Consolidated Financial Statements
December 31, 2010

UNITYMEDIA GMBH
Aachener Strasse 746-750
50933 Cologne
Germany

UNITYMEDIA GMBH
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Independent Auditor's Report (Translation)

The following audit opinion according to par. 322 HGB is related to the full set of consolidated financial statements, including the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report for the period from January 1, 2010 to December 31, 2010. The group management report is not included here. The management discussion & analysis was not subject to our audit.

We have issued the unqualified auditor's report in German language. The following is the translation of our auditor's report in English language:

"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 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, 2010 to December 31, 2010. 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 4, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by:

Wallraf	Laue
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

Unitymedia

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(see note 1)

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	€ 58.7	€ —
Trade receivables, net (note 8)	35.4	—
Other current assets	11.4	—
Total current assets	105.5	—
Property and equipment, net (note 7)	2,029.2	—
Goodwill (note 7)	1,436.1	—
Intangible assets subject to amortization, net (note 7)	656.8	—
Derivative instruments (note 5)	50.3	—
Restricted cash (note 12)	1.6	2,560.7
Other noncurrent assets (note 9)	20.6	—
Total noncurrent assets	4,194.6	2,560.7
Total assets	€ 4,300.1	€ 2,560.7

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

UNITYMEDIA GMBH
(see note 1)

CONSOLIDATED BALANCE SHEETS - continued

	December 31, 2010	December 31, 2009
	in millions	
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities:		
Accounts payable	€ 34.4	€ —
Accrued liabilities:		
Third party (note 10)	152.7	—
Related party (note 17)	4.1	—
Provisions (note 11)	18.6	
Deferred revenue and advance payments from subscribers and others	67.7	—
Current portion of debt and finance lease obligations (note 12)	21.8	26.0
Other current liabilities (notes 5 and 15)	10.4	21.0
Total current liabilities	309.7	47.0
Long-term debt and finance lease obligations (note12)	2,689.8	2,561.5
Notes payable – related party (note 17)	1,167.0	—
Deferred tax liabilities (note 15)	333.3	—
Derivative instruments (note 5)	—	14.7
Other long-term liabilities (note 13)	17.7	—
Total noncurrent liabilities	4,207.8	2,576.2
Total liabilities	4,517.5	2,623.2
Commitments and contingencies (note 14)		
Shareholder's deficit (note 16):		
Share capital	—	—
Additional paid-in capital	17.0	—
Accumulated deficit	(234.4)	(62.5)
Total shareholder's deficit	(217.4)	(62.5)
Total liabilities and shareholder's deficit	€ 4,300.1	€ 2,560.7

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

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(see note 1)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
	in millions	
Revenue	€ 866.9	€ —
Operating costs and expenses:		
Operating, (other than depreciation and amortization) (OpEx)	251.4	—
Selling, general and administration expenses (other than depreciation and amortization) (SG&A)	130.4	—
Restructuring and other operating charges	26.7	—
Related-party fees and allocations, net (note 17)	23.8	—
Total operating costs and expenses	432.3	—
Earnings before interest, taxes, depreciation and amortization (EBITDA)	434.6	—
Depreciation and amortization	324.5	—
Earnings before interest and taxes (EBIT)	110.1	—
Interest income	1.4	0.9
Interest expense, third party	(257.0)	(27.1)
Interest expense, related party (note 17)	(85.8)	—
Foreign currency transaction losses, net	(16.1)	(0.6)
Realized and unrealized gains (losses) on derivative instruments (note 5)	38.8	(35.7)
Net financial expense	(318.7)	(62.5)
Loss from continuing operations before income taxes	(208.6)	(62.5)
Income tax benefit (note 15)	35.5	—
Loss from continuing operations, net of taxes	(173.1)	(62.5)
Earnings from discontinued operations (note 4)	1.2	—
Net loss / comprehensive loss (a)	€ (171.9)	€ (62.5)
Further details of OpEx and SG&A:		
Direct costs (interconnect, programming, copyright and other)	€ 79.3	€ —
Staff-related costs (excluding restructuring charges)	107.6	—
Network operating and technical service costs	83.6	—
Sales and marketing costs	68.4	—
Indirect costs – other	42.9	—
	€ 381.8	€ —
Further detail of restructuring and other operating charges:		
Staff-related restructuring costs	€ 3.4	€ —
Direct acquisition costs (note 4)	23.3	—
	€ 26.7	€ —

(a) There were no items of comprehensive income in the current year or prior period other than the loss for the period and, accordingly, no statement of comprehensive income or loss is presented.

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

UNITYMEDIA GMBH
(see note 1)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIT

	Subscribed capital (note 16)	Additional paid in capital	Accumulated deficit	Total shareholder's 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)

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

UNITYMEDIA GMBH
(see note 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
	in millions	
Cash flows from operating activities:		
Loss from continuing operations	€ (173.1)	€ (62.5)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Restructuring and other operating charges, net	26.7	—
Related-party fees and allocations, net	23.8	—
Depreciation and amortization	324.5	—
Amortization of deferred financing costs and non-cash interest accretion	10.9	1.2
Non-cash related-party interest expense	85.8	—
Foreign currency transaction losses, net	16.1	0.6
Realized and unrealized losses (gains) on derivative instruments, net	(38.8)	35.7
Deferred tax benefit	(36.2)	—
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions	(14.0)	25.9
Net cash provided by operating activities from continuing operations	225.7	0.9
Net cash used by discontinued operations	(9.9)	—
Net cash provided by operating activities	215.8	0.9
Cash flows from investing activities:		
Cash paid in connection with acquisitions, net of cash acquired	(1,880.1)	—
Capital expenditures	(243.3)	—
Other investing activities	0.2	—
Net cash used by investing activities	(2,123.2)	—
Cash flows from financing activities:		
Decrease (increase) in cash collateral	2,593.6	(2,541.1)
Repayments of third-party debt and finance lease obligations	(1,770.6)	—
Borrowings of third-party debt	165.0	2,605.3
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	20.8	—
Net cash provided by financing activities	1,966.1	(0.9)
Net increase in cash and cash equivalents	58.7	—
Cash and cash equivalents:		
Beginning of period	—	—
End of period	€ 58.7	€ —
Cash paid for interest (excluding payments related to derivative instruments)	€ 265.3	€ —
Net cash paid for taxes	€ 12.8	€ —

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

(1) General and Basis of Presentation

Unitymedia GmbH (Unitymedia), formerly UPC Germany GmbH and until November 18, 2009 BALAGO Vermögensverwaltungsgesellschaft mbH, 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., Schiphol-Rijk, Netherlands (UPC Germany Holding).

The financial position of Unitymedia as of the October 23, 2009 registration date was €25,000 in cash and equity.

Unitymedia, which operates in the German states of Hesse and North Rhine-Westphalia, provides analog and digital cable television, as well as 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 4, we closed down effective September 30, 2010. As a result, we have presented Unitymedia's arena segment as a discontinued operation in our consolidated statement of operations and cash flows, 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 from Unity Media S.C.A., Luxembourg, the former shareholder of Old Unitymedia, of 100% of Old Unitymedia (the Liberty Global Transaction), has been given effect as of January 28, 2010 in the accompanying consolidated financial statements. As further described in note 4, the new basis of accounting was allocated to the identifiable assets and liabilities of Old Unitymedia based on assessments of their respective fair values, and the excess of the purchase price over the adjusted fair values of such identifiable net assets was allocated to goodwill. As further discussed in Part II of this Annual Report, the consolidated financial information of Old Unitymedia for the first and second quarters of 2010 has been restated to give effect to the Unitymedia Merger and the new basis of accounting as of January 28, 2010. Pro forma information for Unitymedia reflecting the combination of Unitymedia and Old Unitymedia from January 1, 2008 forward is also presented in Part II of this Annual Report.

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. As further described in note 4, we closed down our arena segment effective September 30, 2010.

Our annual financial statements are prepared in accordance with International Financial Reporting Standards 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). For certain required disclosures such as to the nature and extent of risks arising from financial instruments, refer also to management's discussion and analysis of financial condition and results of operations (Lagebericht).

The following table reconciles the net loss prepared in accordance with HGB for the period October 23, 2009 to December 31, 2009 and the shareholder's deficit as of December 31, 2009 to the results presented herein under EU-IFRS:

	HGB	Adjustment (a)	IFRS
		in millions	
Net loss	€ (127.6)	€ 65.1	€ (62.5)
Accumulated deficit	€ (127.6)	€ 65.1	€ (62.5)

(a) Represents financing costs recognized as incurred under HGB whereas deferred over the life of debt under EU-IFRS.

The UM Senior Secured Notes and UM Senior Notes, each as defined in note 12, are listed on the Official List of the Luxembourg Stock Exchange and trade on the Euro MTF Market, which is not a regulated market (as defined by Article 1(13) of Directive 93/22/EEC).

The functional currency of our financial statements is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of December 31, 2010. Amounts may not total due to rounding.

These consolidated financial statements were approved for publication by the Managing Directors on March 4, 2011.

(2) Accounting Changes and Recent Pronouncements

Standards, amendments and interpretations effective in 2010 and early adopted in 2009

The following standards, amendments, interpretations and improvements are mandatory for the first time for the financial year beginning January 1, 2010 and have been early adopted as of October 23, 2009. The dates within brackets refer to the date a fiscal year begins.

Revisions to IFRS 1 *First Time Adoption of IFRSs*, Amendments to IFRS 1 *Additional Exemptions for First-time Adopters* and IFRS 7 *Disclosures for First-time Adopters* (effective from July 1, 2010)

The objective of this revision of IFRS 1 is to improve the structure of IFRS 1 – no new or revised technical material has been introduced. The revisions are designed to make IFRS 1 clearer and easier to follow by reorganising and moving to appendices most of the numerous exceptions and exemptions. The improved structure is also intended to better accommodate future changes to IFRS 1. The amendments to IFRS 1 provide additional exemptions for first-time adopters relating to oil and gas assets and arrangements containing leases. The IASB also amended IFRS 1 to exempt first-time adopters of IFRSs from providing the additional disclosures introduced by the March 2009 amendments to IFRS 7 *Improving Disclosures about Financial Instruments*. The amendment gives first-time adopters the same transitional provisions that the amendments to IFRS 7 provide to current IFRS preparers. This amendment is a short-term exemption and is applicable only to annual comparative periods ending before December 31, 2009, interim periods with an annual comparative period before December 31, 2009 and to any statement of financial position presented within these periods.

Amendment to IFRS 2 *Share-based Payment* (effective from January 1, 2010)

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. We adopted the amendment as of October 23, 2009, with no material effect on our results of operations or financial position.

Amendment to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective from July 1, 2009)

The amendments to IFRS 3 and IAS 27 relate to business combinations for which the acquisition date is on or after January 1, 2010 in accordance with the relevant transitional provisions. The most significant changes to these amendments include:

- The amendments allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as ‘minority' interests) at the date of acquisition either at fair value or at the non-controlling interests' proportionate share of acquiree’s net assets.
- The amendments change the recognition and subsequent accounting requirements for contingent consideration, where contingent consideration is measured at fair value at the acquisition date. Any subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognized in profit or loss.

- The amendments require acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

We have applied the amendment prospectively to business combinations on or after January 1, 2010. Our adoption has affected the accounting for the Liberty Global Transaction in the current year.

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as part of *Improvements to IFRSs* issued in 2008

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the entity is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the entity will retain a non-controlling interest in the subsidiary after the sale. The amendments also clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

We adopted the amendments as of October 23, 2009, with no material effect on our results of operations or financial position. Disclosures in these consolidated financial statements have been modified to reflect the above clarification.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective from July 1, 2009)

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

We adopted the amendments as of October 23, 2009, with no material effect on our results of operations or financial position.

Improvements to IFRSs

In 2009, the IASB issued again a collection of amendments to International Financial Reporting Standards (IFRSs) with the primary objective to reduce inconsistencies and clarify terminology. Except for the amendments to IFRS 5 described above, the application of *Improvements to IFRSs* issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective July 1, 2009)

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The interpretation does not have a material effect on our results of operations or financial position.

IFRIC 18 *Transfers of Assets from Customers* (effective July 1, 2009)

The Interpretation addresses the accounting by recipients for transfers of property and equipment from 'customers' and concludes that when the item of property and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognized as revenue in accordance with IAS 18 *Revenue*. The interpretation does not have a material effect on our results of operations or financial position.

Standards, amendments and interpretations to existing standards that are adopted by the EU but not yet effective and have not been early adopted by us or not relevant for us

The following standards, amendments and interpretations to existing standards have been published and are mandatory for our accounting periods beginning on or after January 1, 2011, or later periods, but we have not early adopted them or which are currently not relevant for us. The dates within brackets refer to the date a fiscal year begins.

- IAS 24 (revised in 2009) *Related Party Disclosures (*effective from January 1, 2011)
- Amendments to IAS 32 *Classification of Rights Issues* (effective February 1, 2010)
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (effective January 1, 2011)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective July 1, 2010)
- *Improvements to IFRSs* issued in 2010 (except for the amendments to IFRS 3 (2008) described above) (effective July 1, 2010 and January 1, 2011, as appropriate).

We do not expect that these new standards, amendments and interpretations to existing standards will have a material impact on our results of operations or financial position.

(3) Summary of Significant Accounting Policies

The following significant accounting policies, critical judgements and estimates have been applied starting October 23, 2009.

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 net operating loss recognition, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets and actuarial liabilities associated with certain benefit plans. Actual results could differ from those estimates.

Principles of consolidation

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

In addition to Unitymedia GmbH, the parent company, the following subsidiaries are included in the consolidated financial statements according to the principles of full consolidation.

Name of company	Headquarter	Country	Share of equity %
Unitymedia Management GmbH (a)..	Cologne	Germany	100.0
Unitymedia Beteiligungs GmbH...	Cologne	Germany	100.0
Unitymedia Hessen Verwaltung GmbH	Cologne	Germany	100.0
Unitymedia Hessen GmbH & Co. KG (a).................................	Cologne	Germany	100.0
Unitymedia NRW GmbH (a)	Cologne	Germany	100.0
iesy Hessen Beteiligungs-GmbH...	Cologne	Germany	100.0
Tele Columbus Holding GmbH..	Hannover	Germany	100.0
Unitymedia Services GmbH (a)	Cologne	Germany	100.0
Unitymedia Wiesbaden GmbH	Cologne	Germany	100.0
Unitymedia Aachen GmbH..	Cologne	Germany	100.0
iesy Hessen Verwaltungs-GmbH...	Cologne	Germany	100.0
Arena Sport Rechte und Marketing GmbH	Cologne	Germany	100.0

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

Cash and cash equivalents and restricted cash

Cash and cash equivalents comprise cash and investments that are readily convertible into cash and have maturities of three months or less at the time of acquisition. We record money market funds at the net asset value reported by the investment manager as there are no restrictions on our ability, contractual or otherwise, to redeem our investments at the stated net asset value reported by the investment manager.

Restricted cash includes cash held in escrow and cash pledged as collateral. Restricted cash amounts that are required to be used to purchase long-term assets or repay long-term debt are classified as long-term assets. All other cash that is restricted to a specific use is classified as current or long-term 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 probable 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 credit risk and historical experience. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers. We also manage this risk by disconnecting services to customers whose accounts are delinquent.

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, 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 they are located.

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 25 years. Support equipment and buildings (including leasehold improvements) have estimated useful lives ranging from 3 to 20 years. 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 as a whole constitutes 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 recognized within restructuring and other operating charges, net.

Intangible assets

Our primary intangible assets are goodwill, customer relationships, trade name, subscriber acquisition costs, and software. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with definite lives are amortized over their respective estimated useful lives and reviewed for impairment.

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 allocated. If the recoverable amount 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 new subscribers, 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 lives, which generally range from 1 to 2 years.

Costs associated with maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by us and that will probably generate economic benefits exceeding costs 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. Internally-generated capitalized software costs are amortized on a straight-line basis over their applicable expected useful lives, which generally approximate 3 years. Where no internally-generated intangible asset can be recognized, development expenditures are recognized as expenses in the period 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 recognized in our consolidated statements of operations 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 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, then subsequently less accumulated depreciation and any impairment losses. 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 long-term 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 (SLAs) with Deutsche Telekom AG, Bonn (DTAG) 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.

Derivative financial instruments

All derivatives 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 is recognized in our consolidated statements of operations over the period of the borrowings using the effective interest method.

Accounts payable

Accounts payable is recognized at cost.

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 and 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.

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 shown net of value-added tax, rebates and discounts and after eliminating intercompany sales within the consolidated group.

We derive revenue from six main business activities: our analog and digital basic cable television products, pay TV products, internet products, telephony (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 accounted for by deferring the received payments and amortizing them straight-line over the service period.

When free months are offered to customers in relation to a subscription, we recognize the total amount of billable revenue in equal monthly instalments over the term of the contract provided that we have the enforceable and contractual right to deliver products to the customer after the promotional free month 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.

Installation fees generally are recognized as services are rendered.

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 substantially 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 on goodwill which is not recognized for tax purposes.

Deferred tax assets are recognized for deductible temporary differences and tax loss carry forwards, if it is probable that future taxable profits 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 profit nor taxable profit.

The recoverability of the carrying value of deferred taxes is determined based on management’s estimates of future taxable profits. If it is no longer probable that enough future taxable profits 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 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).

For additional information concerning deferred tax assets and liabilities, see note 15.

Segments

Through September 30, 2010, we had 2 segments, cable and arena. Following the September 30, 2010 closure of our arena segment, as discussed in note 4, we operate in the cable segment only. Our cable segment provides analog and digital television, 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.

The revenue of our cable segment by major product category is as follows:

	Year ended December 31, 2010
	in millions
Subscription revenue (a):	
Video	€ 571.7
Internet	83.0
Telephony	109.4
Total subscription revenue	764.1
Other revenue (b)	102.8
Total revenue	€ 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 stand-alone price for each individual service.

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

(4) Acquisition and Discontinued Operation

Acquisition

On January 28, 2010, Unitymedia completed the Liberty Global 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 Liberty Global 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 Senior Notes (as defined in note 12) and (ii) a note payable to UPC Germany Holding, as further described in note 17.

We have accounted for the Liberty Global 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 long-term debt and capital lease obligations		(0.7)
Other current liabilities		(437.6)
Long-term debt and capital lease obligations		(1,711.5)
Other long-term liabilities		(407.5)
Total purchase price	€	2,006.0

(a) The goodwill recognized in connection with the Liberty Global 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 has 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 formation of Unitymedia (ii) the Unitymedia Merger, (ii) the Liberty Global Transaction and (iv) 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.

	Proforma Year ended December 31, 2010
	in millions
Revenue:	
Video	€ 618.0
Internet	88.8
Telephony	117.5
Other revenue	110.9
	935.2
Operating costs and expenses (b):	
OpEx	273.6
SG&A	140.7
Restructuring and other operating charges, net	26.7
Related-party fees and allocations, net	23.8
	464.8
EBITDA	470.4
Depreciation and amortization	351.8
EBIT	118.6
Interest income	1.5
Interest expense, third party	(247.7)
Interest expense, related party	(93.5)
Realized and unrealized gains (losses) on derivative instruments	33.2
Foreign currency transaction gains (losses), net	(13.1)
Net financial income (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 (b):	
Direct costs (interconnect, programming, copyright and other)	€ 86.5
Staff-related costs	116.0
Network operating and technical service costs	90.5
Sales and marketing costs	73.0
Indirect costs – other	48.3
	€ 414.3
Further details of Restructuring and other operating charges:	
Staff-related restructuring costs	€ 3.4
Direct acquisition costs (note 4)	23.3
	€ 26.7

The operating results of Old Unitymedia since the acquisition date included in our consolidated statement of operations are summarized in the following table:

	Year ended December 31, 2010
	in millions
Revenue	€ 866.9
EBITDA	€ 463.8
Loss before income taxes	€ (36.9)
Income tax benefit	€ 30.2
Net loss	€ (5.6)

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:

	Year ended December 31, 2010
	in millions
Revenue	€ 7.8
Operating costs and expenses	€ 7.1
EBITDA	€ 0.5
Loss before income taxes	€ (0.8)
Income tax benefit	€ 2.0
Profit from discontinued operations	€ 1.2

(5) Derivative Instruments

We have entered into certain derivative instruments to manage foreign currency exposure with respect to the U.S. dollar. We are also party to an interest rate swap contract that was originally entered into to manage interest rate risk with respect to the Old Floating Rate Notes, as defined in note 12.

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

	December 31, 2010			December 31, 2009		
	Current	Long-term	Total	Current	Long-term	Total
	in millions					
Assets:						
Cross-currency derivative contracts (a)	€ 3.0	€ 50.3	€ 53.3	€ —	€ —	€ —
Liabilities:						
Cross-currency derivative contracts (a)	€ —	€ —	€ —	€ 21.0	€ 14.7	€ 35.7
Interest rate derivative contract (a)	9.2	—	9.2	—	—	—
Total	€ 9.2	€ —	€ 9.2	€ 21.0	€ 14.7	€ 35.7

(a) As of December 31, 2010 and 2009, the fair values of our cross-currency derivative assets and our interest rate derivative liabilities have been adjusted by credit risk valuation adjustments aggregating €3.2 million and €4.2 million, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty non-performance and the adjustments to our derivative liabilities relate to credit risk associated with our own non-performance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market. For further information concerning our fair value measurements, see Note 6.

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

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

The net cash paid related to our derivative instruments is classified as an operating activity 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. The classifications of these cash payments are as follows:

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

Cross-currency and Interest Rate Derivative Contracts

Cross-currency Swaps:

In conjunction with the refinancing of our existing indebtedness as further described in note 12, we entered into new cross-currency swap contracts. The terms of our outstanding cross-currency swap contracts at December 31, 2010 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	$	845.0	€	569.4	8.13%	8.49%

Interest Rate Swap:

The terms of our outstanding interest rate swap contract at December 31, 2010 are as follows:

	Notional amount in millions		Interest rate due from counterparty	Interest rate due to counterparty
April 2011	€	800.0	3 months EURIBOR	3.35 %

(6) Fair Value Measurements

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.

Most of our Level 2 inputs (interest rates, swap rates, yield curves, and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (forecasted volatilities and credit spreads) are obtained from pricing services. These inputs, or interpolations or extrapolations thereof, are used in our internal models to calculate, among other items, yield curves, forward interest and currency rates, and weighted average cost of capital rates. In the normal course of business, we receive fair value assessments from the counterparties to our derivative contracts as discussed below. 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 5, we have entered into various derivative instruments to manage our foreign currency exposure with respect to the U.S. dollar. Our derivative financial instruments are measured at fair value as the present value of the estimated future cash flows based on observable yield curves and fall under the Level 2 fair value hierarchy. 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 interest rates, swap rates and yield curves, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own non-performance risk and the non-performance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to our various interest rate and foreign currency derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative instruments, we believe that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency and interest rate swaps are quantified and further explained in Note 5. The reported fair values of our derivative assets and liabilities as of December 31, 2010 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.

As of December 31, 2010, we had no additional financial assets and liabilities apart from derivatives, thus no financial assets and liabilities 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 reporting units, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of reporting units is based at least in part on discounted cash flow analyses. With the exception of certain inputs in our discount rate assumptions that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer, contributory asset charges, and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During 2010, we performed nonrecurring fair value measurements in connection with acquisitions and goodwill impairment assessments. For additional information, see note 4 and 7.

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

	Category according to IAS 39 (a)	December 31, 2010		December 31, 2009	
		Carrying amount	Fair value	Carrying amount	Fair value
		in millions			
Assets carried at fair value					
Derivative financial instruments	I	€ 53.3	€ 53.3	€ —	€ —
Assets carried at cost or amortized cost					
Trade receivables	II	€ 35.4	€ 35.4	€ —	€ —
Restricted cash	II	1.6	1.6	2,560.7	2,560.7
Other assets	II	9.1	9.1	—	—
Cash and cash equivalents	II	58.7	58.7	—	—
Total assets carried at cost or amortized cost		**€ 104.8**	**€ 104.8**	**€ 2,560.7**	**€ 2,560.7**
Liabilities carried at fair value					
Derivative financial instruments	I	€ 9.2	€ 9.2	€ 35.7	€ 35.7
Liabilities carried at cost or amortized cost					
Debt obligation and accrued interest	III	€ 2,707.0	€ 3,012.0	€ 2,587.5	€ 2,755.6
Notes payable – related party	III	1,167.0	1,167.0	—	—
Finance lease obligations	III	4.6	4.6	—	—
Total liabilities carried at cost or amortized cost		**€ 3,878.6**	**€ 4,183.6**	**€ 2,587.5**	**€ 2,755.6**

(a) The terms have the following respective meanings:
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

(7) Long-lived Assets

Property and Equipment, Net

The carrying amounts of property and equipment at the beginning and end of the period from October 23, 2009 until December 31, 2009 were nil. The following table represents the reconciliation of carrying amounts of property and equipment at the beginning and end of the period from January 1, 2010 until December 31, 2010:

	Cable distribution systems	Support equipment, buildings and land	Total
		in millions	
Cost			
January 1, 2010	€ —	€ —	€ —
Liberty Global Transaction	1,930.2	98.2	2,028.4
Additions	203.4	8.1	211.5
Disposal	(4.2)	—	(4.2)
December 31, 2010	€ 2,129.4	€ 106.3	€ 2,235.7
Accumulated Depreciation			
January 1, 2010	€ —	€ —	€ —
Depreciation (a)	197.4	13.3	210.7
Additions	—	—	—
Disposal	(4.2)	—	(4.2)
December 31, 2010	€ 193.2	€ 13.3	€ 206.5
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.

During 2010, no borrowing costs were capitalized.

For information concerning assets pledged, see note 12. For information concerning purchase obligations for property and equipment, see note 14.

Goodwill

We performed our annual review for impairment as of October 1, 2010 and we concluded that the full amount of our goodwill was recoverable. Goodwill acquired in connection with the Liberty Global Transaction was allocated to one cash-generating unit.

For detailed information regarding the Liberty Global Transaction, see note 4.

Changes in the carrying amount of goodwill during 2010 are entirely the result of the Liberty Global Transaction.

The key assumptions for the value in use calculations used to determine the recoverable amount are those regarding the discount rates and expected changes to selling prices/product offerings and direct costs during the period. As we have reliable tax planning available for the coming years, a post-tax discount rate is used. Changes in selling practices and direct costs are based on past practices and expectations of future changes in the market. The calculation uses cash flow projections based on financial budgets approved by management, and projections or extrapolations of our Long Range Plan through 2020. A discount rate of 11.0% was applied to the projected cash flows based on the current market assessments of the time value of money and the risks specific to our company and our business plan. Cash flows beyond the 10-year period have been extrapolated using a steady 3.0% growth rate based on historical experience. This growth rate is at the upper range of the long-term average growth rate for the industry, however, we compensated for this estimate by having more company specific risk in our WACC. A period of 10 years prior to implementing a continuing growth rate in the cash flow model is deemed reasonable due to the long-term capital intensive nature of our industry. We believe that any reasonably possible changes in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Intangible Assets Subject to Amortization, Net

The carrying amounts of intangible assets subject to amortization at the beginning and end of the period from October 23, 2009 until December 31, 2009 were nil. The following table represents the reconciliation of carrying amounts of intangible assets at the beginning and end of the period from January 1, 2010 until December 31, 2010:

	Customer relationships	Trade name	Other	Total
		in millions		
Cost				
January 1, 2010	€ —	€ —	€ —	€ —
Liberty Global Transaction	700.0	9.0	23.2	732.2
Additions	32.0	—	7.5	39.5
Disposal	(0.4)	—	—	(0.4)
December 31, 2010	€ 731.6	€ 9.0	€ 30.7	€ 771.3
Accumulated Amortization				
January 1, 2010	€ —	€ —	€ —	€ —
Amortization (a)	102.1	1.7	11.1	114.9
Disposal	(0.4)	—	—	(0.4)
December 31, 2010	€ 101.7	€ 1.7	€ 11.1	€ 114.5
Intangible Assets Subject to Amortization, Net				
December 31, 2010	€ 629.9	€ 7.3	€ 19.6	€ 656.8

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

Our intangible assets other than goodwill each have a finite life and are comprised primarily of customer relationships including subscriber acquisition costs, trade name, software licenses and network user rights. These intangible assets are amortized on a straight-line basis over their estimated useful lives. 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.

For detailed information regarding the Liberty Global Transaction, see notes 1 and 4. For information concerning assets pledged, see note 12.

(8) Trade receivables

		December 31, 2010
		in millions
Trade receivables, gross	€	34.7
Allowance for impairment of trade receivables		(15.7)
Trade receivables, net		19.0
Unbilled revenue		16.5
Trade receivables and unbilled revenue, net	€	35.5
Long term trade receivables	€	(0.1)
Current trade receivables and unbilled revenue, net	€	35.4

The following table shows the development of the allowance on trade receivables:

		December 31, 2010
		in millions
Allowance at January 1, 2010	€	—
Liberty Global Transaction		18.1
Provisions for impairment of receivables		8.4
Write-offs of receivables		(10.8)
Allowance at December 31, 2010	€	15.7

The following trade receivables are past due but have not been impaired as they are expected to ultimately be collected:

		December 31, 2010
		in millions
Less than 30 days past due	€	5.9
31 – 60 days past due		0.9
60 – 90 days past due		0.4
	€	7.2

(9) Other noncurrent assets

		December 31, 2010
		in millions
Prepaid fiber leases	€	15.0
Other		5.6
Other noncurrent assets	€	20.6

(10) Accrued liabilities, third party

		December 31, 2010
		in millions
Accrued expenses (other than payroll related accruals)	€	86.1
Accrued capital expenditures		28.1
Accrued payroll related compensation and benefits		15.3
Value added tax (VAT) payable		7.8
Customer overpayments		6.0
Other liabilities		9.4
Accrued liabilities	€	152.7

(11) Provisions

The following table shows the development of provisions:

		December 31, 2010
		in millions
January 1, 2010	€	—
Liberty Global Transaction		17.0
Additions		1.9
Cash payments		(0.3)
Release		—
December 31, 2010	€	18.6

Our provisions relate to acquisitions and to our operations and represent contingencies that are less certain than accrued liabilities.

(12) Debt and Finance Lease Obligations

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%, (ii) $845.0 million (€632.2 million) principal amount of 8.125% senior secured notes (the UM Dollar Senior Secured Notes, together with the UM Euro Senior Secured Notes, the UM Senior Secured Notes) at an issue price of 97.844% and (iii) €665.0 million principal amount of 9.625% senior notes (the UM Senior Notes) at an issue price of 97.652% (collectively, the Unitymedia Senior Notes). The UM Senior Secured Notes mature on December 1, 2017 and the UM Senior Notes mature on December 1, 2019. Net proceeds from the issue of the Unitymedia Senior Notes in the amount of €2,541.0 million, after deducting issuance costs of €65.1 million, were placed into escrow accounts. As further discussed in note 4, on January 28, 2010, we used €849.2 million of cash from the escrow accounts to fund a portion of the Unitymedia Purchase Price.

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 (€113.0 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 (€5.8 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 Unitymedia's €80.0 million secured revolving credit facility (the Revolving Credit Facility) were assumed by Unitymedia Hessen and Unitymedia NRW. Additionally, Old Unitymedia's existing undrawn €130.0 million revolving credit facility (the Old 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 Senior Notes offering.

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

	December 31, 2010				Fair value		Carrying value	
					December 31,		December 31,	
	Interest rate (a)	Borrowing currency	Euro equivalent	Unused borrowing capacity (b)	2010	2009	2010	2009
					in millions			
Debt:								
Parent:								
UM Senior Notes due 2019	9.625%	€ 665.0	€ 665.0	€ N/A	€ 729.8	€ 674.9	€ 650.5	€ 649.5
Subsidiaries:								
Revolving Credit Facility due 2014	4.454%	€ 80.0	€ 80.0	€ —	€ 76.0	€ —	80.0	—
UM Euro Senior Secured Notes due 2017	8.125%	€ 1,430.0	€ 1,430.0	€ N/A	€ 1,516.3	€ 1,457.0	1,402.3	1,399.5
UM Dollar Senior Secured Notes due 2017	8.125%	$ 845.0	€ 632.2	€ N/A	€ 670.4	€ 597.7	620.2	577.0
Transaction costs							(65.5)	(64.5)
Accrued interest							19.5	26.0
Finance lease obligations							4.6	—
Total debt and finance lease obligations							2,711.6	2,587.5
Current maturities							(21.8)	(26.0)
Long-term debt and finance lease obligations							€ 2,689.8	€ 2,561.5

(a) Represents the nominal interest rate 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. For information concerning our derivative instruments, see note 5. The nominal interest rate for the Revolving Credit Facility is EURIBOR + 375 basis points. Including the effects of derivative instruments, discounts and commitments fees, but excluding the impact of financing costs, our estimated weighted average interest rate on our aggregate indebtedness was approximately 9.5% at December 31, 2010. Interest payments for the Unitymedia Senior Notes commenced on June 1, 2010 and are made semi-annually on June 1 and December 1.

(b) Unused borrowing capacity represents the maximum availability under the applicable facility at December 31, 2010 without regard to covenant compliance calculations.

Maturities of Debt and Finance Lease Obligations

Maturities of our debt and finance lease obligations as of December 31, 2010 are presented below. Amounts presented below represent euro equivalents based on December 31, 2010 exchange rates:

Debt (in millions)

Year ended December 31:		
2011	€	—
2012		—
2013		—
2014		80.0
2015		—
Thereafter		2,727.2
Total debt maturities		2,807.2
Unamortized discount		(54.2)
Total debt		2,753.0
Present value of net minimum lease payments for finance lease obligations		4.6
Total debt and finance lease obligations	€	2,757.6

Security and Certain Covenants

The UM Senior Secured Notes and the UM Senior Notes are senior obligations of the UM Senior Secured Notes Co-Issuers and Unitymedia (each an 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 of Unitymedia and junior-priority share pledges and other asset security of certain subsidiaries of Unitymedia.

The Unitymedia Senior 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 an Issuer or any of the Restricted Subsidiaries (as defined in the applicable indenture) is an event of default under the Unitymedia Senior Notes.

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

The Revolving Credit Facility is secured by the same security as the Unitymedia Senior Secured Notes. The Revolving Credit Facility is guaranteed by Unitymedia, Unitymedia Hessen, Unitymedia NRW, Unitymedia Management, Unitymedia Beteiligung, Unitymedia Hessen Verwaltung and each other subsidiary that becomes a significant subsidiary (as defined in the indenture for the Unitymedia Senior Secured Notes).

Substantially all of our cash, receivables, property and equipment and other financial assets have been provided as securities for liabilities by (guarantor) companies Unitymedia GmbH, Unitymedia Management, Unitymedia Hessen, Unitymedia Hessen Verwaltung, Unitymedia NRW, iesy Hessen Verwaltungs, and Arena Sport Rechte und Marketing GmbH.

Unitymedia

(13) Other liabilities

Other long-term liabilities

	December 31, 2010
	in millions
Net pension liability	€ 8.4
Other long-term liabilities	9.3
Other long-term liabilities	€ 17.7

(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 premise equipment and other items. These include several long-term term agreements with Deutsche Telekom AG, Bonn (Deutsche Telekom) and its affiliates with respect to usage and access for underground cable ducts 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 for the year ended December 31, 2010 were €64.4 million. 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:						
	2011	2012	2013	2014	2015	Thereafter	Total
	in millions						
Operating leases	€ 68.1	€ 66.3	€ 64.1	€ 63.4	€ 63.4	€ 804.7	€ 1,130.0
Programming and other purchase obligations	12.7	0.8	0.3	—	—	—	13.8
Other commitments	16.7	8.8	—	—	—	—	25.5
	€ 97.5	€ 75.9	€ 64.4	€ 63.4	€ 63.4	€ 804.7	€ 1,169.3

Operating leases include indefinite-live 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 statue of limitations, the agreements in effect represent a maximum lease term of 30 years, after which time the Deutsche Telekom has certain additional rights under the lease. Accordingly, the operating lease amounts included in the above table reflect payments under the Deutsche Telecom 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 purchase obligations include commitments to purchase customer premise equipment that are enforceable and legally binding on us.

Other commitments include certain fiber capacity and energy commitments.

Guarantees and Other Credit Enhancements

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

Other Contingencies

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

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

	Year ended December 31, 2010
	in millions
Current tax expense	€ (0.7)
Deferred tax benefit	36.2
Total	€ 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 31.58% as a result of the following:

	Year ended December 31, 2010	Period from October 23, 2009 to December 31, 2009
	in millions	
Computed “expected” income tax benefit	€ 65.9	€ 19.7
Non-deductible or non-taxable interest and other expenses	(21.4)	(1.0)
Unrecognized net operating losses and interest carried forwards	(7.0)	(18.7)
Other, net	(2.0)	—
Total	€ 35.5	€ —

As of December 31, 2009, deferred taxes were nil. 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		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, 2010	December 31, 2009
	in millions	
Interest carryforwards	€ 78.4	€ 25.5
Trade tax loss carryforwards	€ 31.3	€ 1.7
Corporate income tax loss carry forwards	€ 149.7	€ 1.9

Unitymedia and certain of its subsidiaries are parties to certain profit and loss pooling agreements. Due to those agreements, we are not permitted to use certain tax loss carry forwards as long as these profit and loss pooling agreements are active. Our interest carry forwards have accrued as a result of statutory restrictions that limit the current deductibility of our interest expense. It is uncertain whether we will be in a position to utilize these carryforwards given the existence of these statutory restrictions.

(16) Shareholder’s deficit

Our share capital is €25,000 at December 31, 2010 and has been fully paid. All of our shares are held by UPC Germany Holding.

Additional paid-in capital is the result of a €17 million cash contribution from UPC Germany Holding.

As of December 31, 2010, we reported a deficit of €171.9 million. Under the applicable rules in Germany, over-indebtedness is deemed to exist under insolvency law if the existing liabilities are no longer covered by the debtor’s assets, unless an entity’s ability to continue as a going concern is most likely under the circumstances known.

We assume that our ability to continue as a going concern is most likely and did not file an insolvency petition. Should the future excess of funds from operating activities not be sufficient to pay future interest charges and other obligations we will continue to depend on the financial support of UPC Germany Holding and/or additional borrowed funds to continue as a going concern.

One of our indirect parent companies (Liberty Global Europe B.V., Schiphol-Rijk, Netherlands) has granted a financing commitment dated September 30, 2010 for us and our wholly-owned subsidiaries in the amount of €75 million for a period until December 31, 2012. Taking into account the financing commitment and based on our financial projections we expect to continue as a going concern until December 31, 2012 despite the over-indebtedness reported in the December 31, 2010 consolidated balance sheet.

Capital Risk Management

Our objectives when managing capital are to safeguard our ability 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.

Our principal source of liquidity includes (i) the cash and cash equivalents held by Unitymedia, (ii) contributions or loans from UPC Germany Holding, Liberty Global Europe or other Liberty Global subsidiaries and (iii) subject to the restrictions discussed in note 12, proceeds in the form of distributions or loans from Unitymedia Hessen, Unitymedia NRW or other operating subsidiaries.

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.

To the extent that we are not able to fund any principal payment at maturity with respect to any of our indebtedness, we will be required to refinance this indebtedness with additional credit facilities and/or the issue of new debt or equity securities in the capital markets. Due in part to the level of our existing indebtedness, no assurance can be given that we would be able to complete such financing transactions on favorable terms, or at all. To the extent that we are unable to fund any principal payment at maturity, any failure to raise additional necessary funds to refinance such indebtedness would result in a default under the Revolving Credit Facility and our other indebtedness, including the Unitymedia Senior Notes. In addition, further indebtedness incurred could reduce the amount of our cash flow available to make payments on our indebtedness and increase our leverage. We currently anticipate that we will have to refinance in part certain principal amounts of the existing indebtedness prior to maturity.

(17) Related Party Transactions

Our related party transactions consist of the following:

	Year ended December 31, 2010
	in millions
OpEx	€ 1.4
Related-party fees and allocations, net	23.8
Included in earnings before interest and taxes	25.2
Interest expense	85.8
Included in net loss from continuing operations	€ 111.0
Tangible assets acquired	€ 1.6

OpEx. The amounts represent charges from other Liberty Global subsidiaries, including UPC Holding B.V., to our company for technology related costs based on Liberty Global's global contract for smartcard services. Settlement of these charges is expected to occur in cash or, as jointly agreed by the parties, as an adjustment to the loan payable to UPC Germany Holding, as further described below.

Fees and allocations, net. These amounts represent charges from other Liberty Global subsidiaries, including UPC Holding B.V., to our company following the Liberty Global 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, stock-based compensation and other costs related to 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, generally the first quarter of the following year. Settlement of these charges has occurred through adjustments to the loan payable to our immediate parent as further described below.

Interest expense. Related-party interest expense relates to our notes payables to UPC Germany Holding, as further described below.

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

At December 31, 2010, our notes payable – related party represented net loans payable to UPC Germany Holding. The loans primarily are the result of transactions that were completed in connection with the Liberty Global Transaction. All principal (€1,081.2 million at December 31, 2010) and accrued interest (€85.8 million at December 31, 2010) outstanding under these loans is due and payable on January 1, 2030. The amounts outstanding under these loans bear interest primarily at 8.58% per annum. The net increase in the notes payable – related party balance during 2010 includes (i) cash borrowings of €1,856.0 million, (ii) cash payments of €805.1 million, (iii) additions of €85.8 million in non-cash accrued interest and (iv) a €30.3 million non-cash increase related to the settlement of intercompany charges and allocations.

At December 31, 2010, our accrued liabilities – related party represent accrued expenses with and debt modification charges from UPC Germany Holding and accrued liabilities for tangible assets acquired from other Liberty Global subsidiaries.

During the fourth quarter of 2010, we received a cash contribution in the amount of €17 million from UPC Germany Holding.

Parent guarantee. At December 31, 2010, our accumulated deficit exceeded paid-in capital. We have formalized a €75 million parental guarantee as described in note 16. If utilized, the terms of the guarantee are the same as those for our notes payable described above.

(18) Disclosures according to German GAAP

The average number of employees in 2010 was 1,657. The number of employees calculated in Full Time Equivalents (FTE) as a quarterly average was 1,618 FTE. In our operating departments, which include Network and Customer Operations and Customer Services, we employed 1,198 FTE in 2010, and in our administration departments, consisting of Sales & Marketing, Finance, IT and other general services, 414 FTE were employed. arena employed 6 FTE in 2010 until arena closed down its business operations on September 30, 2010.

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

	Year ended December 31, 2010
	in millions
Audit of financial statements	€ 0.6
Other services	0.1
Total	€ 0.7

Salaries, bonuses, and benefit related remuneration of the Management Directors is €2.1 million for the year ended December 31, 2010.

SELECTED
PRO FORMA
INFORMATION
(unaudited)

II. Selected pro forma information (unaudited)

The following tables present Unitymedia financial statements on a pro forma basis assuming that the formation of Unitymedia and the Unitymedia Merger had occurred on January 1, 2008 and that the Liberty Global 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 and the financial position of Old Unitymedia are included in the pro forma balance sheet 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 Liberty Global Transaction and (b) eliminate the impacts of the refinanced debt of Old Unitymedia, and (iii) the pro forma statement of operations amounts for the years ended December 31, 2009 and 2008 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 and should be read in conjunction with those historical consolidated financial statements and related notes thereto. 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 4 to our consolidated financial statements included in Part I of this Annual Report.

UNITYMEDIA GMBH

UNITYMEDIA PRO FORMA UNAUDITED BALANCE SHEET

		December 31, 2009 (a) in millions
ASSETS		
Current assets:		
Cash and cash equivalents	€	185.0
Trade receivables, net		35.0
Other current assets		21.3
Total current assets		241.3
Property and equipment, net		956.3
Goodwill		580.5
Intangible assets subject to amortization, net		611.3
Restricted cash		2,560.7
Deferred tax assets		30.2
Derivative instruments		39.3
Other assets		23.9
Total noncurrent assets		4,802.2
Total assets	€	5,043.5
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	€	29.2
Accrued liabilities		217.6
Deferred revenue and advance payments from subscribers and others		69.2
Current tax liability		28.4
Current portion of debt and finance lease obligations		61.0
Derivative instruments		37.0
Total current liabilities		442.5
Long-term debt and finance lease obligations		4,216.5
Deferred tax liabilities		85.2
Derivative instruments		50.6
Other long-term liabilities		9.4
Total noncurrent liabilities		4,361.7
Total liabilities		4,804.2
Shareholder's equity		239.3
Total liabilities and shareholder's equity	€	5,043.5

Unitymedia

UNITYMEDIA GMBH

UNITYMEDIA PRO FORMA UNAUDITED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2010	2009 (a)	2008 (a)
		in millions	
Revenue:			
Video	€ 618.0	€ 614.1	€ 618.1
Internet	88.8	66.3	40.7
Telephony	117.5	86.3	52.9
Other revenue	110.9	112.4	111.7
	935.2	879.1	823.4
Operating costs and expenses (b):			
OpEx	273.6	273.0	275.8
SG&A	140.7	134.8	137.9
Stock-based compensation	—	5.0	1.8
Restructuring and other operating charges, net	26.7	2.7	0.7
Related-party fees and allocations, net	23.8	—	—
	464.8	415.5	416.2
EBITDA	470.4	463.6	407.2
Depreciation and amortization	351.8	294.7	252.6
EBIT	118.6	168.9	154.6
Interest income	1.5	2.5	12.4
Interest expense, third party	(247.7)	(156.0)	(148.6)
Interest expense, related party	(93.5)	—	—
Realized and unrealized gains (losses) on derivative instruments	33.2	(25.3)	(4.8)
Foreign currency transaction gains (losses), net	(13.1)	(0.6)	—
Realized and unrealized gains on investments, net	—	79.4	42.1
Gains on debt modification and extinguishment, net	—	—	15.5
Other financial expense	—	(2.1)	—
Net financial income (expense)	(319.6)	(102.1)	(83.4)
Profit (loss) before income taxes	(201.0)	66.8	71.2
Income tax benefit (expense)	33.1	(46.5)	(11.2)
Profit (loss) from continuing operations	€ (167.9)	€ 20.3	€ 60.0
Further details of OpEx and SG&A (b):			
Direct costs (interconnect, programming, copyright and other)	€ 86.5	€ 92.9	€ 92.3
Staff-related costs	116.0	111.2	102.3
Network operating and technical service costs	90.5	86.4	95.7
Sales and marketing costs	73.0	73.8	67.0
Indirect costs – other	48.3	43.5	56.4
	€ 414.3	€ 407.8	€ 413.7
Further details of restructuring and other operating charges:			
Staff-related restructuring costs	€ 3.4	€ 1.6	€ —
Direct acquisition costs	23.3	1.1	0.7
	€ 26.7	€ 2.7	€ 0.7

Unitymedia

(a) As described and quantified in this note below, certain Old Unitymedia amounts included in these columns have been restated. During the second quarter of 2010, Old Unitymedia's policies for the capitalization of property and equipment were conformed to Liberty Global's policies. These revised capitalization policies generally involve the capitalization of costs associated with the replacement of portions of Old Unitymedia's network. Old Unitymedia's historical consolidated financial statements have been restated to retrospectively give effect to (i) these revised capitalization policies effective January 1, 2008, the earliest practical date, and (ii) the Unitymedia Merger and the new basis of accounting associated with the Liberty Global Transaction effective January 28, 2010. The operating results originally reported for the third and fourth quarters of 2010 reflected these adjustments, and accordingly, no retrospective restatement adjustments are required for these periods. The following tables set forth the impacts of the retrospective restatement on selected consolidated statement of operations and selected consolidated balance sheet data of Old Unitymedia for the indicated periods:

	Old Unitymedia as previously reported (b)	Retrospective adjustments: Change in capitalization policy	Retrospective adjustments: New basis of accounting	Old Unitymedia as restated
		in millions		
Selected consolidated statement of operations data (continuing operations):				
Three months ended June 30, 2010:				
Revenue	€ 231.1	€ —	€ (0.7)	€ 230.4
OpEx	€ (58.4)	€ —	€ (9.7)	€ (68.1)
Depreciation and amortization	€ (70.4)	€ —	€ (23.3)	€ (93.7)
Net financial expense	€ (2.2)	€ —	€ (0.4)	€ (2.6)
Income tax benefit (expense)	€ (22.4)	€ —	€ 27.5	€ 5.1
Profit from continuing operations	€ 35.6	€ —	€ (6.6)	€ 29.0
Three months ended March 31, 2010:				
OpEx	€ (73.7)	€ 3.3	€ —	€ (70.4)
Depreciation and amortization	€ (70.3)	€ (0.4)	€ (14.7)	€ (85.4)
Net financial expense	€ (134.7)	€ —	€ 88.9	€ (45.8)
Income tax benefit (expense)	€ 27.4	€ (0.9)	€ (29.7)	€ (3.2)
Loss from continuing operations	€ (70.5)	€ 2.0	€ 44.5	€ (24.0)
Year ended December 31, 2009:				
OpEx	€ (287.0)	€ 14.0	€ —	€ (273.0)
Depreciation and amortization	€ (293.9)	€ (0.8)	€ —	€ (294.7)
Income tax expense	€ (42.3)	€ (4.2)	€ —	€ (46.5)
Profit from continuing operations	€ 73.7	€ 9.0	€ —	€ 82.7
Year ended December 31, 2008:				
OpEx	€ (286.5)	€ 10.7	€ —	€ (275.8)
Depreciation and amortization	€ (252.3)	€ (0.3)	€ —	€ (252.6)
Income tax expense	€ (8.0)	€ (3.3)	€ —	€ (11.3)
Profit from continuing operations	€ 52.8	€ 7.2	€ —	€ 60.0
Selected consolidated balance sheet data:				
December 31, 2009:				
Property and equipment, net	€ 932.6	€ 23.7	€ —	€ 956.3
Deferred tax assets	€ 33.9	€ (3.7)	€ —	€ 30.2
Deferred tax liabilities	€ 81.5	€ 3.7	€ —	€ 85.2
Shareholder's equity	€ 285.6	€ 16.2	€ —	€ 301.8

(b) Certain OpEx and SG&A and depreciation and amortization amounts have been retroactively reclassified to conform to the current year presentation and Liberty Global´s policy. Total costs did not change as a result of these reclassifications.

Management's Discussion and Analysis of Financial Condition and Results of Operations (unaudited)

The following discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview and Products.* This section provides a general description of our business, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2010, 2009 and 2008 on a pro forma basis, as further described below and in Part II of this Annual Report.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and consolidated cash flow statements.
- *Legal Proceedings and Material Contracts.* This section provides an overview of our legal proceedings and material contracts and arrangements.
- *Regulatory.* This section provides an overview of the regulatory environment in Germany.
- *Indebtedness.* This section provides an overview of our financing and debt instruments.

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.

Forward-Looking Statements

Certain statements in this 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 *Management's Discussion and Analysis of Financial Condition and Results of Operations* contain forward-looking statements, including statements regarding business, product and finance strategies, our capital expenditures, subscriber growth rates, competitive and economic factors and liquidity. 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 the markets in which we operate;
- competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of existing service offerings, including our digital video, voice and broadband internet services;
- consumer acceptance of new technology, programming alternatives and broadband services that we

may offer;

- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our digital video, voice and broadband internet services and our average revenue per household;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- 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;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, as well as our ability to satisfy conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- 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;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- capital spending for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and recognize anticipated efficiencies from the businesses we acquire;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of the business we acquire;
- the ability of suppliers and vendors to timely deliver products, equipment, software and services;
- the availability of attractive programming for our digital video services at reasonable costs;
- the outcome of any pending or threatened litigation;
- 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 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, natural disasters, pandemics and other similar events.

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

Risk management

We are exposed to a variety of financial risks: liquidity risk, currency risk, interest rate risk, price risk and credit risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We use derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department under policies according to a delegation of authority and control limits as well as guidelines established by our ultimate parent, Liberty Global. The finance department identifies and evaluates financial risks in close cooperation with Liberty Global, which administers the main components of our hedging activities. Liberty Global provides guidance for overall risk management covering specific areas, such as foreign exchange risk, interest rate risk, the use of derivative financial instruments and usage of excess liquidity.

We have non-derivative and derivative financial instruments. Non-derivative financial instruments exist in connection with operating activities, investing activities and financing activities. The respective activities include the following non-derivative financial instruments:

Activity	Main financial instruments
Operating	Trade receivables and trade liabilities
Investing	Long-term receivables
Financing	Cash and cash equivalents, bonds and loans

Derivative instruments are entered into only for hedging against fluctuations in interest rates and/or foreign exchange rates, see note 5.

Liquidity risk

Liquidity risks can generally emerge if cash outflows generated through operating, investing and financing activities exceed cash inflows from operating activities, cash on hand and available borrowings, with no possibility of a payment extension. Our core business activities generally do not entail liquidity risk, as they generate net cash inflows.

Our debt instruments are primarily long-term. Subsequent to the Liberty Global Transaction, we redeemed our existing indebtedness on March 2, 2010, and became the issuer, together with our operating subsidiaries Unitymedia Hessen and Unitymedia NRW, of the Unitymedia Senior Notes. The Unitymedia Senior Notes are scheduled to mature in 2017 (UM Senior Secured Notes) and 2019 (UM Senior Notes). The details of the Unitymedia Senior Notes are summarized under “Description of Indebtedness” in this Annual Report. Liquidity risks resulting from an early debt repayment could occur if the covenants of the Unitymedia Senior Notes and Revolving Credit Facility are not fulfilled. Compliance with the covenants is supervised on a regular basis through budget planning and active monitoring of the respective key financial figures. In addition, we formalized a €75 million parental guarantee for our company until December 31, 2012.

For further information about our contractual liabilities for lease contracts affecting our cash flow planning, see note 14 to our consolidated financial statements in Part I of this Annual Report.

Currency risk

Our reporting currency is the euro. We have no revenue and few expenditures or liabilities that are denominated in currencies other than the euro, except for the UM Dollar Senior Secured Notes. We have hedged the entire amount of the UM Dollar Senior Secured Notes into euros for the lifetime of such Notes so that interest and principal payments are effectively converted to euro.

Interest rate risk

Long-term financial instruments are exposed to a cash flow risk if interest rate payments are variable. Note 12 to our consolidated financial statements shows our fixed rate and variable rate liabilities. Our exposure to market risk for changes in interest rates relates primarily to our Revolving Credit Facility, which is based on EURIBOR plus a margin of 3.75% per annum. We also had interest rate risk on the Old Floating Rate Notes.

As part of the Liberty Global Transaction, we acquired a two-year €800.0 million three-month EURIBOR interest rate swap relating to the Old Floating Rate Notes. The swap fixes the three month EURIBOR at approximately 3.35% and expires in April 2011. We expect to make our final quarterly cash settlement payment in April 2011.

For our remaining fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument but not our cash flows. We do not currently have any obligation to prepay fixed rate debt prior to maturity. Accordingly, interest rate risk should not have a significant effect on the fixed rate debt until we would be required to refinance such debt. Given that the variable interest rate indebtedness under the Revolving Credit Facility of €80.0 million constituted only approximately 3% of our total nominal financial debt as of December 31, 2010, we consider our exposure to interest rate risk to be limited.

Risks of change in prices

Our costs are generally affected by inflation. We attempt to restrict increases in our cost base below the rate of inflation through productivity improvements and disciplined cost management. Ultimately, certain cost increases may not be fully recoverable without revenue increases.

Credit risks

Credit risks exist on trade receivables, derivative financial assets, other receivables and cash positions.

Trade receivables exist against companies and retail customers. Activities to mitigate credit risks in this area include credit checks, dunning procedures and transfers to collection agencies.

The counterparty of the swaps and cash positions are banks with a first quality rating, defined as at least A- (Standard & Poor's) or A3 (Moody's). While we currently have no specific concerns about the creditworthiness of any particular counterparty, we cannot rule out the possibility that one or more of our counterparties could fail or otherwise be unable to meet its obligations to us. Any such instance could have an adverse effect on our cash flows, results of operations and financial condition. The maximum credit risk of these instruments is their carrying value.

Fair market value

Financial instruments are recorded at fair value, except for long-term debt, which is measured at amortized cost. The fair values of fixed rate liabilities can differ significantly from their carrying values, as the fair values of fixed rate liabilities fluctuate with changes in interest rates, credit risk assessments and capital markets generally. Please see note 12 to our consolidated financial statements in Part I of this Annual Report for the fair market values of our Unitymedia Senior Notes and Revolving Credit Facility. We believe that the net carrying value of trade receivables approximates fair value.

Overview and Products

We are the second largest cable operator in Germany, as measured by the number of video subscribers, and a subsidiary of Liberty Global. We provide analog and digital cable television services as well as broadband internet and telephony services to our customers who reside in our upgraded network area in the federal states of North Rhine-Westphalia and Hesse. As of December 31, 2010, we served approximately 4.488 million video revenue generating units (RGUs) (including 1.534 million digital video RGUs), 780,300 internet RGUs and 779,300 telephony RGUs over a broadband communications network that passed approximately 8.719 million homes.

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 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 TV, high definition (HD) and digital video recorder (DVR) video services. We plan to continue to employ this strategy to achieve organic revenue and customer growth.

The foundation of our business is the provision of video services and is characterized by recurring revenue and cash flows. In our upgraded network coverage area we provide an integrated triple-play service under the brand “Unity3play”, offering our customers access to broadband internet, telephony and digital video services in addition to our analog video services.

Our business is supported by a dense, modern network that, as of December 31, 2010, covered approximately 76% of all households, or 8.719 million homes passed, in North Rhine-Westphalia and Hesse. We have upgraded approximately 94% of our network (equal to approximately 8.184 million homes passed, with a capacity of 862 MHz) for two-way 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. Most of our capital expenditures are related to subscriber growth or usage and/or to new product development.

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 4 to our consolidated financial statements in Part I of this Annual Report, 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, 2010, we provided our analog and digital video services to 4.488 million subscribers, or 51% of homes passed by our network. Our analog video service offerings include basic programming of up to 36 television channels, depending on the geographic area. Our digital video service offerings include basic and premium digital programming and incremental product and service offerings such as pay-per-view programming, HD and DVR video services. As of December 31, 2010, 34% of our video base subscribed to digital cable services. We provide video services via individual contracts with single dwelling units or bulk contracts with landlords or housing associations. In addition, we receive carriage fees from both public and commercial broadcasters.

- *Internet Services.* We provide internet services both on a retail and wholesale basis. As of December 31, 2010, we provided our internet services to approximately 780,300 RGUs. Our current retail 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 different attractive and competitively-priced packages, including our core triple-play product, Unity3play. As of December 31, 2010, we expanded the availability of our ultra high-speed internet services through the deployment of Euro DOCSIS 3.0 capable equipment to approximately 81% of our two-way homes passed. Our Wholesale Multimedia Anschluss (MMA) offer is a service tailored for housing associations to purchase internet access at 128 Kbps on a bulk basis and enable their properties with plug-and-play internet service. Tenants in MMA-equipped apartments have the opportunity to upgrade to any of our digital video, broadband internet and telephony services. As such, in addition to incremental revenue, the MMA business segment offers us an additional sales channel and serves as a catalyst for the implementation of our triple-play strategy. As of December 31, 2010, approximately 5,400 RGUs were actively using our MMA service.

- *Telephony Services.* As of December 31, 2010, we provided our telephony services to approximately 779,300 RGUs. We market our telephony services principally as a component of our Unity3play and double-play product bundles but also on a stand alone basis.

Competition

While we have continued to make progress during 2010 in growing our revenue base and Adjusted EBITDA by increasing penetration of our video base with advanced services, we are experiencing significant competition. 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 a decline in the economic environment, could adversely impact our ability to increase or, in certain cases, maintain our revenue, RGUs, cash flow or liquidity. We currently are unable to predict the extent of any of these potential adverse effects.

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies or adverse regulation or economic developments could cause us to decide to undertake previously unplanned upgrades of our broadband communications networks. No assurance can be given that our 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.

Satellite

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 pay TV providers, such as Sky Deutschland GmbH (Sky, formerly Premiere), 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.

Cable Television

We face competition for housing association contracts within North Rhine-Westphalia and Hesse from housing associations, municipal carriers or third party (Professional Operators) that operate and administer the in-building networks on behalf of the housing associations. 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.

We further compete with the providers of digital video programming that currently utilize our network to reach their own subscribers. 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 revenues, and potentially reducing the appeal of cable television.

Digital Terrestrial Transmission and Emerging Technologies

We face competition from companies engaged in the terrestrial transmission of digital television, other means of television signal delivery and technologies such as television over internet protocol (IPTV), hybrid television, “over-the-top” (OTT) video content and wireless broadband. Demand for digital terrestrial television may increase in the future as it becomes more widely available and the price of the receiving equipment decreases. Marketing and competition from providers of video over the internet, such as Deutsche Telekom and certain alternative telecommunication network providers including Telefonica O2 Germany and Vodafone, may increase in the future.

In addition, a range of internet-based TV options, such as Apple TV, Google TV, maxdome and Hulu, have gained significant traction. The full extent to which these alternative technologies will compete effectively with our cable television system is currently not known.

Broadband Internet Access

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, digital subscriber line (DSL) is currently the dominant technology and Deutsche Telekom is the major DSL provider in Germany, followed by alternative carriers, such as United Internet, Vodafone and Telefonica O2 Germany. We also compete with service providers that use other alternative technologies for internet access, such as fiber-to-the-home (FTTH), satellite technologies or mobile standards, such as universal mobile telecommunications system (UMTS) or long-term evolution (LTE). In the future, additional access technologies may be launched, which could further increase competition or force us to increase capital expenditure for additional upgrades.

Telephony

The market for telephony services is highly competitive. The fixed-line telephony services market is under increasing pressure from resellers, alternative carriers, declining mobile phone charges and alternative access technologies, such as voice over internet protocol (VoIP), other broadband connections and substitution to mobile telephony services. The German market for residential telephony services is relatively price sensitive and is price competitive when compared to similar product offerings in other European countries. We expect increasing competition, including price competition, from traditional and non-traditional telephony service providers in the future.

Results of Operations

This section provides an analysis of our results of operations for the years ended December 31, 2010, 2009 and 2008. As further described in note 1 to our consolidated financial statements in Part I of this Annual Report, 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, 2008 and the Liberty Global 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 and (ii) the pro forma statement of operations data for the year ended December 31, 2010 include adjustments to (a) reflect the new basis of accounting resulting from the Liberty Global Transaction and b) eliminate the impacts of the refinanced debt of Old Unitymedia, and (iii) the pro forma statement of operations amounts for the years ended December 31, 2009 and 2008 do not include any such adjustments. For additional information concerning this pro forma presentation, see Part II of this Annual Report.

Operating Performance

We classify our customers based on our main subscription-based business activities. The following table shows our operating statistics as of and for the year ended December 31, 2010, 2009 and 2008.

	As of or for the Year Ended December 31,		
	2010 Historical*	2009 Pro forma	2008 Pro forma
Footprint			
Homes Passed[1]	8,718,900	8,786,100	8,684,900
Two-Way Homes Passed[2]	8,183,600	8,095,300	7,221,600
Subscribers (RGUs[3])			
Analog Cable[4]	2,954,200	3,171,000	3,498,900
Digital Cable[5]	1,533,800	1,362,000	1,116,400
Total Video	4,488,000	4,533,000	4,615,300
Internet[6]	780,300	588,900	380,200
Telephony[7]	779,300	585,600	362,600
Total RGUs	6,047,600	5,707,500	5,358,100
Penetration			
Digital Cable as % of Total Video Subscribers[8]	34.2%	30.0%	24.2%
Internet as % of Two-Way Homes Passed[9]	9.5%	7.3%	5.3%
Telephony as % of Two-Way Homes Passed[9]	9.5%	7.2%	5.0%
Customer Relationships			
Customer Relationships[10]	4,555,100	4,533,000	4,615,300
RGUs per Customer Relationship	1.33	1.26	1.16
ARPU (€)[11]			
ARPU per Customer Relationship	15.07	13.96	N.A.

* With the exception of ARPU per Customer Relationship, which represents pro forma data for the year ended December 31, 2010, all data in this column represents historical data.
N.A. – Not Available
For footnote disclosure please see pages III-37.

Subscriber Statistics

At December 31, 2010, we had 6.048 million RGUs, reflecting an increase of 6%, as compared to our 5.708 million RGUs at December 31, 2009. This increase in RGUs was due to growth in our advanced services, consisting of digital cable, broadband internet and telephony, which grew 22%

from 2.537 million RGUs as of December 31, 2009 to 3.093 million RGUs as of December 31, 2010. During 2010, we achieved RGU net additions of 340,100, as compared to 349,400 in 2009, of which 95,500 and 72,300 were added in the fourth quarter, respectively. The increase in RGU net additions in the fourth quarter 2010 versus the comparable prior year period was primarily due to lower basic video churn and slightly higher growth in internet and telephony RGUs. The small year-on-year decrease in 2010 RGU net additions was primarily related to slightly lower advanced services growth, partially offset by lower basic analog video churn. At December 31, 2010, advanced services represented 51% of our total RGU base, as compared to 44% at December 31, 2009.

Our video subscriber base at December 31, 2010 totaled 4.488 million RGUs, consisting of 2.954 million analog and 1.534 million digital subscribers. During 2010 our total video base declined by 1% or 45,000 RGUs, versus a decline of 82,300 RGUs in 2009, both primarily as a result of the competitive environment and previous price increases in our single and multi-user bases. The decrease in our analog video customer base in 2010 was largely offset by the addition of 171,800 digital video households. The increase in digital RGUs has been driven by the ongoing conversion of analog cable subscriptions into digital as well as continued strong take-up of Unity3play, positioning us for further upsell of our digital base into higher value pay TV, HD and DVR subscriptions. Our digital video penetration at December 31, 2010 was 34%, up from 30% at December 31, 2009.

We finished the year ended December 31, 2010 with 780,300 RGUs for our internet and 779,300 RGUs for our telephony services. During 2010, our internet RGUs increased by 191,400 or 33% and our telephony RGUs increased by 193,700 or 33%. During the fourth quarter of 2010, we added 53,900 internet and 53,100 telephony RGUs, as compared to 47,300 and 50,200 RGUs, respectively, added during the fourth quarter of 2009. Our internet and telephony RGU growth has been driven primarily by the strong take-up of our Unity3play services, which offer the consumer a bundled package consisting of digital basic video programming, internet and telephony services. Approximately 95% of our internet additions in 2010 also subscribed to our telephony service, while approximately 75% of internet additions during the year opted for our Unity3play bundles.

As of December 31, 2010, 15% of our customer base subscribed to our Unity3play services, whereas 2% opted for double-play. The remaining 83% of our customer base is on single play (either video, internet or telephony), clearly highlighting the large upsell potential for our bundled products.

As a result of upselling existing customers into higher value bundled services, we have increased our RGUs per customer relationship by 6%, to 1.33x at December 31, 2010 from 1.26x at December 31, 2009. Over the same period, our blended ARPU per customer relationship has increased by 8% to €15.07 for the year ended December 31, 2010, as compared to €13.96 for the year ended December 31, 2009.

Strategy and Products

A key component of our business strategy is to increase the penetration of our advanced services by providing our customers with a compelling value proposition through our bundled product offerings, enhanced digital video functionality and quality content. As a result, we aim to increase our ARPU per customer through a combination of migrating our largely single-play analog cable customers to digital video and by upselling our customers to our integrated Unity3play services. As part of our business strategy in 2010, we accelerated the roll-out of Euro DOCSIS 3.0 technology and finished the year with approximately 81% of our 2-way homes passed capable of next-generation high-speed internet.

During 2010, we enriched our core Unity3play bundle, consisting of an internet connection, national landline flat rate telephony and a standard digital set-top box including our basic digital video tier, by doubling the internet speed in our core Unity3play bundle for new subscribers to 32 Mbps, as compared to 16 Mbps in 2009. This bundle is being offered free-of-charge in the first three months, at a price point of €25 per month for the next twelve months, increasing to €30 per month thereafter if the contract is not terminated. With this approach we demonstrate the speed advantage of our core product vis-à-vis a standard DSL connection and at the same time offer the consumer a strong value proposition. In line with our increasing focus on DSL switchers to drive further broadband growth, we launched a campaign starting on September 1, 2010, through which new subscribers enjoy free triple- and double-play services for up to 6 months if their existing DSL contract has a remaining life of over 3 months. Following the free-of-charge period, the minimum contract period lasts one or two years depending on the subscribed bundle.

On September 1, 2010, we also restructured our pay TV offerings into two packages for family home entertainment. Our entry-tier pay TV package “HIGHLIGHTS” includes 17 of the most frequently watched family entertainment pay channels. The second pay TV package “ALL STARS” contains 53 pay channels representing a variety of genres. Our digital customers can subscribe to both pay TV packages directly or through a Unity3play bundle at a discount. Our premium Unity3play bundle is comprised of a 32 Mbps or 64 Mbps (where Euro DOCSIS 3.0 is available) high-speed internet connection, national flat rate fixed-line telephony, the HD box as well as our “ALL STARS” pay TV package. This bundle is being offered free-of-charge in the first three months to new subscribers who commit to one- or two-year contracts, at a price point of €40 per month for the next twelve months, increasing to €50 per month thereafter if the contract is not terminated.

As part of our HD strategy, we expanded our HD channel line-up in October 2010 from 5 channels to 15 HD channels, further enhancing our customers´ HDTV viewing experience. For an incremental €5, digital pay TV customers that subscribe to our “HIGHLIGHTS” package can enjoy 10 HD channels in total and those subscribing to our “ALL STARS” can enjoy 15 HD channels in total. We also began offering DVR functionality in October to those customers subscribing to our HD box at no additional monthly charge. This was accomplished through an automatic software download that upgraded our deployed HD boxes to a full HD/DVR box with a 320 GB hard drive.

On top of these residential offers, we introduced business-to-business high speed broadband services for small and medium enterprises on July 1, 2010. These offerings primarily consist of a 64 Mbps or 128 Mbps internet connection and flat-rate telephony services.

Financial Performance

Pro forma results for the year ended December 31, 2010 compared to the year ended December 31, 2009

Revenue

Revenue includes amounts received from subscribers for ongoing services as well as channel carriage fees, installation fees, telephony interconnection fees, late fees and other revenue. We use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding telephony interconnection revenue, installation fees and late fees.

	Year ended December 31,			
	2010 Pro forma		2009 Pro forma	
	in millions			
Subscription revenue:				
Video	€	618.0	€	614.1
Internet		88.8		66.3
Telephony		117.5		86.3
Total subscription revenue		824.3		766.7
Other revenue		110.9		112.4
Total revenue	€	935.2	€	879.1

Total revenue increased by 6% or €56.1 million, from €879.1 million during the year ended December 31, 2009 to €935.2 million during the year ended December 31, 2010. 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 analog and digital television signals as well as digital value added services such as pay TV, HD content and rented DVR and HD/DVR boxes. Total video (analog and digital cable) revenue increased by 1% or €3.9 million, from €614.1million during the year ended December 31, 2009 to €618.0 million during the year ended December 31, 2010. 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 Pay TV, 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 internet business includes the monthly subscription fees for retail broadband products and MMA internet wholesale services. Revenue from the internet business increased 34% or €22.5 million, from €66.3 million during the year ended December 31, 2009 to €88.8 million during the year ended December 31, 2010, primarily representing the continued demand for bundled Unity3play services in our upgraded regions. This increase reflects the impact of growth in the 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 internet growth, revenue from the telephony business increased by 36% or €31.2 million, from €86.3 million during the year ended December 31, 2009 to €117.5 million during the year ended December 31, 2010. 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 analog and digital carriage fees from public and private broadcasters, telephony interconnection revenue, installation fees, late fees, shared revenue from customer hotline toll charges and other revenue, including business-to-business revenue. Other revenue decreased 1% or €1.5 million, from €112.4 million during the year ended December 31, 2009 to €110.9 million during the year ended December 31, 2010, 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 (i) higher interconnection revenue from incoming calls as a result of an increased telephony base and (ii) slightly higher installation fees as a result of HD/DVR take-up and the introduction of activation fees for our wireless routers.

OpEx and SG&A Expenses

	Year ended December 31,	
	2010 Pro forma	2009 Pro forma
	in millions	
OpEx	€ 273.6	€ 273.0
SG&A	140.7	134.8
	€ 414.3	€ 407.8

OpEx

OpEx includes programming, network operations, interconnect, customer operations, customer care and other operating costs. Our most significant costs include payments under long term agreements with Deutsche Telekom for the use of assets and other services provided by Deutsche Telekom. OpEx for the year ended December 31, 2010 was €273.6 million, compared to €273.0 million million for the year ended December 31, 2009.

SG&A

SG&A includes human resources, information technology, general services, management, finance, legal and marketing costs and other general expenses. Total SG&A costs for the year ended December 31, 2010 was €140.7 million, compared to €134.8 million for the year ended December 31, 2009.

Further Details of OpEx and SG&A Expenses

	Year ended December 31,	
	2010 Pro forma	2009 Pro forma
	in millions	
Further details of OpEx and SG&A:		
Direct costs (interconnect, programming, copyright and other)	€ 86.5	€ 92.9
Staff related costs	116.0	111.2
Network operating and technical service costs	90.5	86.4
Sales and marketing costs	73.0	73.8
Indirect costs - other	48.3	43.5
	€ 414.3	€ 407.8

Direct Costs. Direct costs decreased by 7% or €6.4 million, from €92.9 during the year ended December 31, 2009 to €86.5 million during the year ended December 31, 2010, 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 interconnection 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 services.

Staff Related Costs. Staff related costs increased by 4% or €4.8 million, from €111.2 million during the year ended December 31, 2009 to €116.0 million during the year ended December 31, 2010. The increase primarily relates to (i) tariff and annual merit increases and (ii) 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.

Network Operating and Technical Service Costs. Costs related to network and service costs increased by 5% or €4.1 million, from €86.4 million during the year ended December 31, 2009 to €90.5 million during the year ended December 31, 2010. 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 premise equipment (CPE), partially offset by lower costs relating to terminated BRN (*BreitbandRundfunkNetz*) fiber links.

Sales and Marketing Costs. Costs related to sales and marketing decreased by 1% or €0.8 million, from €73.8 million during the year ended December 31, 2009 to €73.0 million during the year ended December 31, 2010, 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.

Indirect and Other Costs. Indirect and other costs increased by 11% or €4.8 million, from €43.5 million during the year ended December 31, 2009 to €48.3 million during the year ended December 31, 2010. 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) a higher amount of capitalized labor, (ii) lower bad debt and (iii) 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.

Stock-Based Compensation Expense

Our stock-based compensation expense of €5.0 million during the year ended December 31, 2009 relates to stock incentive plans implemented by our previous shareholders. Following the completion of the Liberty Global Transaction, our obligations relating to these stock incentive plans ceased.

Restructuring Costs and Other Operating Charges, Net

Restructuring costs and other operating charges during the year ended December 31, 2010 were €26.7 million, representing €23.3 million of direct acquisition costs incurred in connection with the Liberty Global Transaction and €3.4 million of severance costs incurred in connection with certain reorganization and integration activities. Restructuring costs and other operating charges during the year ended December 31, 2009 were €2.7 million, representing 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

During the year ended December 31, 2010, we recorded expenses of €23.8 million related to corporate services performed by Liberty Global. These amounts represent charges from other Liberty Global subsidiaries to our company following the Liberty Global Transaction, including charges for management, finance, legal, technology, marketing and other services that support our company’s operations. For further details, please see note 17 to our consolidated financial statements in Part I of this Annual Report.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by 19% or 57.1 million, from €294.7 million during the year ended December 31, 2009 to €351.8 million during the year ended December 31, 2010, primarily due to higher depreciation and amortization arising from the new basis of accounting resulting from the Liberty Global 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 third quarter 2010.

Net Financial Expense

The net financial expense primarily includes interest income, interest expense, foreign currency transaction gains (losses), and realized and unrealized gains (losses) on derivative instruments. As further described below, our net financial expense during the year ended December 31, 2010 increased to €319.6 million, compared to €102.1 million during the respective period in 2009.

Interest Income

Interest income decreased from €2.5 million during the year ended December 31, 2009 to €1.5 million during the year ended December 31, 2010. This decrease is due to lower cash balances and interest rates in 2010.

Interest Expense

Interest expense increased from €156.0 million during the year ended December 31, 2009 to €341.2 million during the year ended December 31, 2010. These amounts reflect (i) third-party interest expense for the previous capital structure from January 1, 2009 through December 31, 2009, (ii) third-party interest expense for the new capital structure from November 20, 2009 through December 31, 2010 and (iii) non-cash related-party interest expense on the related-party note payable from January 1, 2010 through December 31, 2010. Third-party interest expense was €247.7 million during the year ended December 31, 2010, and €156.0 million during the year ended December 31, 2009. Related-party interest was €93.5 million during the year ended December 31, 2010. The increase in third-party interest is primarily due to the higher debt balances and interest rates associated with the new capital structure.

Realized and Unrealized Gains (Losses) on Derivative Instruments

During the year ended December 31, 2010, we recognized realized and unrealized gains on derivative instruments of €33.2 million, as compared to losses of €25.3 million during the year ended December 31, 2009. The €33.2 million gains during the year ended December 31, 2010, primarily reflect mark-to-market adjustments recorded on cross-currency derivative contracts. The losses of €25.3 million during the year ended December 31, 2009 reflect mark-to-market adjustments recorded on embedded derivative instruments related to the Old Senior Notes.

Foreign Currency Transaction Losses

Foreign currency transaction losses increased from €0.6 million during the year ended December 31, 2009 to €13.1 million during the year ended December 31, 2010, respectively. 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 on Investments, Net

We recognized realized and unrealized gains on derivative instruments of nil and €79.4 million during the years ended December 31, 2010 and 2009, respectively. 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 Financial Expense

Other financial expense during the years ended December 31, 2010 and 2009, was nil and €2.1 million, respectively. The 2009 amount related to a cancelled initial public offering (IPO) and debt consent.

Income tax

We recognized income tax benefit (expense) of €33.1 million and (€46.5) million during the years ended December 31, 2010 and 2009, respectively. 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), primarily due to the negative impacts of certain permanent differences between the financial and tax accounting treatment of interest and other non-deductible expenses. 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.

Profit (Loss) from Continuing Operations

Loss from continuing operations during the year ended December 31, 2010 was €167.9 million as compared to a profit from continuing operations during the year ended December 31, 2009 of €20.3 million.

Gains or losses associated with (i) the disposition of assets, (ii) changes in the fair values of derivative instruments, investments and debt and (iii) movements in foreign currency exchange rates are subject to a high degree of volatility, and as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-operating items, our ability to achieve net earnings is largely dependent on our ability to increase our aggregate Adjusted EBITDA[12] to a level that more than offsets the aggregate amount of our (a) stock-based compensation, (b) depreciation and amortization, (c) restructuring and other operating charges, net, (d) interest expense, (e) other net non-operating expenses and (f) income tax expenses.

Pro forma results for the year ended December 31, 2009 compared to the year ended December 31, 2008

Revenue

	Year ended December 31, 2009 Pro forma	Year ended December 31, 2008 Pro forma
	in millions	
Subscription revenue:		
Video	€ 614.1	€ 618.1
Internet	66.3	40.7
Telephony	86.3	52.9
Total subscription revenue	766.7	711.7
Other revenue	112.4	111.7
Total revenue	€ 879.1	€ 823.4

Total revenue increased by 7% or €55.7 million, from €823.4 million during the year ended December 31, 2008 to €879.1 million during the year ended December 31, 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, (ii) the full effect of the basic cable price increase in the multi-user video base in July 2008 and (iii) increased digital carriage fees. 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.

Total video (analog and digital cable) revenue decreased by 1% or €4.0 million, from €618.1 million during the year ended December 31, 2008 to €614.1 million during the year ended December 31, 2009. This decrease was primarily due to (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. This decrease was largely offset by (i) the ongoing migration of the analog subscriber base to higher-ARPU basic digital cable services, (ii) the full effect of the July 2008 price increase in the multi-user basic cable subscriber base of our video business, (iii) ongoing demand for Pay TV and (iv) incremental revenue resulting from the conversion of bulk signal delivery to single and multi-user contracts in the former Primacom networks in Aachen and Wiesbaden that were acquired in August 2008.

Revenue from the internet business increased 63% or €25.6 million, from €40.7 million during the year ended December 31, 2008 to €66.3 million during the year ended December 31, 2009, primarily representing the continued demand for bundled Unity3play services in our upgraded regions. This increase reflects the impact of growth in our internet RGU base that was only partially offset by the impact of higher bundling and promotional discounts.

In line with strong internet growth, revenue from the telephony business increased 63% or €33.4 million, from €52.9 million during the year ended December 31, 2008 to €86.3 million during the year ended December 31, 2009. This increase reflects the impact of growth in the telephony RGU base that was only partially offset by lower revenue on a per subscriber basis, due primarily to lower call volumes and higher bundling and promotional discounts.

Other revenue increased €0.7 million from €111.7 million during the year ended December 31, 2008 to €112.4 million during the year ended December 31, 2009, primarily due to the net effect of (i) increased carriage fees for video signal delivery, which represent the majority of other revenue, as a result of increased revenue from shopping channels and other digital cable television content, (ii) the impact of a lower basic video RGU base, (iii) higher interconnection revenue from incoming calls as a result of an increased telephony RGU base, (iv) lower revenue from items such as unreturned CPE and contract terminations, and (v) lower installation fees.

OpEx and SG&A Expenses

	Year ended December 31, 2009 Pro forma	Year ended December 31, 2008 Pro forma
	in millions	
OpEx	€ 273.0	€ 275.8
SG&A	134.8	137.9
	€ 407.8	€ 413.7

OpEx

OpEx for the year ended December 31, 2009 was €273.0 million, compared to €275.8 million for the year ended December 31, 2008.

SG&A

Total SG&A costs for the year ended December 31, 2009 was €134.8 million, compared to €137.9 million for the year ended December 31, 2008.

Further Details of OpEx and SG&A Expenses:

	Year ended December 31, 2009 Pro forma	Year ended December 31, 2008 Pro forma
	in millions	
Further Details of OpEx and SG&A Expenses:		
Direct costs (interconnect, programming, copyright and other)	€ 92.9	€ 92.3
Staff related costs	111.2	102.3
Network operating and technical service costs	86.4	95.7
Sales and marketing costs	73.8	67.0
Indirect costs - other	43.5	56.4
	€ 407.8	€ 413.7

Direct Costs. Direct costs increased by 1% or €0.6 million, from €92.3 during the year ended December 31, 2008 to €92.9 million during the year ended December 31, 2009, primarily due to (i) increased interconnection fees as a result of the higher internet and telephony customer base, (ii) higher digital cable programming expenses following the growth in our non-*Bundesliga* pay TV services and (iii) higher one-off copyright and programming related accruals during 2009, partially offset by lower programming fees following the June 30, 2009 discontinuation of retailing *Bundesliga* content.

Staff Related Costs. Staff related costs increased by 9% or €8.9 million, from €102.3 during the year ended December 31, 2008 to €111.2 million during the year ended December 31, 2009. The increase primarily relates to tariff and annual merit increases and modest staffing increases, primarily in customer facing departments. As of December 31, 2009, we employed 1,623 FTE, as compared to 1,570 at December 31, 2008.

Network Operating and Technical Service Costs. Costs related to network and service costs decreased by 10% or €9.3 million, from €95.7 million during the year ended December 31, 2008 to €86.4 million during the year ended December 31, 2009. This decrease was primarily due to (i) lower costs relating to certain one-off network-related accrual releases in 2009, (ii) lower costs due to an increase in personnel and related costs allocable to capital activities, such as the modernization of our network backbone, (iii) lower costs for leased third-party fiber links and other network costs and (iv) lower energy costs, partially offset by higher accruals related to the termination of BRN fiber links in 2009.

Sales and Marketing Costs. Costs related to sales and marketing increased by 10% or €6.8 million, from €67.0 million during the year ended December 31, 2008 to €73.8 million during the year ended December 31, 2009, primarily due to increased marketing and sales activities as well as an increase in the number of retail shops.

Indirect and Other Costs. Indirect and other costs decreased by 23% or €12.9 million, from €56.4 million during the year ended December 31, 2008 to €43.5 million during the year ended December 31, 2009. This decrease 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, (ii) lower bad debt and (iii) lower consultancy and outsourcing expenses.

Stock-Based Compensation Expense

Our stock-based compensation expense of €5.0 million and €1.8 million during the years ended December 31, 2009 and 2008, respectively, relates to stock incentive plans implemented by our previous shareholders. Following the completion of the Liberty Global Transaction, our obligations relating to these stock incentive plans ceased.

Restructuring Costs and Other Operating Charges, Net

Restructuring costs and other operating charges increased by €2.0 million, from €0.7 million during the year ended December 31, 2008 to €2.7 million during the year ended December 31, 2009. The 2009 amount represents charges for direct acquisition costs of €1.1 million and severance costs of €1.6 million incurred in connection with certain reorganization activities, whereas the 2008 amount represents direct acquisition costs.

Depreciation and Amortization Expense

Depreciation and amortization increased by 17% or €42.1 million, from €252.6 million in the year ended December 31, 2008 to €294.7 million in the year ended December 31, 2009. This increase relates to a higher fixed and intangible asset base, primarily resulting from upgrade projects as well as a higher amount of short-term depreciable CPE and capitalized customer acquisition costs.

Net Financial Expense

As further described below, our net financial expense during the year ended December 31, 2009 increased to €102.1 million, as compared to €83.4 million during the year ended December 31, 2008.

Interest Income

Interest income decreased €9.9 million, from €12.4 million during the year ended December 31, 2008 to €2.5 million during the year ended December 31, 2009. This decrease is due to lower cash balances and interest rates in 2009.

Interest Expense

Interest expense increased €7.4 million, from €148.6 million during the year ended December 31, 2008 to €156.0 million during the year ended December 31, 2009. These amounts reflect (i) third-party interest expense for the previous capital structure from January 1, 2008 through December 31, 2009 and (ii) third-party interest expense for the new capital structure from November 20, 2009 through December 31, 2009. Third-party interest expense was €156.0 million during the year ended December 31, 2009, and €148.6 million during the year ended December 31, 2008, respectively. The increase in third-party interest is primarily due to the higher debt balances and interest rates associated with the new capital structure. This increase is partially offset by lower outstanding debt principal from the positive netting effect of interest payments from the nominal €251.0 million Old Floating Rate Notes repurchased during 2008. This decrease is partially offset by higher EURIBOR settings on the unhedged portion of the Old Floating Rate Notes and the Old Term Loan and interest payments for the drawn portion of the Old Revolving Credit Facility.

Realized and Unrealized Losses on Derivative Instruments

During the year ended December 31, 2009, we recognized realized and unrealized losses on derivative instruments of €25.3 million, as compared to losses of €4.8 million during the year ended December 31, 2008. These losses primarily reflect mark-to-market adjustments recorded on embedded derivative instruments related to the Old Senior Notes.

Foreign Currency Transaction Losses

Foreign currency transaction losses were nil during the year ended December 31, 2008 and €0.6 million in the year ended December 31, 2009. We recorded no material foreign currency transaction losses during these periods as we applied hedge accounting for Old Unitymedia.

Realized and Unrealized Gains on Investments, Net

During the year ended December 31, 2009, we recognized realized and unrealized gains on investments of €79.4 million, as compared to gains of €42.1 million during the year ended December 31, 2008. 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. The 2008 amount reflects capital gains of €42.1 million resulting from the sale of Sky shares in the first quarter of 2008.

Gains on Debt Modification and Extinguishment, Net

During the years ended December 31, 2009 and 2008, we recognized gains on debt modification and extinguishment of nil and €15.5 million, respectively. The 2008 amount related to the repurchased nominal €251.0 million Old Floating Rate Notes below par value.

Other Financial Expense

Other financial expense during the years ended December 31, 2009 and 2008, were €2.1 million and nil, respectively. The 2009 amount related to the cancelled IPO and debt consent.

Income tax

We recognized income tax expense of €46.5 million and €11.2 million during the years ended December 31, 2009 and 2008, respectively. 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 reassessment of previously recognized deferred taxes on loss carry forwards during 2009. This negative impact was partially offset by the positive impact of a permanent difference between the financial and tax accounting treatment of gain recognized on sale of investment shares. The income tax expense during the year ended December 31, 2008 differs from the expected income tax expense of €22.5 million (based on the German 31.58% income tax rate) primarily due to the positive impact of a permanent difference between the financial and tax accounting treatment of gain recognized in connection with the previously described share-swap transaction between Unitymedia Hessen and Old Unitymedia. This positive impact was partially offset by non-deductible interest for trade tax purposes.

Profit from Continuing Operations

Profit from continuing operations during the year ended December 31, 2009 was €20.3 million, as compared to a profit from continuing operations during the year ended December 31, 2008 of €60.0 million.

Financial Condition

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 for the Unitymedia Senior Notes governing the indebtedness of Unitymedia Hessen, Unitymedia NRW and Unitymedia restrict our ability to access the assets of our subsidiaries. Our subsidiaries accounted for substantially all of our consolidated cash and cash equivalents at December 31, 2010. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax considerations or other factors.

At December 31, 2009, our restricted cash balance was €2,560.7 million, which resulted from the issuance of Unitymedia Senior Notes in November 2009 and was held in escrow to finance a portion of the acquisition of Old Unitymedia from Unitymedia S.C.A on January 28, 2010, and to refinance Old Unitymedia´s previous capital structure on March 2, 2010. At December 31, 2010, our cash and cash equivalent balance was €58.7 million.

Liquidity of Unitymedia

Our principal source of corporate liquidity includes (i) the cash and cash equivalents held by Unitymedia, (ii) contributions or loans from UPC Germany Holding and (iii) subject to the restrictions noted above, proceeds in the form of distributions or loans from Unitymedia Hessen, Unitymedia NRW or other operating 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 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 the 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 Revolving Credit Facility. At December 31, 2010, the Revolving Credit Facility was fully drawn. The liquidity of Unitymedia Hessen, Unitymedia NRW and our other operating subsidiaries generally is used to fund operating disbursements and debt service requirements. 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 and interest payments, (ii) acquisitions and other investment opportunities or (iii) distributions or loans to Unitymedia. Due in part to the level of the existing indebtedness of Unitymedia Hessen and Unitymedia NRW, no assurance can be given that any external funding would be available to our subsidiaries on favorable terms, or at all.

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 Revolving Credit Facility and a €75 million financing commitment from another Liberty Global subsidiariy will be sufficient to fund our currently anticipated working capital needs, capital expenditures, and debt service requirements through December 31, 2012, although we cannot assure you that this will be the case.

To the extent that we are not able to fund any principal payment at maturity with respect to any of our indebtedness, we will be required to refinance this indebtedness with additional credit facilities and/or the issuance of new debt or equity securities in the capital markets. Due in part to the level of our existing indebtedness, no assurance can be given that we would be able to complete such financing transactions on favorable terms, or at all. To the extent that we are unable to fund any principal payment at maturity, any failure to raise additional necessary funds to refinance such indebtedness would result in a default under the Revolving Credit Facility and our other indebtedness, including the Unitymedia Senior Notes. In addition, further indebtedness incurred could reduce the amount of our cash flow available to make payments on our indebtedness and increase our leverage. We currently anticipate that we will have to refinance in part certain principal amounts of the existing indebtedness at maturity.

Seasonality

Certain aspects of our liquidity are subject to seasonal factors. In particular we have a disproportionately high level of annual prepayments in December, January and February, which results in higher levels of trade receivable and cash flow from operations in these months each year, offset by associated VAT payments. We also generally have a higher relative level of capital expenditures in the second half of each calendar year, which generally results in higher payments in the fourth and first quarters of each calendar year. Our interest payments for our outstanding Unitymedia Senior Notes are paid semi-annually at 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, 2010. As such, the pre-acquisition period of Old Unitymedia from January 1 to January 27, 2010 is excluded from such cash flows. We do not present a discussion of the historical 2009 cash flows of Unitymedia as Unitymedia was not incorporated until October 15, 2009. However, we present certain selected pro forma consolidated cash flow data in the table following the below discussion of Unitymedia’s historical cash flows. As further described below, the selected pro forma cash flow data includes the cash flows of Old Unitymedia for the full-year 2010.

Cash flows provided by operating activities

The cash flows provided by our continuing operating activities were €215.8 million during the year ended December 31, 2010. The principal components of this include collections from our customers, less operational cash disbursements, as well as interest and income tax payments. 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.

Cash flows used by investing activities

The cash flows used by investing activities were €2,123.2 million during the year ended December 31, 2010. These primarily consisted of (i) €1,880.1 million of net cash paid to acquire Old Unitymedia in the Liberty Global Transaction and (ii) €243.3 million for capital expenditures.

Our capital expenditures relate primarily to extending or upgrading our network, installation and in-home wiring for new subscribers, the cost of set-top boxes and cable modems rented to our customers as part of our digital and broadband cable offerings. Capital expenditures also include increases in intangible assets (except our customer relationships intangible asset) and do not include financial assets. For the year ended December 31, 2010, our capital expenditures were 28% of revenue. A significant portion of our capital expenditures is demand-driven, meaning that the majority of our capital expenditure outlay occurs after we acquire a new customer, and therefore is incurred in line with subscriber growth. Accordingly, our planned future capital expenditures could increase or decrease depending on changes in subscriber growth. Aligned with our strategy of offering our customers competitive broadband services at very high speeds, we expect to have upgraded over 90% of all homes passed to the Euro DOCSIS 3.0 standard by December 31, 2011. In line with the continued subscriber growth with Unity3play and the expected take-up of our new HD/DVR, capital expenditures in 2011 are expected to be in the range of 25% – 27% of revenue.

Cash flows provided by financing activities

The cash flows provided by our financing activities were €1,966.1 million during the year ended December 31, 2010. These consisted of (i) €2,593.6 million provided from the release of cash collateral accounts that were originally funded in November 2009 with proceeds from the issuance of the Unitymedia Senior Notes (ii) €1,770.6 million of third-party debt repayments, of which €1,685.6 million were primarily related to the March 2, 2010 repayment of Old Unitymedia´s then existing debt and €85 million were related to the current capital structure, (iii) €165.0 million of third-party borrowings, (iv) a net €1,050.9 million that was provided by related-party borrowings from UPC Germany Holding, primarily in connection with the Liberty Global Transaction, (v) a net €66.6 million outflow related to cross-currency derivative instruments, (vi) €27.0 million of debt premiums that were paid in connection with the refinancing of Old Unitymedia´s debt (vii) a €17.0 million equity contribution from UPC Germany Holding and (viii) a net €3.8 million inflow provided by other financing activities.

The following table presents selected pro forma cash flow data that gives effect to the Unitymedia Merger and the Liberty Global Transaction as of January 1, 2010, and accordingly, includes the cash flows of Old Unitymedia's continuing operations for all of 2010.

	Three months ended			
	March 31, 2010 Pro forma	June 30, 2010 Historical	September 30, 2010 Historical	December 31, 2010 Historical
	in millions			
Cash flows provided by operating activities of continuing operations (a)	€ 90.0	€ (13.9)	€ 98.9	€ 9.3
Capital expenditures of continuing operations	€ 52.5	€ 63.6	€ 69.7	€ 75.5
Net cash paid for interest (excluding derivatives)	€ 50.3	€ 125.9	€ 0.8	€ 116.6
Net cash paid for income taxes	€ 3.5	€ 1.9	€ 4.7	€ 4.3

(a) The amount for the three months ended March 31, 2010 includes (i) €60.2 million of interest payments related to the previous capital structure that was refinanced on March 2, 2010, including payments on interest rate derivatives of €5.3 million, and (ii) €23.3 million of direct acquisition costs incurred in connection with the Liberty Global Transaction. The amounts for the three months ended June 30, 2010, September 30, 2010 and December 31, 2010 include €5.4 million, €5.4 million and €5.0 million, respectively, of payments related to the interest rate derivatives of the previous capital structure.

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.

Legal Proceedings

We are involved in a number of legal proceedings that have arisen in the ordinary course of our business. Other than as discussed below, we do not expect the legal proceedings in which we are involved or with which we have been threatened to have a material adverse effect on our business or consolidated financial position. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and we can offer no assurances in this regard.

Pending Intellectual Property Proceedings

The collecting society VG Media initiated arbitration proceedings on behalf of various commercial broadcasters against all four major cable operators (including Unitymedia NRW and Unitymedia Hessen) to declare their new tariffs for the retransmission of radio and television programs adequate, which had been rejected by the cable operators. VG Media requested that a new tariff apply with retroactive effect as of January 1, 2006, which would provide for royalty payments of 2.09% of the relevant subscriber revenue for analogue retransmissions and 2.51% of the relevant subscriber revenue for digital retransmission. The new tariff would more than double our current preliminary royalty payment obligations of approximately €4.58 million per calendar year under the existing interim agreement with VG Media, which terminated at the end of December 2008, but was extended until the end of 2009 on the basis of a payment of €2.75 million plus VAT per calendar year. In March 2009, the arbitration panel ruled that the digital tariff was not applicable and that royalty payments due shall not exceed 1.1% of basic cable service revenue or 1.38% if an association discount did not apply. Both parties have objected to the arbitration panel's decision. We have been in negotiations with VG Media to explore a new contractual agreement. As the negotiations failed in December 2009, VG Media brought actions against Unitymedia NRW and Unitymedia Hessen for claims in the total amount of €9.6 million. We signed a settlement agreement with VG Media on December 31, 2010, which provides for a settlement payment of 1% of our basic cable service revenue plus VAT each year from 2006 through the contract term until 2014. From 2010 to 2014 the minimum payment is €5 million per year. In addition, we pay a lump sum for interest. During the contract term, VG Media will not make any further claims against us with regard to the retransmission of radio and television programs.

In addition, the German Society for Musical Performing and Mechanical Reproduction Rights (Gesellschaft für musikalischeAufführungs und mechanische Vervielfältigungsrechte or GEMA) brought an action against Unitymedia NRW and Unitymedia Hessen for an indefinite amount of fees regarding our pay-tv distribution. For the purpose of negotiations, the court procedure at the arbitration court in Munich has been put on hold for the time being.

Other Material Legal Proceedings

The Federal Cartel Office (FCO) has initiated regulatory proceedings against us and other German cable network operators and pay TV providers under the provisions on market dominance regarding market foreclosure effects resulting from our set-top box procurement strategy and the encryption technology used therein. After an announcement by the FCO that it intended to issue a decree against the cable network operators and Sky, the cable operators and Sky filed opposing statements with the FCO. In view of the increasing sales of interactive digital TV sets with a CI-Plus interface, the FCO put the proceedings on hold and will review the situation in 2011.

Rovi Corporation (Rovi), the parent company of GemStar-TV Guide International, Inc., holds a large patent portfolio related to electronic program guide (EPG) products and services (more than 1,300 issued patents and 900 patent applications worldwide, including more than 80 issued European patents). On February 26, 2009, Rovi alleged that we were infringing upon at least three of these patents. Rovi claims that any pay-TV operator must acquire from Rovi an "EPG-License" for its digital TV services irrespective of whether cable operators only distribute TV-signals or set-top boxes (STB) were provided by third parties. Therefore, Rovi claims that any of our cable customers who receive digital TV (free-TV or pay-TV) is infringing on Rovi's patents by using EPG functionalities which involve Rovi's patents and that we, as a service provider, are liable for such infringements regardless of whether any individual cable customer uses an STB rented from us, their own device or a STB from a third party. Rovi has discussed potential solutions for historical items; however, we believe that both the historical and future claims asserted by Rovi lack merit. Rovi threatened to initiate litigation against us for patent infringement. Prior to any initiation of litigation, our new shareholder entered into a settlement agreement with Rovi also covering all licenses potentially required for our operations.

In July 2010, we reached a settlement agreement with Sky on the arbitration proceedings against arena, Unitymedia NRW and Unitymedia Hessen initiated by Sky in September 2009. In return for a settlement payment by us, Sky has abandoned its previous claims. Sky also initiated proceedings against Unitymedia NRW and Unitymedia Hessen at the Federal Network Agency based on certain complaints alleging that some of the contractual provisions as well as the execution of our contracts with Sky were abusive. While in a first step, the Federal Network Agency decided that Sky cannot claim the implementation of our updated modulation technology in the regulatory proceedings, all smartcard related issues have been referred to the competent division of the Federal Network Agency.

Material Contracts

The agreements described below are or have been in the last three years of material importance to us or one of our operating subsidiaries. Agreements concluded in the ordinary course of business are not described. For a description of our material financing agreement, see "Description of Indebtedness".

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 Unitymedia Hessen and one with 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, the MSAs and most of the Term Sheets with Unitymedia Hessen and Unitymedia NRW provide for various termination restrictions for Deutsche Telekom according to which Deutsche Telekom is generally not entitled to terminate the services provided under the Term Sheets on co-use of cable ducts (not including the offer of co-use of further cable ducts), cable protection tubes, fiber optic transmission systems or lease of space for broadband cable technology except under certain circumstances that are 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. Some of the Term Sheets provided for fixed-price periods which, however, have already expired. Furthermore, there have been issues with Deutsche Telekom as to the charges, quality and accessibility of leased surfaces in relation to the Term Sheet governing lease space for broadband cable technology. Discussions about the increase and of charges under the Term Sheet governing the supply of energy for broadband equipment are pending and may lead to disputes, but no litigation has been initiated. We have also entered into various other license, rental and operating lease agreements, all of which are expensed as services are provided. In accordance with EU-IFRS, we treat these leases as operating rather than capital leases.

For more detail on the Term Sheets as well as other financial commitments see note 14 to our consolidated financial statements in Part I of this Annual Report.

BRN Agreements

In addition to the Term Sheets, we have entered into long term BRN agreements under which we lease additional fiber optic lines. We have the ability to terminate these agreements with notice periods of between 12 and 24 months. Unitymedia Hessen and Unitymedia NRW have each entered into BRN agreements with Deutsche Telekom, under which Deutsche Telekom is to install, make available and operate fixed-line broadband and broadcasting links. These links, which are made up of optical leased lines, provide connectivity in the upgrade areas for the full 862 MHz spectrum including return path capabilities. Both BRN agreements were renegotiated in 2009. The new unified BRN-Unitymedia agreement became effective on January 1, 2010. The services previously provided under the old BRN-iesy agreement and BRN-ish agreement are combined and the analog optical broadband cable connection lines (BKVLs) that were the subject of one of the Term Sheets between Unitymedia NRW and Deutsche Telekom are transferred to the new BRN-Unitymedia agreement. In addition, the agreement provides the basis for an extension and upgrade of optical with return channel. The agreement is structured as a framework agreement with a minimum term until December 31, 2017 and more flexible termination rights compared to the old BRN agreements. We have the right to terminate lines subject to the BRN agreements and have done so in most of our upgraded areas where we have either built our own fiber or leased dark fiber from third parties. Currently less than two percent of our upgraded homes passed are subject to the BRN-Unitymedia agreement. Since 2001, Unitymedia Hessen and Unitymedia NRW have entered into several similar agreements for the use and maintenance of fiber optic cables with other providers of fiber optic cables, replacing former BRN fiber links.

Interconnection Agreements

In order to deliver telephony services to our customers, Unitymedia NRW entered into a voice interconnection agreement with Deutsche Telekom. Although this agreement was terminated as of June 30, 2003, the Federal Network Agency subsequently ordered the continuation of the voice interconnection on the basis of the standard Deutsche Telekom interconnection agreement, with certain changes, for an indefinite period of time. This interconnection agreement with Deutsche Telekom is a standard agreement as the interconnection regime is heavily regulated. In addition, we entered into several amendments to the interconnection agreement with Deutsche Telekom under which we extended the scope of services provided by Deutsche Telekom to us. In addition to our interconnection agreement with Deutsche Telekom, we have entered into interconnection agreements with other major operators of interconnection networks.

Other Significant Supply Agreements

Sky Deutschland

On July 19, 2007, we announced our entry into the Sky Agreements, which led to the FCO’s written confirmation that it had completed its formal review of the original cooperation agreement. The Sky Agreements removed the restrictions preventing Unitymedia cable subscribers in NRW and Hesse from having access to both Unitymedia´s digital pay TV services and Sky content via a single smartcard. This new set of agreements includes the distribution of the Sky content in a pass-through model for a six-year term with effect as of January 1, 2008. The distribution contract replaces the former MSG (a digital platform provided by Kabel Deutschland GmbH) distribution contract which Unitymedia was bound by until December 31, 2007. For more details see also “Legal Proceedings”.

Nagravision

Effective July 1, 2010, a subsidiary of Liberty Global and Nagravision SA (Nagravision) entered into a European wide contract for the use of a conditional access system (headend, smartcards, support & maintenance, security and software licence grant). Our share of the related costs is allocated to us by the Liberty Global subsidiary and we expense such costs as incurred. The contract between Unitymedia NRW and Nagravision was terminated in December 2010.

Convergys

On December 18, 2000, Convergys Corporation (Convergys) granted Unitymedia NRW a non-transferable and non-exclusive license to use the “CableMaster” software for its customer support and billing operations. The license agreement is effective for the longer of (a) the duration of the copyright of the licensed program materials and derivative works, or (b) 50 years. An amendment agreement was entered into in December 2007 by Convergys Information Management Group INC, Convergys EMEA Ltd., Unitymedia NRW and Unitymedia Hessen, whereby the number of perpetual licenses purchased was increased to provide for the inclusion of Unitymedia Hessen subscribers. The maintenance and support agreement was also renewed and extended to December 2010. It may be terminated by Convergys if Unitymedia NRW’s hardware or operating software cease to be able to run the system successfully. The license agreement may be terminated for cause by either party. Both parties are currently negotiating a prolongation of the agreement.

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.

Intercompany Agreements with UPC

We have entered into several intercompany agreements with our immediate parent UPC Germany Holding BV and other Liberty Global subsidiaries. These include charges from other Liberty Global subsidiaries, including UPC Holding B.V., to our company following the Liberty Global Transaction, including charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations. In addition, we have net loans payable to UPC Germany Holding. The loans primarily are the result of transactions that were completed in connection with the Liberty Global Transaction and the March 2, 2010 push down of debt from our company to Old Unitymedia. At December 31, 2010, our accumulated deficit exceeded paid-in capital. We have formalized a €75 million parental guarantee for us and our wholly-owned subsidiaries until December 31, 2012. During 2010, we received a €17.0 million cash payment from our immediate parent pursuant to this guarantee.

Third-Party Copyrights

The German Copyright Act (Urheberrechtsgesetz) requires operators of cable networks to acquire rights for the retransmission of radio and television programs. Claims for royalties can exclusively be asserted by collecting societies (Verwertungsgesellschaften) and not by individual holders of copyrights themselves. As an exception, broadcasters can assert their rights individually. GEMA has been mandated by most of the other relevant German collecting societies to collect royalties from the cable network operators, whereas various commercial broadcasters have mandated the collecting society VG Media to assert their rights. Together with the other major cable network operators, we entered into two agreements on annual royalty payments for both analog and digital retransmissions with GEMA and VG Media some years ago. As at first the renewal of the collective agreement with GEMA failed, we continued making our royalty payments to both GEMA and VG Media at levels lower than our payment obligations under the previous agreements. After GEMA was not successful in claiming royalties based on a new tariff, in March 2009 GEMA and ANGA, the Association of German Cable Operators, signed a new collective contract (GEMA Contract 2009) for a period from 2007 to 2012. In April 2009, based on the GEMA Contract 2009, we entered into a separate license agreement with GEMA, which is representing other collecting societies, as well as the public and some private broadcasters. Pursuant to the GEMA Contract 2009, we were obliged to pay €15.9 million for 2007. For any subsequent periods through 2012, we are obliged to pay 3.3% of basic cable access revenue as defined in the GEMA Contract 2009.

For information regarding a settlement agreement with VG Media and a court action brought by GEMA, see "Legal Proceedings - Pending Intellectual Property Proceedings".

Regulatory

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 TV 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 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 November 24, 2009, the European Parliament and the European Council completed the process of agreeing on a set of revisions to the Regulatory Framework after a revision process that has been going on for some years. The revisions to the Regulatory Framework must be transposed in Germany before June 19, 2011. 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 was created in early 2010. Some new powers, however, will be given to national regulators. For example, the national regulators will have rights to mandate access to ducts even without “Significant Market Power” findings. Also, there will be enhanced powers for member states to impose quality of service requirements on internet service providers (ISPs). In general, pending the adoption and the transposition by Germany of the new directives, the existing legal situation is unchanged.

The regulatory situation in Germany

The German Federal Network Agency is responsible for the regulation of the German telecommunications market. In addition, the FCO has powers to address issues in all markets.

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 German 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, the broadcasting transmission services are no longer subject to supervision by the Federal Network Agency but by the FCO.

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 obligations.

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 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.

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 onetime 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 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.

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.

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 with the State Broadcasting Treaty (Rundfunkstaatsvertrag). The State Broadcasting Treaty establishes the framework of the German broadcasting system. 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.

Each German state has established its own independent regulatory body, the state media authority (Landesmedienanstalt), for the regulation of the private broadcasting sector, except for the states of Berlin and Brandenburg, which have established a joint regulatory body. The state media authorities are primarily responsible for licensing and supervision of commercial broadcasters and the allocation of transmission capacities for radio and television channels. They are also in charge of the regulation of conditional access systems, interfaces, navigators and the bundling of programs.

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 broadcasters programs enjoy a “must carry” status or that the network has sufficient excess capacity.

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 analogue cable transmission capacities for both radio and television channels and digital transmission for digital radio capacities are primarily governed by the laws of the respective states.

Allocation and Use of Analogue Transmission Capacities

Regulations regarding the analogue cable transmission of radio and television channels vary from state to state and cable network operators are generally not free to allocate analogue 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.

Allocation and Use of Digital Transmission Capacities

In the digital range, “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 the State Broadcasting Treaty (Rundfunkstaatsvertrag) and the German Telecommunications Act. Generally, operators must have a diverse program offering and must not unfairly obstruct or discriminate against broadcasters and other content providers through conditional access systems, interfaces, navigators or the fee structures.

Management of Unitymedia

In accordance with German corporate law, Unitymedia, Unitymedia Management, Unitymedia Hessen Verwaltung, Unitymedia NRW, Unitymedia Services, Unitymedia Aachen and Unitymedia Wiesbaden are managed by their Managing Directors (Geschäftsführer).

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

Unitymedia currently has four Managing Directors:

Name	Age	Position	Year First Appointed
Lutz Schüler	42	Managing Director	2011
Dr. Herbert Leifker.................	57	Managing Director	2005
Jens Müller	39	Managing Director	2010
Jon Garrison..........................	35	Managing Director	2010

Lutz Schüler has been appointed Managing Director and Chief Executive Officer of Unitymedia in January 2011. He succeded Gene W. Musselman, our former acting Managing Director and Chief Operating Officer of UPC Broadband. Lutz 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 the Telefónica O2 group since 1998, lastly leading the integration of Hansenet Telekommunication GmbH as its CEO in Hamburg, when it was acquired by Telefónica O2 in early 2010. From 2006 to 2010, he was Managing Director, Marketing & Sales for Telefónica O2 in Germany. Before joining Telefónica O2 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 is our Chief Commercial Officer and was appointed Managing Director of Unitymedia following the Tele Columbus acquisition and Managing Director of Unitymedia Hessen Verwaltung and Unitymedia NRW in February 2006, Unitymedia Management in March 2006 and Unitymedia Services in May 2007. He was previously the CEO of Tele Columbus which he developed from 1990 until the merger with 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 Vice President Finance Operations and Co-CFO in July 2010 and Managing Director of Unitymedia in November 2010. He is responsible for Unitymedia's finance operations, including controlling, billing, collection and procurement. Before his current role as Vice President Finance Operations and Co-CFO, Jens Müller held various senior positions within Unitymedia´s finance department as well as in the predecessor company ish. Prior to joining ish in 2001, Jens Müller worked at several companies in the telecommunications and internet commerce industry. Jens Müller studied economics and business administration at the universities Bochum and Helsinki.

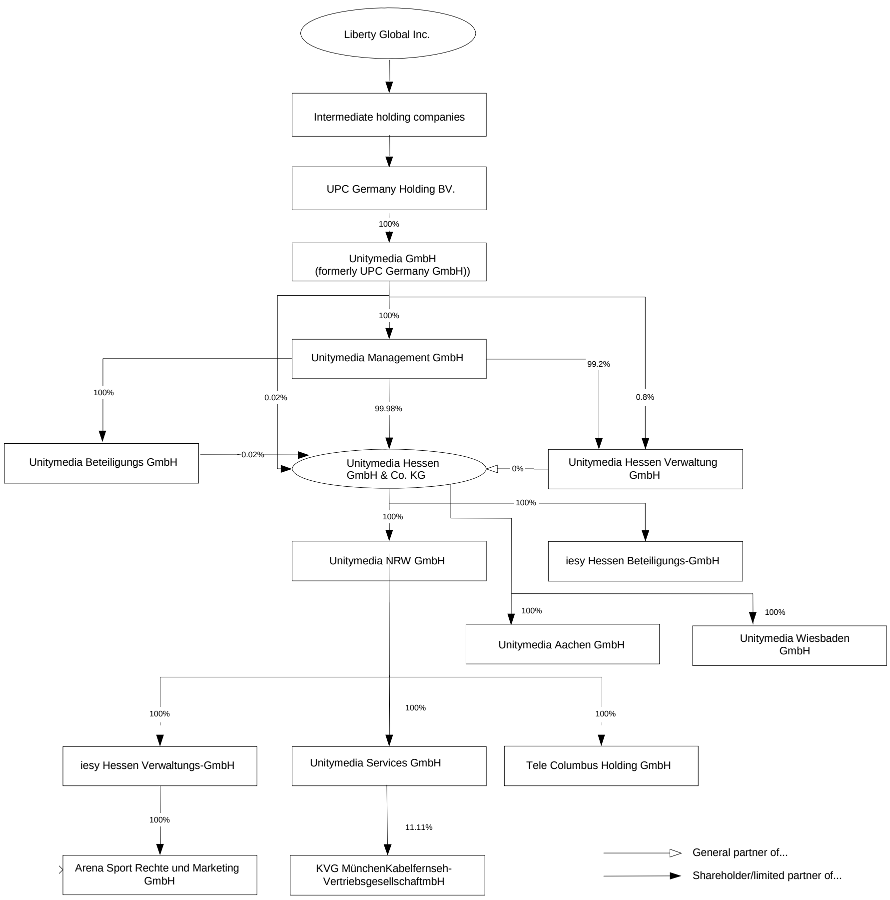
Jon Garrison was appointed Vice President Accounting and Co-CFO in August 2010 and Managing Director of Unitymedia in November 2010. He is responsible for Unitymedia's accounting, tax, treasury, investor relations, corporate development and compliance operations. Before his current role as Vice President Accounting and Co-CFO, Jon 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, Jon Garrison was a public accountant at Deloitte within a variety of industries in the United States and in England. Jon 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

Following the closing of the Liberty Global Transaction on January 28, 2010, we are an indirectly owned subsidiary of Liberty Global. Liberty Global is a leading international cable operator offering advanced video, voice and broadband internet services through state-of-the-art networks across 14 countries principally located in Europe, Chile, and Australia. Liberty Global's operations also include significant programming businesses, such as Chellomedia in Europe.

The following diagram sets forth a simplified summary of our corporate structure as of December 31, 2010.



Notes:

- UPC Germany Holding owned a 100% equity interest in Unitymedia GmbH at December 31, 2010.
- Unitymedia GmbH is a holding company that conducts no operating activities.
- Unitymedia Management GmbH is a holding company that conducts no material activities other than entering into employment agreements and other related arrangements.
- Unitymedia Hessen Verwaltung is the general partner of Unitymedia Hessen and has no equity ownership in Unitymedia Hessen.
- Unitymedia Hessen conducts substantially all of our Hesse operations and is the parent of Unitymedia NRW and iesy Hessen Beteiligungs-GmbH, Unitymedia Aachen and Unitymedia Wiesbaden, each 100% owned by Unitymedia Hessen.
- Unitymedia NRW conducts substantially all of our North Rhine-Westphalia operations and is the parent of iesy Hessen Verwaltungs-GmbH (the parent of arena), Unitymedia Services, and Telecolumbus Holding GmbH, each 100% owned by Unitymedia NRW.
- iesy Hessen Verwaltungs-GmbH is a holding company that conducts no material activities.
- Unitymedia Beteiligungs GmbH is a holding company that conducts no operating activities.

Description of Indebtedness

The description set forth below does not purport to be complete and is qualified entirely by reference to the agreements we have entered into and to which we refer below. Some of the terms used herein are defined in these agreements and we have not included all of such definitions herein.

Unitymedia Senior Notes

Overview

On November 20, 2009, UPC Germany GmbH (UPC Germany, now renamed Unitymedia) issued (i) €1,430.0 million principal amount of 8.125% senior secured notes at an original issue discount of 2.156%, resulting in cash proceeds of €1,399.2 million before transaction costs (the UM Euro Senior Secured Notes), (ii) $845.0 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 original issue discount of 2.156%, resulting in cash proceeds of $826.8 million before transaction costs and (iii) €665.0 million principal amount of 9.625% senior notes at an original issue discount of 2.348%, resulting in cash proceeds of €649.4 million before transaction costs (the UM Senior Notes and, together with the UM Senior Secured Notes, the Unitymedia Senior Notes).

The net proceeds from the sale of the Unitymedia Senior Notes were placed into two escrow accounts. On January 28, 2010, €849.2 million of cash was used from the escrow accounts to fund a portion of the acquisition by UPC Germany of the shares in the former Unitymedia GmbH (Old Unitymedia). On March 2, 2010, (i) the remaining balances in the escrow accounts were released in connection with the repayment of the Unitymedia group's existing indebtedness, (ii) the obligations under the UM Senior Secured Notes were assumed by Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen) and Unitymedia NRW GmbH (Unitymedia NRW) (together the UM Senior Secured Notes Co-Issuers) and (iii) the obligations under the UM Senior Notes were assumed by Unitymedia (the UM Senior Notes Issuer and, together with the UM Senior Secured Notes Co-Issuers, the Issuers and each an Issuer) (the assumption by the Issuers of such obligations, collectively, the Debt Pushdown).

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

Unitymedia Senior Notes	Nominal value in millions		Maturity date	Interest rate	Issue price
UM Euro Senior Secured Notes	€	1,430.0	December 1, 2017	8.125%	97.844%
UM Dollar Senior Secured Notes	$	845.0	December 1, 2017	8.125%	97.844%
UM Senior Notes	€	665.0	December 1, 2019	9.625%	97.652%

Ranking and Guarantees

The UM Senior Secured Notes rank (i) paripassu in right of payment with any existing and future indebtedness of the UM Senior Secured Co-Issuers that is not subordinated to the UM Senior Secured Notes and (ii) senior in right of payment to any existing and future subordinated obligations of the UM Senior Secured Notes Co-Issuers. The UM Senior Notes rank (i) paripassu in right of payment with any existing and future indebtedness of the UM Senior Notes Issuer that is not subordinated to the UM Senior Notes and (ii) senior in right of payment to any existing and future subordinated obligations of the UM Senior Notes Issuer.

The UM Senior Secured Notes are guaranteed on a senior basis by Unitymedia, Unitymedia Hessen Verwaltung GmbH (Unitymedia Hessen Verwaltung), Unitymedia Management GmbH (Unitymedia Management) and Unitymedia Beteiligungs GmbH (Unitymedia Beteiligung). The UM Senior Notes are guaranteed on a senior subordinated basis by Unitymedia Hessen, Unitymedia Hessen Verwaltung, Unitymedia NRW, Unitymedia Management and Unitymedia Beteiligung. In addition, the Unitymedia Senior Notes will be guaranteed by each other subsidiary that guarantees the Revolving Credit Facility (described below).

Security

The UM Senior Secured Notes are secured by (i) first-priority share pledges over the shares of Unitymedia Management, Unitymedia Hessen Verwaltung, the UM Senior Secured Notes Co-Issuers and Unitymedia Beteiligung, (ii) security assignment over claims under certain domination and/or profit and loss absorption agreements; and (iii) with respect to each of the UM Senior Secured Notes Co-Issuers and, to the extent applicable, Unitymedia Management and Unitymedia Hessen Verwaltung, (a) a first-ranking account pledge covering certain cash accounts, (b) security assignments of receivables and insurance claims and (c) security transfers of substantially all of the other material assets of the UM Senior Secured Notes Co-Issuers and the guarantors (other than the Term Sheets).

The UM Senior Notes are secured by a first-priority share pledge over Unitymedia, junior priority share pledges over the shares of Unitymedia Management, Unitymedia Hessen, Unitymedia Hessen Verwaltung and Unitymedia Beteiligung and security assignment over claims under certain domination and/or profit and loss absorption agreements.

Under the terms of the Intercreditor Agreement, the proceeds of any enforcement of the security will be applied to repayment of the Revolving Credit Facility (as described below) and certain hedging obligations prior to being applied to repayment of the Unitymedia Senior Notes. The security is subject to contractual limitations due to German capital maintenance laws and may be released in certain circumstances.

Redemption

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 Issuer may redeem some or all of the Unitymedia Senior 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 indentures, over (b) the principal amount of the applicable Unitymedia 2010 Notes on the redemption date and (iii) accrued but unpaid interest and additional amounts, if any, to the applicable redemption date.

The Issuer may redeem some or all of the Unitymedia Senior Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on 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 Issuer may redeem up to 35% of the Unitymedia Senior 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

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At any time on or after November 20, 2010 but prior to November 20, 2012, the relevant Issuers have the option, following completion of a UPC Exchange Transaction (as defined below), to redeem all, but not less than all, of the UM Senior Secured Notes and/or all, but not less than all, of the UM Senior Notes, as applicable. The redemption price in such case (expressed as a percentage of the principal amount thereof) would be (i) 101% if such redemption is on or before November 20, 2011 or (ii) 102% if such redemption is after November 20, 2011, plus, in each case, accrued and unpaid interest and additional amounts, if any, to the applicable redemption date. A UPC Exchange Transaction means an exchange offer by UPC Broadband Holding 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 UM Senior Secured Notes and/or UM Senior Notes, as applicable, to participate in the exchange offer), offered in exchange for UM Senior Secured Notes and/or UM Senior Notes, as applicable.

The relevant Issuers may redeem all of the UM Senior Secured Notes and/or all of the UM Senior Notes at prices equal to their respective principal amounts, plus accrued and unpaid interest, upon the occurrence of certain changes in tax law.

If the Issuer or certain of its subsidiaries sell certain assets or experience specified changes in control, the

Issuer must offer to repurchase, to the extent required in the indentures, the Unitymedia Senior Notes at a redemption price (expressed as a percentage of the principal amount thereof) of 100%, in the case of asset sales, and 101%, in the case of a change in control, plus, in each case, accrued and unpaid interest.

Certain Covenants

The indentures partially limit, among other things, the ability of the UM Senior Secured Notes Co-Issuers and their respective restricted subsidiaries and the UM Senior Notes Issuer and its restricted subsidiaries to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- pay dividends, redeem capital stock and make certain investments;
- make certain other restricted payments;
- create or permit to exist certain liens;
- impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;
- transfer, lease or sell certain assets including subsidiary stock;
- merge or consolidate with other entities; and
- enter into certain transactions with affiliates.

Certain Events of Default

In addition to other customary events of default, the Unitymedia Senior 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 an Issuer or any of the Restricted Subsidiaries (as defined in the indentures) is an event of default under the Unitymedia Senior Notes.

Revolving Credit Facility

On December 21, 2009, UPC Germany (now renamed Unitymedia) entered into an €80.0 million secured revolving credit facility agreement with certain lenders (the Revolving Credit Facility). Upon completion of the Debt Pushdown, the obligations of UPC Germany (now renamed Unitymedia) were assumed by Unitymedia Hessen and Unitymedia NRW. As of March 2, 2010, Unitymedia Hessen and Unitymedia NRW were the only entities permitted to draw on the Revolving Credit Facility. Wholly owned subsidiaries of Unitymedia Hessen may, in the future, on satisfaction of certain conditions contained in the Revolving Credit Facility Agreement, accede to the Revolving Credit Facility Agreement as additional borrowers.

The interest rate on each loan under the Revolving Credit Facility for each interest period is the percentage rate per annum, which is equal to the aggregate of (i) the applicable margin (see below), (ii) EURIBOR and (iii) any mandatory cost (which is the cost of compliance with reserve asset, liquidity, cash margin, special deposit or other like requirements). The applicable margin for the Revolving Credit Facility is 3.75% per annum. Unitymedia Hessen also pays an annual commitment fee of 1.25% on the unused portion of the Revolving Credit Facility.

Borrowings under the Revolving Credit Facility, which mature on December 31, 2014, may be used for general corporate and working capital purposes, including, but not limited to, the refinancing of any financial indebtedness. In addition to customary restrictive covenants and events of default, the Revolving Credit Facility requires compliance with a consolidated leverage ratio.

The Revolving Credit Facility is secured by the same security as the UM Senior Secured Notes. The Revolving Credit Facility is guaranteed by Unitymedia, Unitymedia Hessen, Unitymedia NRW, Unitymedia Management, Unitymedia Beteiligung, Unitymedia Hessen Verwaltung and each other subsidiary that becomes a significant subsidiary (as defined in the indenture for the UM Senior Secured Notes).

Key Financial Overview and Reconciliations for the Pro Forma Financials for the Years Ended December 31, 2010, 2009 and 2008 Based on EU-IFRS

	Year ended December 31,		
	2010 Pro forma	2009 Pro forma	2008 Pro forma
		in millions	
Revenue	€ 935.2	€ 879.1	€ 823.4
Adjusted EBITDA[12]	520.9	471.3	409.7
Depreciation and Amortization Expense	(351.8)	(294.7)	(252.6)
Stock-Based Compensation	—	(5.0)	(1.8)
Restructuring Costs and Other Operating Charges	(26.7)	(2.7)	(0.7)
Related-Party Fees and Allocations	(23.8)	—	—
EBIT	118.6	168.9	154.6
Net Financial Expense	(319.6)	(102.1)	(83.4)
Income Tax Benefit (Expense)	33.1	(46.5)	(11.2)
Profit (Loss) from Continuing Operations	€ (167.9)	€ 20.3	€ 60.0
CapEx[13]	€ 261.3	€ 257.8	€ 235.6
Adjusted EBITDA Margin[14]	55.7%	53.6%	49.8%
CapEx as % of Revenue	27.9%	29.3%	28.6%

Unitymedia

Footnotes

(1) Homes Passed are homes or residential multiple dwelling units that can be connected to our cable 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. In Q4 2010, the number of homes passed has been adjusted as a result of a 130,200 non-organic reduction in the number of homes passed by our cable network.

(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 services 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. In Q4 2010, the number of homes passed has been adjusted as a result of a 123,900 non-organic reduction in the number of homes passed by our cable network.

(3) Revenue Generating Unit 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 premise basis such that a given premise does not count as more than one RGU for any given service. On the other hand, if an individual receives one of our services in two premises (e.g. a primary home and a vacation home), that individual will count as two RGUs for that service. Each bundled cable, internet or telephony service is counted as a separate RGU regardless of the nature of any bundling discount or promotion. Non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period.

(4) Analog Cable Subscriber is a home or a residential multiple dwelling unit that receives our analog cable service over our broadband network. Beginning in Q2 2009, Analog Cable Subscribers include customers in multiple dwelling units that subscribe to our video services without an underlying landlord contract.

(5) Digital Cable Subscriber is a home or residential multiple dwelling 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 premise 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.

(6) Internet Subscriber is a home or residential multiple dwelling 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 Q4 2010, our Internet Subscribers include approximately 5,400 subscribers within such housing associations who have requested and received a modem that enables the receipt of our wholesale internet service.

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

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

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

(10) Customer Relationships are the number of customers who receive at least one of our video, internet or voice services that we count as RGUs, without regard to which, or to how many services they subscribe. Customer Relationships generally are counted on a unique premise 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. Beginning in Q1 2010, we also include subscribers not taking a video service but subscribing to our internet and/or telephony services. As of Q4 2010, we had approximately 67,100 of these customers.

(11) ARPU per Customer Relationship refers to the average monthly subscription revenue per average Customer Relationship. The amount is calculated by dividing the average monthly subscription revenue (excluding fees from interconnection, installation, late fees and carriage) for the indicated period, by the average of the opening and closing balances for Customer Relationships for the period. ARPU per Customer Relationship for 2010 includes approximately 67,100 subscribers not taking a video service but subscribing to our internet and/or telephony services while ARPU per Customer Relationship for periods prior to 2010 exclude such subscribers.

(12) Adjusted EBITDA is not a GAAP measure as contemplated by the U.S. Securities and Exchange Commission's Regulation G. 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. Under EU-IFRS, EBITDA is defined as profit before net finance expense, income taxes, depreciation, amortization and impairment. As we use the term, Adjusted EBITDA is defined as EBITDA before stock-based compensation, restructuring charges, related-party fees and allocations charged by our parent company and certain other operating charges or credits. Other operating charges or credits include (i) gains and losses on the disposition of long-lived assets, (ii) direct acquisition costs, such as third-party due diligence, legal and advisory costs, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration. Our internal decision makers believe 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 public companies. Adjusted EBITDA should be viewed as a measure of operating performance that is a supplement to, and not a substitute for EBIT, net profit (loss) from continuing operations, cash flow from operating activities and other EU-IFRS measures of income or cash flows. Reconciliations of Adjusted EBITDA to our net profit (loss) from continuing operations are presented on page III-36.

(13) CapEx consist of expenditures for property and equipment and intangibles (except for customer lists) as reported in our EU-IFRS cash flow statement, and does not include financial assets. CapEx in 2009 excludes €8 million for the acquisition of third-party cable networks.

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