization	351.8
EBIT	118.6
Financial and other expense:	
Interest expense:	
Third party	(247.7)
Related party	(93.5)
Foreign currency transaction losses, net	(13.1)
Realized and unrealized gains on derivative instruments, net	33.2
Other income	1.5
Net financial and other expense	(319.6)
Loss before income taxes	(201.0)
Income tax benefit	33.1
Loss from continuing operations	€ (167.9)
Further details of OpEx and SG&A:	
Direct costs (interconnect, programming, copyright and other)	€ 86.5
Staff-related costs	92.2
Network operating costs	90.5
Sales and marketing costs	73.0
Other indirect costs	72.1
	€ 414.3
Further details of Restructuring and other operating charges:	
Staff-related costs	€ 3.4
Direct acquisition costs	23.3
	€ 26.7

Discontinued Operations

Effective September 30, 2010, we closed down the DTH operations of our arena segment. The operating results of our arena segment from January 28, 2010 to December 31, 2010 are classified as discontinued operations in our consolidated statement of operations and are summarized in the following table (in millions):

Revenue	€ 7.8
Operating costs and expenses	€ 7.1
EBITDA	€ 0.7
Loss before income taxes	€ (0.8)
Income tax benefit	€ 2.0
Earnings from discontinued operations	€ 1.2

(6) Derivative Instruments

We have entered into certain derivative instruments to manage foreign currency exposure with respect to the U.S. dollar. We were also party to an interest rate swap contract that was originally entered into to manage interest rate risk with respect to the Old Floating Rates Notes, as defined and described in note 13, which were repaid on March 2, 2010. This interest rate swap contract matured on April 30, 2011.

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

	December 31, 2011			December 31, 2010		
	Current (a)	Noncurrent (a)	Total	Current (a)	Noncurrent (a)	Total
			in millions			
Assets:						
Cross-currency derivative contracts (b)	€ 4.4	€ 75.6	€ 80.0	€ 3.0	€ 50.3	€ 53.3
Liabilities:						
Interest rate derivative contract (b)	€ —	€ —	€ —	€ 9.2	€ —	€ 9.2

(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.

(b) We consider credit risk in our fair value assessments. As of December 31, 2011 and 2010, (i) the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €7.8 million and €3.2 million, respectively. In addition, the fair value of our interest rate derivative contract at December 31, 2010 that represented a liability has been reduced by credit risk valuation adjustments that were not significant. Generally, adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and 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. The changes in the credit risk valuation adjustments associated with our derivative instruments resulted in gains (losses) of (€4.7 million), (€7.4 million) and €3.9 million during 2011, 2010 and 2009, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. For further information concerning our fair value measurements, see note 7.

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

	Year ended December 31, 2011	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
	in millions		
Cross-currency derivative contracts	€ 27.8	€ 41.4	€ (35.7)
Interest rate derivative contract	(0.1)	(2.6)	—
Total	€ 27.7	€ 38.8	€ (35.7)

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	Year ended December 31, 2010
	in millions	
Operating activities	€ (8.1)	€ (19.6)
Financing activities	—	(66.6)
Total	€ (8.1)	€ (86.2)

Cross-currency Derivative Contracts

Cross-currency Swaps:

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

	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate due from counterparty	Interest rate due to counterparty
	in millions			
December 2017 (a)	$ 845.0	€ 569.4	8.13%	8.49%

(a) The notional amount represents the aggregate of multiple derivative instruments that mature within the same calendar month. The interest rates are presented on a weighted average basis.

(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 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 foreign currency exchange risk. The fair value measurements of these derivative instruments are determined using discounted cash flow models. All but one 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 (our only cash-generating unit) 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. As further described in note 5, we also performed nonrecurring fair value measurements in connection with the LGI/Unitymedia Transaction during 2010.

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

		December 31, 2011		December 31, 2010	
	Category (a)	Carrying amount	Fair value	Carrying amount	Fair value
		in millions			
Assets carried at fair value:					
Derivative financial instruments	I	€ 80.0	€ 80.0	€ 53.3	€ 53.3
Assets carried at cost or amortized cost:					
Trade receivables and unbilled revenue	II	€ 45.6	€ 45.6	€ 35.4	€ 35.4
Restricted cash	II	1.9	1.9	1.6	1.6
Loan receivable – related party	II	54.0	54.0	—	—
Other current and noncurrent financial assets	II	13.7	13.7	9.1	9.1
Cash and cash equivalents	II	20.1	20.1	58.7	58.7
Total assets carried at cost or amortized cost		€ 135.3	€ 135.3	€ 104.8	€ 104.8
Liabilities carried at fair value:					
Derivative financial instruments	I	€ —	€ —	€ 9.2	€ 9.2
Liabilities carried at cost or amortized cost:					
Debt obligation	III	€ 2,740.0	€ 2,955.9	€ 2,707.0	€ 3,012.0
Loans payable – related party	III	193.1	193.1	1,167.0	1,167.0
Accrued liabilities (including related-party accrued liabilities)	III	119.2	119.2	137.3	137.3
Accounts payable and other (including related-party accounts payable)	III	40.2	40.2	35.0	35.0
Finance lease obligations	V	5.1	5.1	4.6	4.6
Total liabilities carried at cost or amortized cost		€ 3,097.6	€ 3,313.5	€ 4,050.9	€ 4,355.9

(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.

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 millions		
Year ended December 31, 2011:				
Derivative assets carried at fair value through our consolidated statement of operations	€ —	€ —	€ 27.9	€ 27.9
Assets carried at cost or amortized cost:				
Trade receivables (b)	0.3	—	(4.9)	(4.6)
Derivative liabilities carried at fair value through our consolidated statement of operations	—	—	(0.2)	(0.2)
Liabilities carried at cost or amortized cost	—	(344.6)	(20.2)	(364.8)
	€ 0.3	€ (344.6)	€ 2.6	€ (341.7)
Year ended December 31, 2010:				
Derivative assets carried at fair value through our consolidated statement of operations	€ —	€ —	€ 59.6	€ 59.6
Assets carried at cost or amortized cost:				
Trade receivables (b)	0.3	—	(8.4)	(8.1)
Restricted cash	—	—	31.7	31.7
Derivative liabilities carried at fair value through our consolidated statement of operations	—	—	(20.8)	(20.8)
Liabilities carried at cost or amortized cost	—	(342.8)	(47.8)	(390.6)
	€ 0.3	€ (342.8)	€ 14.3	€ (328.2)
Year ended December 31, 2009:				
Assets carried at cost or amortized cost:				
Restricted cash	€ —	€ —	€ 19.7	€ 19.7
Derivative liabilities carried at fair value through our consolidated statement of operations	—	—	(35.7)	(35.7)
Liabilities carried at cost or amortized cost	—	(27.1)	(20.3)	(47.4)
	€ —	€ (27.1)	€ (36.3)	€ (63.4)

(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" amounts represent provisions for impairment of trade receivables and are included in OpEx in our consolidated statements of operations.

(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 distribution systems	Support equipment, buildings and land	Total
		in millions	
Cost:			
January 1, 2011	€ 2,129.3	€ 106.3	€ 2,235.6
Additions	231.7	26.0	257.7
Retirements and disposals	(18.4)	(0.1)	(18.5)
December 31, 2011	€ 2,342.6	€ 132.2	€ 2,474.8
Accumulated depreciation:			
January 1, 2011	€ 193.1	€ 13.3	€ 206.4
Depreciation	230.1	14.6	244.7
Retirements and disposals	(17.4)	(0.1)	(17.5)
December 31, 2011	€ 405.8	€ 27.8	€ 433.6
Property and equipment, net:			
December 31, 2011	€ 1,936.8	€ 104.4	€ 2,041.2

	Cable distribution systems	Support equipment, buildings and land	Total
		in millions	
Cost:			
January 1, 2010	€ —	€ —	€ —
LGI/Unitymedia Transaction	1,930.2	98.2	2,028.4
Additions	203.3	8.1	211.4
Retirements and disposals	(4.2)	—	(4.2)
December 31, 2010	€ 2,129.3	€ 106.3	€ 2,235.6
Accumulated depreciation:			
January 1, 2010	€ —	€ —	€ —
Depreciation (a)	197.3	13.3	210.6
Retirements and disposals	(4.2)	—	(4.2)
December 31, 2010	€ 193.1	€ 13.3	€ 206.4
Property and equipment, net:			
December 31, 2010	€ 1,936.2	€ 93.0	€ 2,029.2

(a) Includes depreciation in the amount of €0.6 million for discontinued operations.

Goodwill

We performed our annual review for impairment as of October 1, 2011 and we concluded that the full amount of our goodwill was recoverable. Goodwill acquired in connection with the LGI/Unitymedia Transaction during 2010 has been assigned to one cash-generating unit. The change in the carrying amount of goodwill during 2010 is entirely the result of the LGI/Unitymedia Transaction. For detailed information regarding the LGI/Unitymedia Transaction, see note 5.

With respect to our October 1, 2011 impairment assessment, we have not updated our determination of the recoverable amount of our cash-generating unit from the prior year test, because (i) the carrying amount of the unit, excluding related-party debt, has not changed significantly from the prior year, (ii) the recoverable amount exceeded the carrying amount of the unit by a substantial margin in the prior year test and (iii) the strong growth in our business during 2011 implies a remote likelihood that the current recoverable amount would be less than the current carrying amount.

Intangible Assets Subject to Amortization, net

Changes during 2011 and 2010 in the carrying amounts of our finite-lived intangible assets, net, are set forth below:

	Customer relationships	Subscriber acquisition costs	Trade name	Other (a)	Total
			in millions		
Cost:					
January 1, 2011	€ 700.0	€ 31.6	€ 9.0	€ 30.7	€ 771.3
Additions	—	46.5	—	2.6	49.1
Retirements and disposals	—	(25.0)	—	—	(25.0)
December 31, 2011	€ 700.0	€ 53.1	€ 9.0	€ 33.3	€ 795.4
Accumulated amortization:					
January 1, 2011	€ 88.6	€ 13.1	€ 1.7	€ 11.1	€ 114.5
Amortization	95.9	38.3	1.8	7.6	143.6
Retirements and disposals	—	(25.0)	—	—	(25.0)
December 31, 2011	€ 184.5	€ 26.4	€ 3.5	€ 18.7	€ 233.1
Intangible assets subject to amortization, net:					
December 31, 2011	€ 515.5	€ 26.7	€ 5.5	€ 14.6	€ 562.3

(a) Primarily includes computer software costs.

	Customer relationships	Subscriber acquisition costs	Trade name	Other (a)	Total
			in millions		
Cost:					
January 1, 2010	€ —	€ —	€ —	€ —	€ —
LGI/Unitymedia Transaction	700.0	—	9.0	23.2	732.2
Additions	—	32.0	—	7.5	39.5
Retirements and disposals	—	(0.4)	—	—	(0.4)
December 31, 2010	€ 700.0	€ 31.6	€ 9.0	€ 30.7	€ 771.3
Accumulated amortization:					
January 1, 2010	€ —	€ —	€ —	€ —	€ —
Amortization (b)	88.6	13.5	1.7	11.1	114.9
Retirements and disposals	—	(0.4)	—	—	(0.4)
December 31, 2010	€ 88.6	€ 13.1	€ 1.7	€ 11.1	€ 114.5
Intangible assets subject to amortization, net:					
December 31, 2010	€ 611.4	€ 18.5	€ 7.3	€ 19.6	€ 656.8

(a) Primarily includes computer software costs.

(b) Includes amortization in the amount of €0.4 million for discontinued operations.

For information concerning pledged assets, see note 13. For information concerning purchase obligations for property and equipment, see note 14.

(9) Trade receivables and unbilled revenue, net

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

	December 31, 2011	December 31, 2010
	in millions	
Trade receivables, gross	€ 30.7	€ 34.7
Allowance for impairment of trade receivables	(11.7)	(15.7)
Trade receivables, net	19.0	19.0
Unbilled revenue	26.6	16.4
Trade receivables and unbilled revenue, net	€ 45.6	€ 35.4
Noncurrent unbilled revenue (a)	€ 0.9	€ 0.2
Current trade receivables and unbilled revenue, net	€ 44.7	€ 35.2

(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.

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		December 31, 2010	
	Gross trade receivables	Allowance for impairment	Gross trade receivables	Allowance for impairment
	in millions			
Days Past Due				
Current	€ 8.8	€ —	€ 9.7	€ —
1 – 30	7.4	0.5	7.6	1.7
31 – 60	3.1	1.9	3.0	2.1
61 - 90	1.7	1.1	1.8	1.3
Over 90	9.7	8.2	12.6	10.6
Total	€ 30.7	€ 11.7	€ 34.7	€ 15.7

At December 31, 2011 and 2010, a total of €10.2 million and €9.3 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, is considered when evaluating receivables for impairment.

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

	December 31,	
	2011	2010
	in millions	
Allowance at January 1	€ 15.7	€ —
LGI/Unitymedia Transaction	—	18.1
Provisions for impairment of receivables	4.9	8.4
Write-offs of receivables	(8.9)	(10.8)
Allowance at December 31	€ 11.7	€ 15.7

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) Other noncurrent assets

The details of our other noncurrent assets are set forth as follows:

	December 31,	
	2011	2010
	in millions	
Derivative instruments	€ 75.6	€ 50.3
Prepaid fiber leases	13.5	15.0
Restricted cash	1.9	1.6
Unbilled revenue	0.9	0.2
Other	4.4	5.6
Total other noncurrent assets	€ 96.3	€ 72.7

(11) Accrued liabilities, third party

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

	December 31, 2011	December 31, 2010
	in millions	
Accrued expenses (other than payroll related accruals)	€ 65.7	€ 80.4
Accrued capital expenditures	26.4	28.1
Accrued payroll related compensation and benefits	17.1	15.3
Other liabilities	2.9	9.4
Total accrued liabilities	€ 112.1	€ 133.2

(12) Provisions

The details of our provisions are set forth as follows:

	December 31, 2011	December 31, 2010
	in millions	
Net pension liability	€ 9.1	€ 8.4
Other	18.4	24.3
Total provisions	€ 27.5	€ 32.7
Current portion	€ 18.4	€ 24.3
Noncurrent portion	€ 9.1	€ 8.4

The following table shows the development of provisions:

	Net pension liability	Other	Total
		in millions	
January 1, 2011	€ 8.4	€ 24.3	€ 32.7
Additions	0.7	5.9	6.6
Releases	—	(6.2)	(6.2)
Cash payments	—	(5.6)	(5.6)
December 31, 2011	€ 9.1	€ 18.4	€ 27.5
January 1, 2010	€ —	€ —	€ —
LGI/Unitymedia Transaction	8.4	21.1	29.5
Additions	—	3.5	3.5
Cash payments	—	(0.3)	(0.3)
December 31, 2010	€ 8.4	€ 24.3	€ 32.7

Our expenses related to (i) our contributions to the German statutory pension system, (ii) our defined contribution plan and (iii) our defined benefit pension plan aggregated €9.9 million and €8.9 million during 2011 and 2010, respectively.

(13) Debt and Finance Lease Obligations

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

	December 31, 2011			Estimated fair value (b)		Carrying value (c)	
				December 31,		December 31,	
	Interest rate (a)	Borrowing currency	Euro equivalent	2011	2010	2011	2010
				in millions			
Parent:							
Shareholder loans payable (d)	8.580%	€ 179.2	€ 179.2	(d)	(d)	€ 179.2	€ 1,081.2
UM Senior Notes due 2019	9.625%	€ 665.0	665.0	€ 686.6	€ 729.8	651.5	650.5
Subsidiaries:							
UM Euro Senior Secured Notes due 2017	8.125%	€ 1,430.0	1,430.0	€ 1,485.2	€ 1,516.3	1,405.4	1,402.3
UM Dollar Senior Secured Notes due 2017	8.125%	$ 845.0	652.0	€ 686.2	€ 670.4	641.3	620.2
Unitymedia Revolving Credit Facility due 2014 (e)	4.927%	€ 80.0	80.0	€ 77.2	€ 76.0	80.0	80.0
Total debt before transaction costs and accrued interest (f)	8.399%		€ 3,006.2			2,957.4	3,834.2
Transaction costs						(58.9)	(65.5)
Accrued interest:							
Related party (g)						13.9	85.8
Third party						20.7	19.5
Finance lease obligations						5.1	4.6
Total debt and finance lease obligations						2,938.2	3,878.6
Current maturities						(22.7)	(21.8)
Noncurrent debt and finance lease obligations						€ 2,915.5	€ 3,856.8

(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, discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, discounts and commitment fees, but excluding the impact of financing costs, our estimated weighted average interest rate on our aggregate indebtedness was approximately 8.8% at December 31, 2011. Interest payments for the Unitymedia Notes (as defined below) commenced on June 1, 2010 and are made semi-annually on June 1 and December 1. 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) Amounts include the impact of discounts, where applicable.

(d) Represents loans payable to our shareholder, UPC Germany Holding, resulting primarily from (i) transactions that were completed in connection with the LGI/Unitymedia Transaction and (ii) fees and allocations charged from UPC Holding, a Liberty Global subsidiary, and other Liberty Global subsidiaries. All principal (€179.2 million at December 31, 2011) and accrued interest (€13.9 million at December 31, 2011) outstanding under these loans is due and payable on January 1, 2030. The amounts outstanding under these loans bear interest at 8.58% per annum. Accrued interest is transferred to the loan balance annually on January 1. The net decrease in the principal of the loans payable – related party during 2011 includes (i) the conversion of €1,014.0 million to equity, (ii) the transfer of €85.8 million in non-cash accrued interest to the loan balance, (iii) cash borrowings of €82.0 million, (iv) cash payments of €82.0 million and (v) a €26.2 million non-cash increase related to the settlement of intercompany charges and allocations. The net increase in the principal of the loans payable – related party during 2010 includes (i) cash borrowings of €1,856.0 million, (ii) cash payments of €805.1 million and (iii) a €30.3 million non-cash increase related to the settlement of intercompany charges and allocations. The fair value of these loans is not subject to reasonable estimation due to the related-party nature of the loans.

(e) The interest rate shown for the Unitymedia 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 Unitymedia Revolving Credit Facility was fully drawn. A commitment fee of 1.25% per annum is payable on available but undrawn amounts under the Unitymedia Revolving Credit Facility.

(f) 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.

(g) During 2011, €86.0 million of accrued interest was converted to equity. For additional information, see note 16.

2010 Refinancing

On November 20, 2009, we issued (i) €1,430.0 million principal amount of 8.125% senior secured notes (the UM Euro Senior Secured Notes) at an issue price of 97.844%, resulting in cash proceeds of €1,399.2 million, (ii) $845.0 million (€652.0 million) principal amount of 8.125% senior secured notes (the UM Dollar Senior Secured Notes and together with the UM Euro Senior Secured Notes, the UM Senior Secured Notes) at an issue price of 97.844%, resulting in cash proceeds of $826.8 million (€556.8 million at the transaction date) before transaction costs and (iii) €665.0 million principal amount of 9.625% senior notes (the UM Senior Notes and together with the UM Senior Secured Notes, the Unitymedia Notes) at an issue price of 97.652%, resulting in cash proceeds of €649.4 million, before transaction costs. The UM Senior Secured Notes mature on December 1, 2017 and the UM Senior Notes mature on December 1, 2019. The net proceeds from the sale of the Unitymedia Notes (€2,541.0 million at the transaction date), were placed into two escrow accounts. On January 28, 2010, we used €849.2 million of cash from the escrow accounts to fund a portion of the Old Unitymedia Purchase Price (see note 5).

On March 2, 2010, the remaining balances in the escrow accounts were released in connection with the repayment of our then-existing indebtedness, which consisted of the following:

- €1,350.0 million senior secured floating rate notes due 2013 (the Old Floating Rate Notes), of which €1,024.0 million was outstanding;
- €235.0 million 10.125% senior notes due 2015 (the Old €235m Senior Notes) and payment of applicable call premium of €11.9 million;
- €215.0 million 8.75% senior notes due 2015 (the Old €215m Senior Notes, and together with the Old €235m Senior Notes, the Old Euro Senior Notes) and payment of applicable call premium of €9.4 million;
- $151.0 million (€116.5 million) 10.375% senior notes due 2015 (the Old Dollar Senior Notes, and together with the Old Euro Senior Notes, the Old Senior Notes) and payment of applicable call premium of $7.8 million (€6.0 million); and
- €100.0 million term loan facility (the Old Term Loan and together with the Old Senior Notes and the Old Floating Rate Notes, the Old Indebtedness).

Also on March 2, 2010, (i) the obligations under the UM Senior Secured Notes were assumed by Old Unitymedia's indirect subsidiaries Unitymedia Hessen and Unitymedia NRW (the UM Senior Secured Notes Co-Issuers), (ii) the obligations under the UM Senior Notes were assumed by Old Unitymedia and (iii) the obligations under the Unitymedia Revolving Credit Facility, as defined and described below, were assumed by Unitymedia Hessen and Unitymedia NRW. Additionally, Old Unitymedia's existing undrawn €130.0 million revolving credit facility was cancelled. Accrued interest on the Old Indebtedness of €12.8 million in the aggregate was also paid. Old Unitymedia used approximately €198.0 million of its existing cash to repay a portion of the Old Indebtedness. The remainder was paid by utilizing the escrow cash from the November 20, 2009 Unitymedia Notes offering. These debt assumption transactions and the above-described repayments of the Old Indebtedness are collectively referred to as the "Unitymedia Debt Pushdown".

Unitymedia Notes

The UM Senior Secured Notes and the UM Senior Notes are senior obligations of the UM Senior Secured Notes Co-Issuers and Unitymedia (each a Unitymedia Issuer), respectively, that rank equally with all of the existing and future senior debt and are senior to all existing and future subordinated debt of the UM Senior Secured Notes

Co-Issuers. The UM Senior Secured Notes are secured by a first-ranking pledge over the shares of the UM Senior Secured Notes Co-Issuers and certain other asset security of certain subsidiaries of Unitymedia. The UM Senior Notes are secured by a first-ranking pledge over the shares of Unitymedia and junior-priority share pledges and other asset security of certain subsidiaries of Unitymedia.

The Unitymedia 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 €25.0 million or more in the aggregate of a Unitymedia Issuer or any of the Restricted Subsidiaries (as defined in the applicable indenture) is an event of default under the Unitymedia Notes.

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

At any time prior to December 1, 2012 in the case of the UM Senior Secured Notes and December 1, 2014 in the case of the UM Senior Notes, the applicable Unitymedia Issuer may redeem some or all of the Unitymedia Notes at a redemption price equal to the sum of (i) 100% of the principal amount thereof, (ii) the excess of (a) the present value at such redemption date of (1) the redemption price on December 1, 2012 and December 1, 2014, respectively, as set forth in the table below, plus (2) all required remaining scheduled interest payments due through December 1, 2012 and December 1, 2014, respectively, computed using the discount rate specified in the applicable indenture, over (b) the principal amount of the applicable Unitymedia Notes on the redemption date and (iii) accrued but unpaid interest and Additional Amounts (as defined in the applicable indenture), if any, to the applicable redemption date.

The applicable Unitymedia Issuer may redeem some or all of the Unitymedia 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 December 1 of the years set out below:

	Redemption Price	
Year	UM Senior Secured Notes	UM Senior Notes
2012	108.125%	N.A.
2013	104.063%	N.A.
2014	102.031%	104.813%
2015	100.000%	103.208%
2016	100.000%	101.604%
2017 and thereafter	100.000%	100.000%

In addition, at any time prior to December 1, 2012, the applicable Unitymedia Issuer may redeem up to 35% of the Unitymedia Notes (at a redemption price of 108.125% of the principal amount in the case of the UM Senior Secured Notes and 109.625% of the principal amount in the case of the UM Senior Notes) with the net proceeds from one or more specified equity offerings.

At any time prior to November 20, 2012, the applicable Unitymedia Issuer has the option, following completion of a UPC Exchange Transaction (as defined below), to redeem all, but not less than all, of the Unitymedia Notes. The redemption price in such case (expressed as a percentage of the principal amount thereof) would be 102%. A UPC Exchange Transaction means an exchange offer by UPC Broadband Holding B.V. (UPC Broadband Holding), a Liberty Global subsidiary, or UPC Holding, as applicable, pursuant to which one or more series of senior notes issued by UPC Broadband Holding or UPC Holding, as applicable, are, subject to certain terms and conditions (including consent by holders of a majority in aggregate principal amount of Unitymedia Notes to participate in the exchange offer), offered in exchange for Unitymedia Notes.

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

Unitymedia Revolving Credit Facility

On December 21, 2009, Unitymedia entered into an €80.0 million secured revolving credit facility agreement with certain lenders (the Unitymedia Revolving Credit Facility). The interest rate for the Unitymedia Revolving Credit Facility is EURIBOR plus a margin of 3.75%. Borrowings under the Unitymedia Revolving Credit Facility, which mature on December 31, 2014, may be used for general corporate and working capital purposes. Upon completion of the Unitymedia Debt Pushdown, the obligations of Unitymedia under the Unitymedia Revolving Credit Facility were assumed by Unitymedia Hessen and Unitymedia NRW. In addition to customary restrictive covenants and events of default, the Unitymedia Revolving Credit Facility requires compliance with a Consolidated Leverage Ratio, as defined in the Unitymedia Revolving Credit Facility. The Unitymedia Revolving Credit Facility is secured by a pledge over the shares of the borrowers and certain other asset security of certain subsidiaries of Unitymedia.

Maturities of Debt and Finance Lease Obligations

For information concerning the maturities of our debt as of December 31, 2011, see note 4.

(14) 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.

Expenses for operating leases included in our statement of operations were €71.8 million and €64.4 million during 2011 and 2010, respectively. Details of our operating lease contracts and the respective significant leasing arrangements are as follows:

Lease	Terms	Terms of renewal	Purchase options	Contingent rent
Building	1-20 years	No	No	No
Dark fiber	1-18 years	3 months – 1 year	No	No
Colocation area	1-14 years	1 month – 1 year	No	No
Cable ducts	2-30 years	1 – 5 years	No	No

	Payments due during:						
	2012	2013	2014	2015	2016	Thereafter	Total
	in millions						
Operating leases	€ 70.9	€ 69.2	€ 66.6	€ 65.8	€ 65.0	€ 757.9	€ 1,095.4
Programming obligations	4.2	0.3	—	—	—	—	4.5
Other commitments	32.0	3.3	—	—	—	—	35.3
	€ 107.1	€ 72.8	€ 66.6	€ 65.8	€ 65.0	€ 757.9	€ 1,135.2

Operating leases include indefinite-lived lease agreements with Deutsche Telekom for cable ducts. The lease payments for these leases are €51.2 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.

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.

Other commitments include (i) certain service commitments with Deutsche Telekom, (ii) certain fiber capacity commitments and (iii) commitments to purchase customer premises equipment that are enforceable and legally binding on us.

Guarantees and Other Credit Enhancements

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

Other Contingencies

Acquisition of KBW by Liberty Global. On December 15, 2011, UPC Germany HoldCo 2 GmbH, one of Liberty Global's indirect subsidiaries, acquired all of the outstanding shares of Kabel BW Musketeer GmbH (formerly known as Musketeer GmbH) (KBW Musketeer) pursuant to a Sale and Purchase Agreement dated March 21, 2011 with Oskar Rakso S.à.r.l. as the seller (the KBW Purchase Agreement). KBW Musketeer is the indirect parent company of Kabel BW GmbH (formerly known as Kabel BW Holding GmbH) (KBW), Germany's third largest cable television operator in terms of number of subscribers. Liberty Global acquired KBW in order to achieve certain financial, operational and strategic benefits through the integration of KBW with our company and, to a lesser extent, with Liberty Global's other broadband communications operations in Europe.

As part of the regulatory approval process for Liberty Global's acquisition of KBW Musketeer (the LGI/KBW Transaction), our company and KBW made certain commitments to address the competition concerns of the German Federal Cartel Office (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 KBW will be distributed in unencrypted form commencing January 1, 2013. This commitment is consistent with KBW's 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 KBW made a commitment that, through December 15, 2015, the annual carriage fees received by our company and KBW 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 KBW as of January 1, 2012;

(b) Effective January 1, 2012, our company and KBW waived 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 KBW to provide television, 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 KBW, 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 KBW 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 KBW'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 230,000 and 110,000 are located in the footprints of our company and KBW, 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 KBW, 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 and KBW's operations. The ultimate resolution of this matter is expected to take up to four years, including the appeals process.

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.

(15) Income Taxes

Unitymedia and its operating subsidiaries are part of two separate German fiscal unities. A German fiscal unity combines individual tax paying entities as one taxpayer for German tax purposes. The combined details of our current and deferred income tax benefit are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
	in millions	
Current tax expense	€ (10.0)	€ (0.7)
Deferred tax benefit	26.1	36.2
Total	€ 16.1	€ 35.5

Income tax benefit attributable to our loss from continuing operations before income taxes differs from the income tax benefit computed by applying the German income tax rate of 31.88% for 2011 and 31.58% for 2010 and 2009 as a result of the following:

	Year ended December 31, 2011	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
		in millions	
Computed "expected" income tax benefit	€ 47.8	€ 65.9	€ 19.7
Non-deductible or non-taxable interest and other items (a)	(27.7)	(21.4)	(1.0)
Enacted tax law and rate changes	(1.7)	—	—
Unrecognized net operating losses and interest carryforwards	(1.2)	(7.0)	(18.7)
Other, net	(1.1)	(2.0)	—
Total	€ 16.1	€ 35.5	€ —

(a) The 2011 amount includes current net tax benefit of €5.2 million and deferred tax expense of €16.1 million related to the remeasurement of prior year items.

The details of our deferred tax balances at December 31, 2011 and our deferred tax benefit for the year ended December 31, 2011 are as follows:

	December 31, 2011		Year ended December 31, 2011
	Deferred tax assets	Deferred tax liabilities	Recognition in statement of operations
	in millions		
Loss carryforwards	€ 133.7	€ —	€ (31.6)
Property and equipment	—	314.2	16.6
Intangible assets	—	142.8	18.9
Investments	—	16.1	(16.1)
Receivables	2.3	—	(3.7)
Provisions	1.1	—	(0.9)
Unrealized foreign exchange result	—	15.5	(2.1)
Accrued interest expense	44.4	—	43.8
Other	—	—	1.2
Net assets with liabilities within same jurisdiction	(181.5)	(181.5)	—
	€ —	€ 307.1	€ 26.1

The details of our deferred tax balances at December 31, 2010 and our deferred tax benefit for the year ended December 31, 2010 are as follows:

	December 31, 2010		Year ended December 31, 2010
	Deferred tax assets	Deferred tax liabilities	Recognition in statement of operations
	in millions		
Loss carryforwards	€ 165.3	€ —	€ 6.0
Property and equipment	—	330.8	19.4
Intangible assets	—	161.7	16.3
Receivables	6.0	—	8.2
Provisions	2.0	—	10.4
Unrealized foreign exchange result	—	13.4	(28.0)
Accrued interest expense	0.6	—	3.6
Other	0.1	1.4	0.3
Net assets with liabilities within same jurisdiction	(174.0)	(174.0)	—
	€ —	€ 333.3	€ 36.2

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

	December 31, 2011	December 31, 2010
	in millions	
Interest carryforwards	€ 71.2	€ 78.4
Trade tax loss carryforwards	€ 53.5	€ 31.3
Corporate income tax loss carryforwards	€ 149.7	€ 149.7

Our tax loss carryforwards within each jurisdiction combine all companies' tax losses in that jurisdiction, however, certain jurisdictions limit the ability to offset taxable income of separate company or different tax groups with the tax losses associated with another separate company or group as a result of certain agreements made pursuant to relevant tax law. These losses are limited while the agreement is in place. Some losses are limited in use due to change in control or same business tests.

(16) Shareholder's Equity (Deficit)

Our share capital is €25,000 at December 31, 2011 and has been fully paid. All of our shares are held by UPC Germany Holding.

Additional paid-in capital is the result of (i) a €17.0 million cash contribution from UPC Germany Holding during 2010, (ii) a €1,100.0 million increase during 2011 related to the conversion to equity of €1,014.0 million of principal and €86.0 million of accrued interest associated with the shareholder loan payable to UPC Germany Holding, (iii) a cash contribution of €61.0 million for an investment in UMI, another Liberty Global subsidiary, and (iv) a €0.5 million increase related to stock-based compensation during 2011. For additional information concerning our investment in UMI, see note 17.

One of our indirect parent companies, Liberty Global Europe Holding B.V. (Liberty Global Europe), granted a financing commitment dated September 30, 2010 to our company in the amount of €75.0 million, of which €58.0 million was unused at December 31, 2011. This financing commitment expires on December 31, 2012 if not otherwise extended.

(17) Related-Party Transactions

Our related-party transactions consist of the following:

	Year ended December 31,	
	2011	2010
	in millions	
OpEx	€ 6.8	€ 1.4
Allocated stock-based compensation expense	0.5	—
Fees and allocations, net	35.8	23.8
Included in EBIT	43.1	25.2
Interest expense	99.9	85.8
Included in net loss from continuing operations	€ 143.0	€ 111.0
Capital expenditures	€ 5.6	€ 1.1

OpEx. These amounts represent certain cash settled charges from other Liberty Global subsidiaries, including UPC Holding, to our company primarily for (i) technology-related costs based on Liberty Global's global contract for encryption services and (ii) certain backbone costs.

Allocated stock-based compensation expense. These amounts are allocated to our company by Liberty Global and represent the stock-based compensation associated with the Liberty Global stock incentive awards held by certain employees of our subsidiaries. Awards consist of (i) stock appreciation rights, (ii) restricted shares and restricted share units and (iii) performance-based restricted share units (PSUs). PSUs represent the right to receive one share of Liberty Global Series A common stock or Liberty Global Series C common stock, as applicable, subject to performance and vesting as determined by the compensation committee of Liberty Global's board of directors. Stock-based compensation expense is reflected as an increase to shareholder's equity and is included in SG&A in our consolidated statements of operations.

Fees and allocations, net. These amounts represent charges from other Liberty Global subsidiaries, including UPC Holding, to our company following the LGI/Unitymedia Transaction, including charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations. The amounts charged generally are based on our company's estimated share of the applicable costs (including personnel-related and other costs associated with the services provided) incurred by the other Liberty Global subsidiaries, plus a mark-up. The monthly amounts charged are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified. Charges from UPC Holding may be cash or loan settled. With respect to the amounts settled during 2011 and 2010, all amounts were loan settled with the exception of €13.1 million that was cash settled during the second half of 2011.

Interest expense. Related-party interest expense relates to our loans payable to UPC Germany Holding. Accrued interest is transferred to the loan balance annually on January 1. For additional information, see note 13.

Depending on the nature of our intercompany transactions, the amount of the charges or allocations may be based on (i) estimated or allocated costs, (ii) estimated or allocated costs plus a mark-up or (iii) commercially negotiated rates. Although we believe that the intercompany fees and allocations described above are reasonable, no assurance can be given that the related-party costs and expenses reflected in our consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

Capital expenditures. These amounts represent our purchases of network-related equipment from UPC Holding.

UPC Germany Holding Loan Receivable. Represents amounts loaned to UPC Germany Holding pursuant to a loan agreement. We can require the repayment of all or part of this loan within five-days of providing notice to UPC Germany Holding. Amounts loaned to UPC Germany Holding pursuant to this agreement are subject to certain restrictions included in the indenture for the UM Senior Notes. The interest rate on this loan, which can be adjusted at any time with the mutual consent of the parties, was 2.25% through December 31, 2011. Interest income on this loan through December 31, 2011 was not significant.

Investment in associate. Represents amounts invested in UMI. UMI was formed for the purpose of effecting certain asset purchase and related leasing transactions involving certain of UPC Holding's subsidiaries, including certain purchase and leaseback transactions that were initiated in December 2011. UMI is considered a special purpose entity and is consolidated by UPC Holding. Although UPC Holding has no equity or voting interest in UMI, UPC Holding has the substantive ability to direct the major activities of UMI, and all of the activities of UMI are conducted directly on behalf of UPC Holding. As such, UPC Holding is required by the provisions of EU-IFRS to consolidate UMI. As a result, we use the equity method to account for our investment in UMI.

Shareholder loans payable. Represents amounts payable pursuant to our shareholder loans with UPC Germany Holding. For additional information, see note 13.

Accounts payable and accrued liabilities – related party. At December 31, 2011 and 2010, our accounts payable and accrued liabilities – related party represented amounts owed to UPC Holding and other Liberty Global subsidiaries outside of Unitymedia for various intercompany charges, fees and allocations, as further described above. These amounts may be cash or loan settled.

Parent guarantee. At December 31, 2010, our accumulated deficit exceeded paid-in capital. As described in note 16, Liberty Global Europe has granted a financing commitment to us and our wholly-owned subsidiaries through December 31, 2012. The terms of any amounts loaned under this parental guarantee are the same as those for our shareholder loans payable to UPC Germany Holding, as described in note 13.

Management Remuneration. Salaries, bonuses, and benefit related remuneration of the Managing Directors was €2.2 million and €2.1 million for the years ended December 31, 2011 and 2010, respectively.

(18) Disclosures according to Generally Accepted Accounting Principles in Germany

The average number of employees in 2011 was 1,624. The number of employees calculated in full time equivalents (FTE) as a quarterly average was 1,614 FTE. In our operating departments, which include network and customer operations and customer services, we employed 1,183 FTE in 2011, and in our administration departments, consisting of sales & marketing, finance, IT and other general services, 431 FTE were employed.

Our auditor has received the following remuneration for the respective services:

	Year ended December 31, 2011	Year ended December 31, 2010
	in millions	
Audit of financial statements	€ 0.6	€ 0.5
Assurance services	0.2	0.1
Other services	—	0.1
Total	€ 0.8	€ 0.7

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 historical results from continuing operations for the year ended December 31, 2011 and our pro forma results from continuing operations for the years ended December 31, 2010 and 2009, as further described below.
- *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 Unitymedia or collectively to Unitymedia and its subsidiaries.

Overview

We are the second largest cable operator in Germany in terms of the number of video subscribers, 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 in the federal states of North Rhine-Westphalia and Hesse, Germany.

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.

Effective September 30, 2010, we closed down our arena segment, which operated a DTH digital pay-TV platform in Germany. As further discussed in note 5 to our consolidated financial statements, our consolidated statements of operations and cash flows have been reclassified to present our arena segment as a discontinued operation. In the following discussion and analysis, the operating statistics, results of operations, cash flows and financial condition that we present and discuss are those of our continuing operations unless otherwise indicated.

We provide the following products and services to our customers:

- *Video Services.* As of December 31, 2011, we provided our digital and analog cable services to 4,428,200 revenue generating units (RGUs), or 51.1% of homes passed by our network. Our digital cable service offerings include basic and premium digital services, including premium subscription channels, HD and DVR services. As of December 31, 2011, 39.2% 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.
- *Broadband Internet Services.* As of December 31, 2011, we provided our broadband internet services to 1,032,500 RGUs. Our current service portfolio consists of services with download speeds ranging from 16

Mbps to 128 Mbps with no time or data volume restrictions. Our customers can choose between various packages and bundles, including our core triple-play product, Unity3play. 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 97% of our two-way homes passed.

- *Telephony Services.* As of December 31, 2011, we provided our telephony services to 1,028,400 RGUs. We market our telephony services principally as a component of our Unity3play and double-play product bundles and also on a standalone basis.

We added a total of 441,500 RGUs during 2011, as compared to 340,100 RGUs during 2010. The RGU growth during 2011 is attributable to the growth of our (i) broadband internet services, which added 252,200 RGUs, (ii) telephony services, which added 249,100 RGUs and (iii) digital cable services, which added 202,000 RGUs. The growth of our broadband internet, telephony and digital cable RGUs was partially offset by declines in our analog cable RGUs of 261,800.

Although we continued to increase revenue and RGUs during 2011 by increasing the penetration of our advanced services, we are experiencing significant competition. Key competitors of our cable business include:

(i) satellite-based and other broadband cable or fiber-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 macro-fundamentals 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 14 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. As further described in note 1 to our consolidated financial statements, Old Unitymedia is not included in our historical consolidated financial statements prior to January 28, 2010. In order to provide meaningful comparisons, the following discussion and analysis of our results of operations is based on pro forma statement of operations and statistical data that gives effect to the formation of Unitymedia and the Unitymedia Merger as of January 1, 2009 and the LGI/Unitymedia Transaction and the refinancing of Old Unitymedia's debt as of January 1, 2010. As a result, (i) the historical operating results of Old Unitymedia's continuing operations are included in the pro forma statement of operations and statistical data for all periods presented and discussed below, (ii) the pro forma statement of operations amounts for the year ended December 31, 2010 include adjustments to (a) reflect the new basis of accounting resulting from the LGI/Unitymedia Transaction and (b) eliminate the impacts of the refinanced debt of Old Unitymedia, and (iii) the pro forma statement of operations amounts for the year ended December 31, 2009 do not include any such adjustments. The pro forma amounts related to Old Unitymedia are derived from the historical financial statements of Old Unitymedia for the relevant period. The pro forma financial information is not necessarily indicative of the financial position and results of operations that would have occurred if these transactions had occurred on such dates.

Financial Performance

Historical results for the year ended December 31, 2011 and pro forma results for the years ended December 31, 2010 and 2009 are as follows (in millions):

	Year ended December 31,		
	2011	2010 pro forma	2009 pro forma
Revenue:			
Subscription revenue:			
Video	€ 625.3	€ 618.0	€ 614.1
Broadband internet	126.5	88.8	66.3
Telephony	148.6	117.5	86.3
Total subscription revenue	900.4	824.3	766.7
Non-subscription revenue	124.8	110.9	112.4
	1,025.2	935.2	879.1
Operating costs and expenses:			
OpEx	271.9	273.6	273.0
SG&A	140.6	140.7	139.8
Restructuring and other operating charges	0.5	26.7	2.7
Related-party fees and allocations, net	35.8	23.8	—
	448.8	464.8	415.5
EBITDA	576.4	470.4	463.6
Depreciation and amortization	388.3	351.8	294.7
EBIT	188.1	118.6	168.9
Financial and other expense:			
Interest expense:			
Third party	(244.7)	(247.7)	(156.0)
Related party	(99.9)	(93.5)	—
Foreign currency transaction losses, net	(20.2)	(13.1)	(0.6)
Realized and unrealized gains (losses) on derivative instruments, net	27.7	33.2	(25.3)
Realized and unrealized gains on investments, net	—	—	79.4
Other income (expense), net	(0.8)	1.5	0.4
Net financial and other expense	(337.9)	(319.6)	(102.1)
Earnings (loss) before income taxes	(149.8)	(201.0)	66.8
Income tax benefit (expense)	16.1	33.1	(46.5)
Earnings (loss) from continuing operations	€ (133.7)	€ (167.9)	€ 20.3

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, late fees and mobile telephony revenue. The details of our revenue during 2011 and 2010 are set forth below (in millions except percentages):

	Year ended December 31,		Increase	
	2011	2010 pro forma	€	%
Subscription revenue:				
Video	€ 625.3	€ 618.0	€ 7.3	1.2
Broadband internet	126.5	88.8	37.7	42.5
Telephony	148.6	117.5	31.1	26.5
Total subscription revenue	900.4	824.3	76.1	9.2
Non-subscription revenue (a)	124.8	110.9	13.9	12.5
Total	€ 1,025.2	€ 935.2	€ 90.0	9.6

(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)	€ 56.7
Average monthly subscription revenue per average RGU (ARPU) (c)	19.4
Increase in non-subscription revenue (d)	13.9
Total	€ 90.0

(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 our company 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 9% of the annual revenue of our company (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 these 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 and KBW's 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 subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of broadband internet, telephony and digital cable RGUs that were only partially offset by a decline in the average number of analog cable RGUs. The decline in the average number of analog cable RGUs led to a decline in the average number of total video RGUs during 2011, as compared to 2010.

(c) The increase in 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 free bundled services provided to new subscribers during promotional periods, (ii) lower ARPU due to a higher proportion of customers receiving discounted analog cable services through bulk agreements and (iii) lower ARPU due to a decrease in telephony call volume for customers on usage-based calling plans. In connection with the LGI/KBW Transaction, we made certain commitments to the FCO, including a commitment to distribute digital free-to-air television channels in unencrypted form commencing January 1, 2013. We do not expect this commitment, which is consistent with KBW's current practice, to have a material impact on our future prospects for growth in video revenue.

(d) The increase in non-subscription revenue is primarily attributable to increases in (i) installation revenue, primarily due to a higher number of RGU additions, (ii) interconnect revenue, primarily due to growth in telephony services and (iii) channel carriage fees. Our non-subscription revenue includes fees received for the carriage of certain channels included in our analog and digital cable offerings. These fees, which represented approximately 8% of the annual revenue of our company during 2011, are subject to contracts that expire or are otherwise terminable by either party at various dates ranging from 2012 through 2014. 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 14 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 (in millions except percentages):

	Year ended December 31,		Increase (decrease)	
	2011	2010 pro forma	€	%
Direct costs (interconnect, programming, copyright and other)	€ 87.5	€ 86.5	€ 1.0	1.2
Staff related costs	56.1	55.2	0.9	1.6
Network operating costs	85.9	90.5	(4.6)	(5.1)
Other indirect costs	42.4	41.4	1.0	2.4
Total	€ 271.9	€ 273.6	€ (1.7)	(0.6)

Our total OpEx decreased €1.7 million or 0.6% during 2011, as compared to 2010. This decrease includes the following factors:

- A decrease in network operating costs of €4.6 million or 5.1%, mostly attributable to lower energy costs due in part to the release of accruals in connection with the settlement of operational contingencies during the second and fourth quarters of 2011. Duct and pole rental costs remained relatively constant as the impact of higher rates was offset by the favorable impact of an accrual release in connection with the fourth quarter 2011 settlement of an operational contingency;

- An increase in direct costs of €1.0 million or 1.2%, primarily attributable to the net impact of (i) growth in digital cable services and (ii) lower copyright fees; and

- An increase in other indirect costs of €1.0 million or 2.4%, primarily attributable to the net impact of (i) a decrease in bad debt and collection of €4.6 million, due primarily to improved collection experience, (ii) an increase in outsourced labor and professional fees of €3.2 million, primarily attributable to the impact of increased call center costs due to higher call volumes and (iii) an increase of €2.3 million in encryption costs. The increase in encryption costs is due primarily to (i) a shift from capitalizing encryption costs during the first six months of 2010, when we purchased our encryption cards from third parties, to expensing encryption costs during subsequent periods, when we reimbursed Liberty Global for our share of the costs incurred under Liberty Global's global contract for encryption services and (ii) increased numbers of digital cable set-top boxes.

SG&A

General. SG&A includes human resources, information technology, general services, management, finance, legal and marketing costs, stock-based compensation and other general expenses. The details of our SG&A costs are provided in the below table (in millions except percentages):

	Year ended December 31,		Increase (decrease)	
	2011	2010 pro forma	€	%
Staff related costs	€ 40.6	€ 37.0	€ 3.6	9.7
Sales and marketing costs	62.0	73.0	(11.0)	(15.1)
Other indirect costs	38.0	30.7	7.3	23.8
Total	€ 140.6	€ 140.7	€ (0.1)	(0.1)

Our total SG&A decreased €0.1 million or 0.1% during 2011, as compared to 2010. This decrease includes the following factors:

- A decrease in sales and marketing costs of €11.0 million or 15.1%, due primarily to (i) a decrease in marketing expenditures, primarily due to a shift to lower cost marketing channels, (ii) lower expense for third-party sales commissions, as higher proportions of capitalized third-party sales commissions more than offset the impact of higher overall third-party sales commissions during 2011 and (iii) the €1.3 million positive impact of an accrual release following the second quarter 2011 settlement of an operational contingency;

- An increase in other indirect costs of €7.3 million or 23.8%, primarily attributable to (i) an increase in outsourced labor and professional fees of €3.0 million due primarily to higher consulting costs for strategic marketing projects, (ii) an increase of €1.2 million associated with costs incurred in connection with the integration of KBW's operations with ours and (iii) individually insignificant changes in other indirect cost categories; and

- An increase in staff related costs of €3.6 million or 9.7%, due primarily to (i) higher costs related to temporary personnel, (ii) annual wage increases and (iii) increased staffing levels.

In 2012, we plan to aggressively market our advanced services and expect to increase spending on marketing and advertising. In particular, our results during the first half of 2012 are expected to be impacted by strategic marketing initiatives aimed at further strengthening our brand awareness and positioning our company for future growth.

Restructuring Costs and Other Operating Charges

We recognized restructuring costs and other operating charges of €0.5 million during 2011, compared to €26.7 million during 2010. The 2010 amount includes €23.3 million of direct acquisition costs incurred in connection with the LGI/Unitymedia Transaction and €3.4 million of severance costs incurred in connection with certain reorganization and integration activities.

Related-Party Fees and Allocations, Net

We recorded related-party fees and allocations, net, related to corporate services performed by Liberty Global of €35.8 million during 2011, as compared to €23.8 million during 2010. These amounts represent charges from UPC Holding and other Liberty Global subsidiaries to our company following the LGI/Unitymedia Transaction, including charges for management, finance, legal, technology, marketing and other services that support our operations. For additional information, see note 17 to our consolidated financial statements.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €36.5 million or 10.4% during 2011, as compared to 2010, primarily due to the net effect of (i) increases in property and equipment related to capital expenditures, (ii) increases in expenditures for capitalizable subscriber acquisition costs and (iii) decreases associated with changes in the estimated useful lives of certain property and equipment that were made during the second half of 2010.

Net Financial and Other Expense

Our net financial and other expense primarily includes interest expense, interest income, foreign currency transaction gains (losses) and realized and unrealized gains (losses) on derivative instruments. As further described below, we recorded net financial and other expense of €337.9 million during 2011, as compared to €319.6 million during 2010.

Interest expense – third party

Interest expense – third party decreased €3.0 million or 1.2% during 2011, as compared to 2010, as increases in the amortization of deferred financing costs and non-cash interest accretion were more than offset by (i) decreases in interest expense associated with foreign currency exchange rate fluctuations with respect to the U.S. dollar denominated UM Dollar Senior Secured Notes and (ii) declines in interest expense on the Unitymedia Revolving Credit Facility. Our third-party interest expense primarily relates to the Unitymedia Notes and the Unitymedia Revolving Credit Facility.

Interest expense – related party

Interest expense – related party increased €6.4 million or 6.8% during 2011, as compared to 2010, due primarily to a higher weighted average outstanding balances of our shareholder loans payable to UPC Germany Holding during 2011. For additional information, see note 13 to our consolidated financial statements.

Foreign currency transaction losses

We recognized foreign currency transaction losses, net, of €20.2 million during 2011, compared to €13.1 million during 2010. These amounts primarily relate to the remeasurement of the UM Dollar Senior Notes into euros.

Realized and unrealized gains on derivative instruments, net

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

	Year ended December 31, 2011	Year ended December 31, 2010 pro forma
Cross-currency derivative contracts	€ 27.8	€ 38.2
Interest rate derivative contract	(0.1)	(5.0)
Total	€ 27.7	€ 33.2

For additional information regarding our derivative instruments, see notes 6 and 7 to our consolidated financial statements.

Income Tax Benefit

We recognized income tax benefit of €16.1 million during 2011 and €33.1 million during 2010.

The income tax benefit during the year ended December 31, 2011 differs from the expected income tax benefit of €47.8 million (based on the German 31.88% income tax rate), primarily due to the negative impacts 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 benefit of €63.5 million (based on the German 31.58% income tax rate), due primarily to the negative impacts of certain permanent differences between the financial and tax accounting treatment of interest and other items.

For additional information regarding our income taxes, see note 15 to our consolidated financial statements.

Loss from Continuing Operations

We reported losses from continuing operations of €133.7 million during 2011, as compared to €167.9 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 (in millions except percentages):

	Year ended December 31,		Increase (decrease)	
	2010	2009	€	%
		pro forma		
Subscription revenue:				
Video	€ 618.0	€ 614.1	€ 3.9	0.6
Broadband internet	88.8	66.3	22.5	33.9
Telephony	117.5	86.3	31.2	36.2
Total subscription revenue	824.3	766.7	57.6	7.5
Non-subscription revenue (a)	110.9	112.4	(1.5)	(1.3)
Total	€ 935.2	€ 879.1	€ 56.1	6.4

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

Revenue increased by €56.1 million or 6.4% during 2010, as compared to 2009. The increase in revenue was primarily due to (i) increased revenue from advanced services subscriptions, comprised of our digital cable, broadband internet and telephony products, and (ii) the January 1, 2010 price increase in certain segments of the multi-dwelling unit video base. This increase was partially offset by (i) lower pay-TV revenues as a result of the discontinuation of retailing *Bundesliga* programming at June 30, 2009 and (ii) basic video subscriber churn resulting in part from competition and previous price increases.

Video subscription revenue primarily consists of monthly basic cable subscription fees from the delivery of digital and analog television signals as well as premium digital services such as premium subscription channels, HD content and rented DVR and HD DVR boxes. Total video (digital and analog cable) revenue increased €3.9 million or 0.6% during 2010, as compared to 2009. This increase was primarily due to (i) the ongoing migration of the analog subscriber base to higher-ARPU basic digital cable services, (ii) a price increase effective January 1, 2010 for certain multi-dwelling unit contracts in our video business and (iii) ongoing demand for premium subscription channels, DVR and HD services. This increase was partially offset by (i) the discontinuation of retailing *Bundesliga* programming as of June 30, 2009 and (ii) basic video subscriber churn as a result of competition and previous price increases.

Subscription revenue from our broadband internet business includes the monthly subscription fees for retail broadband products and internet wholesale services. Revenue from the broadband internet business increased €22.5 million or 33.9% during 2010, as compared to 2009, primarily representing the continued demand for bundled Unity3play services in upgraded portions of our network coverage area. This increase reflects the impact of growth in the broadband internet RGU base year-on-year that was partially offset by the impact of higher bundling and promotional discounts.

Subscription revenue from our telephony business includes monthly line subscription fees and telephony usage. In line with strong growth in our broadband internet business, revenue from the telephony business increased by €31.2 million or 36.2% during 2010, as compared to 2009. As expected, the telephony RGU growth was partially offset by lower revenue on a per RGU basis due primarily to lower call volumes and promotional discounts.

Other revenue includes carriage fees from public and commercial broadcasters, interconnect revenue, installation fees, late fees, shared revenue from customer hotline toll charges and other revenue, including business-to-business revenue. Other revenue decreased €1.5 million or 1.3% during 2010, as compared to 2009, primarily as a result of (i) modestly lower carriage fees for video signal delivery, which represent the majority of other revenue, as a result of a lower basic video subscriber base, and (ii) lower toll charges as a result of lower incoming calls into our customer service hotline, partially offset by (a) higher interconnect revenue from incoming calls as a result of an increased telephony base and (b) slightly higher installation fees as a result of an increased number of HD DVR set-top box installations and the introduction of activation fees for our wireless routers.

OpEx and SG&A Expenses

Our OpEx and SG&A are provided in the below table (in millions except percentages):

	Year ended December 31,		Increase	
	2010	2009	€	%
		pro forma		
OpEx	€ 273.6	€ 273.0	€ 0.6	0.2
SG&A	140.7	139.8	0.9	0.6
Total	€ 414.3	€ 412.8	€ 1.5	0.4

Further Details of OpEx and SG&A Expenses

Details of our OpEx and SG&A during 2010 and 2009 are provided in the below table (in millions except percentages):

	Year ended December 31,		Increase (decrease)	
	2010	2009	€	%
		pro forma		
Further details of OpEx and SG&A				
Direct costs (interconnect, programming, copyright and other)	€ 86.5	€ 92.9	€ (6.4)	(6.9)
Staff related costs	92.2	95.6	(3.4)	(3.6)
Network operating costs	90.5	86.4	4.1	4.7
Sales and marketing costs	73.0	73.8	(0.8)	(1.1)
Other indirect costs	72.1	64.1	8.0	12.5
Total	€ 414.3	€ 412.8	€ 1.5	0.4

Direct costs. Direct costs decreased by €6.4 million or 6.9% during 2010, as compared to 2009, primarily due to (i) lower programming fees following the discontinuation of retailing *Bundesliga* content, (ii) lower wi-fi router expenses and (iii) lower copyright fees as a result of higher one-off copyright and programming related accruals in 2009 and lower underlying basic cable service revenue during 2010. During the third quarter 2010, we began renting wi-fi routers to new customers. These rented routers are capitalized, whereas the routers we previously provided free-of-charge to customers were charged to expense. This decrease was partially offset by (i) increased interconnect fees as a result of the higher internet and telephony customer base and (ii) higher digital cable programming expenses due to growth in our non-*Bundesliga* pay-TV offerings.

Staff related costs. Staff related costs decreased by €3.4 million or 3.6% during 2010, as compared to 2009. The decrease primarily relates to the net effect of (i) a higher amount of capitalized labor, (ii) a decrease in stock-based compensation, (iii) tariff and annual merit increases and (iv) slightly higher temporary personnel costs, partially offset by modest staffing decreases. As of December 31, 2010, we employed 1,619 FTE, including management, compared to 1,623 at December 31, 2009. Our stock-based compensation expense of €5.0 million during the year ended December 31, 2009 related to stock incentive plans implemented by our previous shareholders. Following the completion of the LGI/Unitymedia Transaction, our obligations relating to these stock incentive plans ceased.

Network operating costs. Network operating costs increased by €4.1 million or 4.7% during 2010, as compared to 2009. This increase is primarily due to (i) certain one-off network-related accrual releases in 2009, (ii) higher energy costs and (iii) a higher amount of refurbished customer premises equipment, partially offset by lower costs relating to terminated BRN (*BreitbandRundfunkNetz*) fiber links.

Sales and marketing costs. Costs related to sales and marketing decreased by €0.8 million or 1.1% during 2010, as compared to 2009, primarily due to lower marketing expenditures and advertising costs such as direct mailings, partially offset by increased sales-specific marketing expenditures, primarily as a result of higher web activities and an increase in the number of retail shops.

Other indirect costs. Other indirect costs increased by €8.0 million or 12.5% during 2010, as compared to 2009. This increase was primarily related to (i) certain one-off accrual releases aggregating €12.7 million during 2009 resulting from the re-evaluation or resolution of certain operational contingencies and (ii) expenses related to the implementation of a framework for internal financial controls. This increase was partially offset by (i) lower bad debt and (ii) lower consultancy and outsourcing expenses, including lower payments for outsourced call center services, as the first quarter 2009 included a large amount of incoming phone calls following certain changes in the general terms and conditions governing our standard contracts. Furthermore, customer contact rates decreased in 2010 as a result of process quality improvements including increased training for customer care agents.

Restructuring Costs and Other Operating Charges

We recognized restructuring costs and other operating charges of €26.7 million during 2010, as compared to €2.7 million during 2009. The 2010 amount includes €23.3 million of direct acquisition costs incurred in connection with the LGI/Unitymedia Transaction and €3.4 million of severance costs incurred in connection with certain reorganization and integration activities. The 2009 amount includes charges for direct acquisition costs of €1.1 million and severance costs of €1.6 million incurred in connection with certain reorganization activities.

Related-Party Fees and Allocations, Net

We recorded related-party fees and allocations, net, related to corporate services performed by Liberty Global of €23.8 million during 2010. These amounts represent charges from UPC Holding and other Liberty Global subsidiaries to our company following the LGI/Unitymedia Transaction, including charges for management, finance, legal, technology, marketing and other services that support our company's operations. For additional information, see note 17 to our consolidated financial statements.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €57.1 million or 19.4% during 2010, as compared to 2009, primarily due to higher depreciation and amortization arising from the new basis of accounting resulting from the LGI/Unitymedia Transaction. An increase in property and equipment related to capital expenditures also contributed to the increase. These increases were partially offset by the impact of certain assets becoming fully depreciated and amortized as well as decreases associated with changes in the useful lives of certain property and equipment during the second half of 2010.

Net Financial and Other Expense

As further described below, we recorded net financial and other expense of €319.6 million during 2010, as compared to €102.1 million during 2009.

Interest expense – third party

Interest expense – third party increased €91.7 million or 58.8% during 2010, as compared to 2009. These amounts reflect (i) third-party interest expense for the previous capital structure from January 1, 2009 through December 31, 2009 and (ii) third-party interest expense for the new capital structure from November 20, 2009 through December 31, 2010. The increase is primarily due to the higher debt balances and interest rates associated with the new capital structure.

Interest expense – related party

Interest expense – related party was €93.5 million during 2010. This amount reflects non-cash related-party interest expense on our shareholder loans payable to UPC Germany Holding from January 1, 2010 through December 31, 2010, as further described in note 13 to our consolidated financial statements.

Foreign currency transaction losses

We recognized foreign currency transaction losses, net, of €13.1 million during 2010 compared to €0.6 million during 2009. The 2010 losses resulted from the remeasurement of the UM Dollar Senior Notes into euros. We recorded no material foreign currency transaction losses during the year ended December 31, 2009 as we applied hedge accounting during 2009.

Realized and unrealized gains (losses) on derivative instruments, net

We recognized realized and unrealized gains on derivative instruments, net, of €33.2 million during 2010, as compared to losses of €25.3 million during the year ended December 31, 2009. The €33.2 million of gains during 2010 primarily reflect mark-to-market adjustments recorded on cross-currency derivative contracts. The losses of €25.3 million during 2009 reflect mark-to-market adjustments recorded on embedded derivative instruments related to the Old Senior Notes. For additional information regarding our derivatives, see note 6 to our consolidated financial statements.

Realized and unrealized gains on investments, net

We recognized realized and unrealized gains on derivative instruments of nil during 2010, as compared to €79.4 million during 2009. The 2009 amount represents a gain on a share-swap agreement between Unitymedia Hessen and Old Unitymedia, whereby previously purchased shares of our former parent company were exchanged by Unitymedia Hessen for shares in Old Unitymedia that were purchased in the open market during 2009.

Other income

We recorded other income of €1.5 million during 2010, as compared to €0.4 million during 2009 primarily due to interest income. The 2009 amount contains an expense of €2.1 million related to a cancelled initial public offering and debt consent.

Income Tax Benefit (Expense)

We recognized income tax benefit of €33.1 million during 2010 and income tax expense of €46.5 million during 2009.

The income tax benefit during the year ended December 31, 2010 differs from the expected income tax benefit of €63.5 million (based on the German 31.58% income tax rate), due primarily to the negative impacts of certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax expense during the year ended December 31, 2009 differs from the expected income tax expense of €21.1 million (based on the German 31.58% income tax rate), primarily due to the negative impact of the reassessment of previously recognized deferred taxes on loss carry forwards during 2009. This negative impact was partially offset by the positive impact of permanent differences between the financial and tax accounting treatment of the gain recognized in connection with the previously described share-swap transaction between Unitymedia Hessen and Old Unitymedia.

For additional information regarding our income taxes, see note 15 to our consolidated financial statements.

Earnings (Loss) from Continuing Operations

We reported a loss from continuing operations of €167.9 million during 2010, as compared to earnings from continuing operations of €20.3 million during 2009.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents

Although our consolidated operating subsidiaries have generated cash from operating activities, the terms of the indentures governing the Unitymedia Notes restrict our ability to access the assets of our subsidiaries. At December 31, 2011, substantially all of our consolidated cash and cash equivalents balance of €20.1 million was held by our subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax considerations or other factors.

Liquidity of Unitymedia

Our sources of liquidity at the parent level include (i) our cash and cash equivalents, (ii) our UPC Germany Holding Loan Receivable, (iii) funding from UPC Germany Holding (and ultimately from Liberty Global or other Liberty Global subsidiaries) in the form of loans or contributions, as applicable and (iv) subject to the restrictions noted above, proceeds in the form of distributions or loans from Unitymedia Hessen, Unitymedia NRW or other subsidiaries.

The ongoing cash needs of Unitymedia include (i) corporate general and administrative expenses and (ii) interest payments on outstanding debt. From time to time, Unitymedia may also require cash in connection with (i) the repayment of outstanding debt, (ii) the satisfaction of contingent liabilities, (iii) acquisitions or (iv) other investment opportunities. No assurance can be given that funding from UPC Germany Holding (and ultimately from Liberty Global or other Liberty Global subsidiaries), our subsidiaries or external sources would be available on favorable terms, or at all.

Liquidity of Unitymedia Hessen and Unitymedia NRW and our Other Operating Subsidiaries

In addition to cash and cash equivalents, the primary sources of liquidity of Unitymedia Hessen, Unitymedia NRW and our other operating subsidiaries is cash provided by operations and, in the case of Unitymedia Hessen and Unitymedia NRW, any borrowing availability under the Unitymedia Revolving Credit Facility.

At December 31, 2011, the Unitymedia Revolving Credit Facility was fully drawn.

The liquidity of Unitymedia Hessen, Unitymedia NRW and our other operating subsidiaries generally is used to fund capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time. For a discussion of our consolidated capital expenditures, cash provided by operating activities and cash used by financing activities, see the discussion under *Consolidated Cash Flow Statements* below. Our subsidiaries may also require funding in connection with (i) the repayment of outstanding debt, (ii) acquisitions and other investment opportunities or (iii) distributions or loans to Unitymedia. No assurance can be given that any external funding would be available to our subsidiaries on favorable terms, or at all.

Our most significant financial obligations are our debt obligations, as described in note 13 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 the operations of our subsidiaries, any available borrowings under the Unitymedia Revolving Credit Facility and a €75.0 million financing commitment from Liberty Global Europe, of which €58.0 million was unused at December 31, 2011, 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 subsidiaries various debt instruments. In this regard, if our Adjusted EBITDA were to decline, we could be required to repay or limit our borrowings under the Unitymedia 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 for the outstanding Unitymedia Notes are payable semi-annually on June 1 and December 1.

Consolidated Cash Flow Statements

The below discussion of our consolidated cash flow statements is based on the historical cash flows of Unitymedia's continuing operations for the year ended December 31, 2011 and the period from January 28, 2010 to December 31, 2010. As such, the pre-acquisition period of Old Unitymedia from January 1 to January 27, 2010 is excluded from our cash flows for 2010. We do not present a discussion of the historical 2009 cash flows of Unitymedia as Unitymedia was not incorporated until October 15, 2009.

Summary. During 2011, we used net cash provided by our operating activities of €317.4 million, net, cash provided by our financing activities of €60.3 million and €35.7 million of our existing cash and cash equivalents to fund net cash used by our investing activities of €413.4 million.

Operating activities. Net cash provided by our operating activities increased €91.7 million, from €225.7 million during 2010 to €317.4 million during 2011. This increase in cash provided is primarily attributable to (i) an increase in cash provided by our Adjusted EBITDA and related working capital items (which increase is net of a decrease primarily due to the exclusion of Old Unitymedia's negative working capital movements during the 2010 pre-acquisition period), (ii) an increase in cash provided due to lower cash payments for interest, primarily related to the March 2, 2010 repayment of Old Unitymedia´s then existing debt, (iii) an increase in cash provided due to lower cash payments related to derivative instruments and (iv) an increase in cash provided due to lower cash payments for taxes. The majority of annual customer prepayments related to 2010 fell into the last week of January and as such are included in our historical net cash provided by our continuing operating activities for 2010.

Investing activities. Net cash used by our investing activities decreased €1,709.8 million, from €2,123.2 million during 2010 to €413.4 million during 2011. This decrease in cash used is primarily attributable to the net effect of (i) a decrease in cash used of €1,880.1 million associated with net cash paid to acquire Old Unitymedia in the LGI/Unitymedia Transaction during 2010, (ii) an increase in cash used due to the €61.0 million investment in an associate, (iii) an increase in cash used due to advances to UPC Germany Holding of €54.0 million and (iv) an increase in cash used due to higher capital expenditures of €55.3 million, from €243.3 million during 2010 to €298.6 million during 2011. The increase in capital expenditures is due primarily to (i) an increase in expenditures for the purchase and installation of customer premises equipment, (ii) an increase in capitalized third-party commissions of €14.4 million, from €31.6 million during 2010 to €46.0 million during 2011, resulting from a higher number of RGU additions, (iii) an increase in expenditures for support capital, such as information technology upgrades and general support systems, (iv) an increase due to lower capital expenditures in 2010 due to the exclusion of the pre-acquisition period of Old Unitymedia and (v) an increase in expenditures for new build and upgrade projects to expand services.

For 2012, we expect our capital expenditures as a percentage of revenue to be in the range of 28% to 30%.

Financing activities. Net cash provided by our financing activities decreased €1,905.8 million, from €1,966.1 million during 2010 to €60.3 million during 2011. This decrease in cash provided is due primarily to the net effect of (i) a decrease in cash provided of €2,593.6 million due to the release of cash collateral accounts during 2010 that were originally funded in November 2009 with proceeds from the issuance of the Unitymedia Notes, (ii) an increase in cash provided due to lower third-party net debt repayments of €1,604.9 million, primarily related to the March 2, 2010 repayment of Old Unitymedia's then existing debt, (iii) a decrease in cash provided due to lower related-party borrowings of €1,050.9 million, primarily due to amounts borrowed from UPC Germany Holding in connection with the LGI/Unitymedia Transaction during 2010, (iv) an increase in cash provided due to lower cash payments related to derivative instruments of €66.6 million and (v) an increase in cash provided due to contributions from parent of €44.0 million.

Off-Balance Sheet Arrangements

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 3 to our consolidated financial statements.

SUPPLEMENTAL

FINANCIAL INFORMATION

(unaudited)

SUPPLEMENTAL FINANCIAL INFORMATION

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Key Financial Overview of Unitymedia (unaudited)

	Year ended December 31,		
	2011	2010 pro forma	2009 pro forma
		in millions	
Revenue	€ 1,025.2	€ 935.2	€ 879.1
Adjusted EBITDA (a)	613.2	520.9	471.3
Depreciation and amortization	(388.3)	(351.8)	(294.7)
Restructuring and other operating charges	(0.5)	(26.7)	(2.7)
Stock-based compensation	(0.5)	—	(5.0)
Related-party fees and allocations, net	(35.8)	(23.8)	—
EBIT	188.1	118.6	168.9
Net financial and other expense	(337.9)	(319.6)	(102.1)
Income tax benefit (expense)	16.1	33.1	(46.5)
Earnings (loss) from continuing operations	€ (133.7)	€ (167.9)	€ 20.3
CapEx (b)	€ 298.6	€ 261.3	€ 257.8
Adjusted EBITDA Margin (c)	59.8%	55.7%	53.6%
CapEx as % of Revenue	29.1%	27.9%	29.3%

(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. CapEx in 2009 excludes €8.0 million for the acquisition of third-party cable networks.

(c) We define Adjusted EBITDA Margin to mean Adjusted EBITDA as a percentage of revenue.

Unitymedia Condensed Consolidated Pro Forma Statements of Operations (unaudited)

The following table presents Unitymedia's condensed consolidated statements of operations on a pro forma basis assuming that the formation of Unitymedia and the Unitymedia Merger had occurred on January 1, 2009 and that the LGI/Unitymedia Transaction and the refinancing of Old Unitymedia's debt had occurred on January 1, 2010. As a result, (i) the historical operating results of Old Unitymedia's continuing operations are included in the pro forma statements of operations for all periods presented below and (ii) the pro forma statement of operations amounts for the year ended December 31, 2010 include adjustments to (a) reflect the new basis of accounting resulting from the LGI/Unitymedia Transaction and (b) eliminate the impacts of the refinanced debt of Old Unitymedia, and (iii) the pro forma statement of operations amounts for the year ended December 31, 2009 do not include any such adjustments. The pro forma amounts related to Old Unitymedia are derived from the historical financial statements of Old Unitymedia for the relevant period. The pro forma financial information is not necessarily indicative of the financial position and results of operations that would have occurred if these transactions had occurred on such dates. For additional information and definitions of capitalized terms, see notes 1 and 5 to the consolidated financial statements of Unitymedia.

UNITYMEDIA CONDENSED CONSOLIDATED PRO FORMA STATEMENTS OF OPERATIONS

(unaudited)

	Year ended December 31, 2010	2009
	in millions	
Revenue:		
Subscription revenue:		
Video	€ 618.0	€ 614.1
Broadband internet	88.8	66.3
Telephony	117.5	86.3
Total subscription revenue	824.3	766.7
Non-subscription revenue	110.9	112.4
	935.2	879.1
Operating costs and expenses:		
OpEx	273.6	273.0
SG&A	140.7	139.8
Restructuring and other operating charges	26.7	2.7
Related-party fees and allocations, net	23.8	—
	464.8	415.5
EBITDA	470.4	463.6
Depreciation and amortization	351.8	294.7
EBIT	118.6	168.9
Financial and other expense:		
Interest expense:		
Third party	(247.7)	(156.0)
Related party	(93.5)	—
Foreign currency transaction losses, net	(13.1)	(0.6)
Realized and unrealized gains (losses) on derivative instruments, net	33.2	(25.3)
Realized and unrealized gains on investments, net	—	79.4
Other income	1.5	0.4
Net financial and other expense	(319.6)	(102.1)
Earnings (loss) before income taxes	(201.0)	66.8
Income tax benefit (expense)	33.1	(46.5)
Earnings (loss) from continuing operations	€ (167.9)	€ 20.3
Further details of OpEx and SG&A:		
Direct costs (interconnect, programming, copyright and other)	€ 86.5	€ 92.9
Staff-related costs	92.2	95.6
Network operating costs	90.5	86.4
Sales and marketing costs	73.0	73.8
Other indirect costs	72.1	64.1
	€ 414.3	€ 412.8
Further details of restructuring and other operating charges:		
Staff-related restructuring costs	€ 3.4	€ 1.6
Direct acquisition costs	23.3	1.1
	€ 26.7	€ 2.7