



# **UPC HOLDING B.V.**

**Condensed Consolidated Financial Statements  
March 31, 2014**

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

## UPC HOLDING B.V.

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

	March 31, 2014		December 31, 2013 (a)	
	in millions			
ASSETS				
Current assets:				
Cash and cash equivalents .....	€	22.8	€	466.2
Trade receivables, net .....		243.4		341.8
Related-party receivables (note 9) .....		201.0		239.7
Deferred income taxes .....		18.7		17.3
Derivative instruments (note 3) .....		326.0		147.2
Prepaid expenses.....		34.0		15.9
Other current assets.....		29.4		40.0
Total current assets.....		875.3		1,268.1
Investments (including €27.0 million and €26.0 million, respectively, measured at fair value) .....		33.1		32.2
Property and equipment, net (note 5) .....		3,744.7		3,744.8
Goodwill (note 5) .....		5,122.6		5,118.5
Intangible assets subject to amortization, net (note 5) .....		204.4		222.2
Other assets, net (notes 3 and 9) .....		303.9		634.2
Total assets.....	€	10,284.0	€	11,020.0

(a) As retrospectively restated – see note 2.

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

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

	March 31, 2014	December 31, 2013 (a)
	in millions	
LIABILITIES AND OWNERS' DEFICIT		
Current liabilities:		
Accounts payable (note 9) .....	€ 262.4	€ 252.6
Accrued and other liabilities (note 9) .....	646.2	1,014.2
Deferred revenue and advance payments from subscribers and others .....	374.0	407.2
Accrued interest .....	99.2	179.1
Derivative instruments (note 3) .....	665.1	367.9
Current portion of debt and capital lease obligations (note 6) .....	598.6	311.7
Total current liabilities .....	2,645.5	2,532.7
Long-term debt and capital lease obligations (note 6):		
Third-party .....	7,552.8	9,442.4
Related-party (note 9) .....	8,897.2	9,770.1
Derivative instruments (note 3) .....	922.8	1,157.1
Other long-term liabilities (note 9) .....	493.8	215.1
Total liabilities .....	20,512.1	23,117.4
Commitments and contingencies (notes 3, 6 and 10)		
Owners' deficit:		
Parent's deficit:		
Distributions and accumulated losses in excess of contributions .....	(10,767.4)	(12,627.2)
Accumulated other comprehensive earnings, net of taxes .....	517.4	508.9
Total parent's deficit .....	(10,250.0)	(12,118.3)
Noncontrolling interests .....	21.9	20.9
Total owners' deficit .....	(10,228.1)	(12,097.4)
Total liabilities and owners' deficit .....	€ 10,284.0	€ 11,020.0

(a) As retrospectively restated – see note 2.

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

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013 (a)</b>
	<b>in millions</b>	
Revenue (notes 9 and 11) .....	€ 894.7	€ 896.3
Operating costs and expenses:		
Operating (other than depreciation and amortization) (including share-based compensation) (notes 8 and 9) .....	306.9	315.0
Selling, general and administrative (SG&A) (including share-based compensation) (notes 8 and 9) .....	160.7	154.1
Related-party fees and allocations, net (note 9) .....	(28.5)	(14.5)
Depreciation and amortization .....	214.3	217.1
Impairment, restructuring and other operating items, net .....	0.9	0.3
	<u>654.3</u>	<u>672.0</u>
Operating income .....	<u>240.4</u>	<u>224.3</u>
Non-operating income (expense):		
Interest expense:		
Third-party .....	(137.6)	(150.2)
Related-party (note 9) .....	(256.5)	(214.7)
Interest income (note 9) .....	0.6	2.9
Realized and unrealized gains (losses) on derivative instruments, net (note 3) .....	(71.1)	159.3
Foreign currency transaction losses, net .....	(15.4)	(155.0)
Realized and unrealized gains (losses) due to changes in fair values of certain investments, net (note 4) .....	0.9	(0.3)
Losses on debt modification and extinguishment, net (note 6) .....	(12.0)	(66.3)
	<u>(491.1)</u>	<u>(424.3)</u>
Loss before income taxes .....	(250.7)	(200.0)
Income tax expense (note 7) .....	(20.0)	(9.5)
Net loss .....	<u>(270.7)</u>	<u>(209.5)</u>
Net earnings attributable to noncontrolling interests .....	(2.1)	(2.3)
Net loss attributable to parent .....	<u>€ (272.8)</u>	<u>€ (211.8)</u>

(a) As retrospectively restated – see note 2.

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

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

	Three months ended March 31,	
	2014	2013 (a)
	in millions	
Net loss .....	€ (270.7)	€ (209.5)
Other comprehensive earnings – foreign currency translation adjustments.....	8.6	1.9
Comprehensive loss .....	(262.1)	(207.6)
Comprehensive earnings attributable to noncontrolling interests .....	(2.2)	(12.3)
Comprehensive loss attributable to parent .....	€ (264.3)	€ (219.9)

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(a) As retrospectively restated – see note 2.

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

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

	Parent's deficit			Non-controlling interests	Total owners' deficit
	Distributions and accumulated losses in excess of contributions	Accumulated other comprehensive earnings, net of taxes	Total parent's deficit		
	in millions				
Balance at January 1, 2014 (a) .....	€ (12,627.2)	€ 508.9	€ (12,118.3)	€ 20.9	€ (12,097.4)
Net loss.....	(272.8)	—	(272.8)	2.1	(270.7)
Other comprehensive earnings.....	—	8.5	8.5	0.1	8.6
Consideration received in connection with the VTR Extraction (note 2).....	2,450.0	—	2,450.0	—	2,450.0
Distribution to a subsidiary of Liberty Global (note 9) .....	(325.6)	—	(325.6)	—	(325.6)
Share-based compensation (note 8) .....	6.5	—	6.5	—	6.5
Property and equipment contributed by parent company (note 5).....	5.2	—	5.2	—	5.2
Capital charge in connection with the exercise of share-based incentive awards (notes 8 and 9).....	(3.5)	—	(3.5)	—	(3.5)
Distributions by subsidiaries to noncontrolling interest owners .....	—	—	—	(1.2)	(1.2)
Balance at March 31, 2014.....	<u>€ (10,767.4)</u>	<u>€ 517.4</u>	<u>€ (10,250.0)</u>	<u>€ 21.9</u>	<u>€ (10,228.1)</u>

(a) As retrospectively restated – see note 2.

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

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013 (a)</b>
	<b>in millions</b>	
Cash flows from operating activities:		
Net loss.....	€ (270.7)	€ (209.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense.....	6.5	3.6
Related-party fees and allocations, net.....	(28.5)	(14.5)
Depreciation and amortization.....	214.3	217.1
Impairment, restructuring and other operating items, net.....	0.9	0.3
Non-cash interest on the Shareholder Loan.....	256.5	214.7
Amortization of deferred financing costs and non-cash interest accretion.....	3.9	5.2
Realized and unrealized losses (gains) on derivative instruments, net.....	71.1	(159.3)
Foreign currency transaction losses, net.....	15.4	155.0
Realized and unrealized losses (gains) due to changes in fair values of certain investments, net.....	(0.9)	0.3
Losses on debt modification and extinguishment, net.....	12.0	66.3
Deferred income tax expense (benefit).....	1.8	(3.3)
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions.....	(194.8)	(139.7)
Net cash provided by operating activities .....	<u>87.5</u>	<u>136.2</u>
Cash flows from investing activities:		
Capital expenditures.....	(120.5)	(147.3)
Sale of related-party receivable.....	323.3	—
Other investing activities, net.....	(6.5)	(5.9)
Net cash provided (used) by investing activities .....	<u>€ 196.3</u>	<u>€ (153.2)</u>

(a) As retrospectively restated – see note 2.

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



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

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013 (a)</b>
	<b>in millions</b>	
Cash flows from financing activities:		
Repayments and repurchases of third-party debt and capital lease obligations.....	€ (646.3)	€ (283.5)
Borrowings of third-party debt .....	5.0	308.8
Net borrowings of related-party debt .....	573.9	13.7
Contributions from (distribution to) subsidiaries of Liberty Global.....	(325.6)	23.9
Repayment of loan to related party .....	(314.7)	—
Net cash paid related to derivative instruments .....	(37.8)	(1.3)
Payment of financing costs and debt premiums.....	(0.4)	(33.5)
Other financing activities, net .....	20.2	(2.4)
Net cash provided (used) by financing activities .....	<u>(725.7)</u>	<u>25.7</u>
Effect of exchange rate changes on cash.....	<u>(1.5)</u>	<u>(1.3)</u>
Net increase (decrease) in cash and cash equivalents .....	(443.4)	7.4
Cash and cash equivalents:		
Beginning of period .....	466.2	31.6
End of period .....	<u>€ 22.8</u>	<u>€ 39.0</u>
Cash paid for interest.....	<u>€ 211.1</u>	<u>€ 184.9</u>
Net cash paid for taxes .....	<u>€ 4.1</u>	<u>€ 4.1</u>

(a) As retrospectively restated – see note 2.

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

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2014**  
**(unaudited)**

**(1) Basis of Presentation**

UPC Holding B.V. (UPC Holding) is a wholly-owned subsidiary of Liberty Global plc (Liberty Global), the successor to Liberty Global, Inc. In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to UPC Holding or collectively to UPC Holding and its subsidiaries.

As of March 31, 2014, we provide (i) video, broadband internet and fixed-line telephony services in nine European countries and (ii) mobile services in three European countries. We also provide direct-to-home satellite (DTH) services to customers in the Czech Republic, Hungary, Romania and Slovakia through a Luxembourg-based organization that we refer to as “UPC DTH.”

During the first quarter of 2014, Liberty Global created a new credit pool consisting of both its Chilean distribution (VTR GlobalCom) and mobile assets. As a result, VTR GlobalCom, certain of its parent entities and all of its subsidiary entities (collectively, the VTR Entities) were extracted from UPC Holding in January 2014 (the VTR Extraction). We have accounted for the VTR Extraction as a common control transfer at carryover basis and, accordingly, our condensed consolidated financial statements have been retrospectively restated to give effect to this transaction for all periods presented. As such all of the financial and operating data included in this report exclude the VTR Entities for all periods presented.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 annual report.

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

Unless otherwise indicated, ownership percentages and convenience translations into euros are calculated as of March 31, 2014.

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

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 28, 2014, the date of issuance.

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2014**  
**(unaudited)**

**(2) Common Control Transfer**

As further described in note 1, we completed the VTR Extraction in January 2014. We have accounted for this common control transfer at carryover basis and the applicable prior period information has been retrospectively revised to give effect to this transaction for all periods presented.

Consideration received for the transfer of all outstanding shares of the VTR Entities to Liberty Global Holding BV, a subsidiary of Liberty Global that is outside of UPC Holding, was €2,450.0 million. This amount, which was settled through the Shareholder Loan (as defined and described in note 6), was recorded as a capital transaction during the first quarter of 2014.

The following table sets forth the retrospectively effects of this common control transfer on our December 31, 2013 condensed consolidated balance sheet:

	<u>As previously reported</u>	<u>Common control adjustments in millions</u>	<u>As retrospectively restated</u>
Current assets.....	€ 1,389.9	€ (121.8)	€ 1,268.1
Property and equipment, net.....	€ 4,170.8	€ (426.0)	€ 3,744.8
Goodwill.....	€ 5,487.1	€ (368.6)	€ 5,118.5
Total assets.....	€ 11,744.4	€ (724.4)	€ 11,020.0
Current liabilities.....	€ 2,277.1	€ 255.6	€ 2,532.7
Long-term debt and capital lease obligations.....	€ 19,212.9	€ (0.4)	€ 19,212.5
Total liabilities.....	€ 22,866.0	€ 251.4	€ 23,117.4
Parent's deficit.....	€ (11,280.4)	€ (837.9)	€ (12,118.3)
Owners' deficit.....	€ (11,121.6)	€ (975.8)	€ (12,097.4)
Total liabilities and shareholder's equity.....	€ 11,744.4	€ (724.4)	€ 11,020.0

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2014**  
**(unaudited)**

The following table sets forth the retrospectively effects of this common control transfer on our operating results for the three months ended March 31, 2013:

	<u>As previously reported</u>	<u>Common control adjustments</u> in millions	<u>As retrospectively restated</u>
Revenue .....	€ 1,079.4	€ (183.1)	€ 896.3
Operating expenses.....	€ 388.7	€ (73.7)	€ 315.0
SG&A expenses.....	€ 182.6	€ (28.5)	€ 154.1
Depreciation and amortization expense.....	€ 252.0	€ (34.9)	€ 217.1
Non-operating expense, net .....	€ (429.9)	€ 5.6	€ (424.3)
Income tax expense .....	€ (15.9)	€ 6.4	€ (9.5)
Net loss .....	€ (175.1)	€ (34.4)	€ (209.5)
Net loss attributable to parent.....	€ (183.7)	€ (28.1)	€ (211.8)

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2014**  
**(unaudited)**

**(3) Derivative Instruments**

In general, we seek to enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than the functional currency of the borrowing entity. In this regard, through our subsidiaries, we have entered into various derivative instruments to manage interest rate exposure and foreign currency exposure with respect to the euro (€), the United States U.S. dollar (\$), the British pound sterling (£), the Swiss franc (CHF), the Chilean peso (CLP), the Czech koruna (CZK), the Hungarian forint (HUF), the Polish zloty (PLN) and the Romanian lei (RON). We generally do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

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

	March 31, 2014			December 31, 2013		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (b).....	€ 324.2	€ 200.0	€ 524.2	€ 145.1	€ 206.3	€ 351.4
Foreign currency forward contracts .....	1.4	—	1.4	1.3	—	1.3
Other .....	0.4	0.5	0.9	0.8	0.7	1.5
Total.....	€ 326.0	€ 200.5	€ 526.5	€ 147.2	€ 207.0	€ 354.2
Liabilities:						
Cross-currency and interest rate derivative contracts (b).....	€ 663.0	€ 911.0	€ 1,574.0	€ 364.9	€ 1,148.0	€ 1,512.9
Foreign currency forward contracts .....	1.9	11.7	13.6	2.9	8.7	11.6
Other .....	0.2	0.1	0.3	0.1	0.4	0.5
Total.....	€ 665.1	€ 922.8	€ 1,587.9	€ 367.9	€ 1,157.1	€ 1,525.0

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

(b) We consider credit risk in our fair value assessments. As of March 31, 2014 and December 31, 2013, (i) the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €3.6 million and €3.3 million, respectively, and (ii) the fair values of our cross-currency and interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating €66.4 million and €77.1 million, respectively. The adjustments to our derivative assets relate to the risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market and market quotations for certain of our subsidiaries' debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of €11.0 million and €23.9 million during the three months ended March 31, 2014 and 2013, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information concerning our fair value measurements, see note 4.

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2014**  
**(unaudited)**

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

		<b>Three months ended</b>	
		<b>March 31,</b>	
		<b>2014</b>	<b>2013</b>
		<b>in millions</b>	
Cross-currency and interest rate derivative contracts .....	€	(78.4)	€ 144.0
Foreign currency forward contracts .....		7.7	15.1
Other .....		(0.4)	0.2
Total .....	€	(71.1)	€ 159.3

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

		<b>Three months ended</b>	
		<b>March 31,</b>	
		<b>2014</b>	<b>2013</b>
		<b>in millions</b>	
Operating activities .....	€	(142.8)	€ (128.6)
Financing activities .....		(37.8)	(1.3)
Total .....	€	(180.6)	€ (129.9)

***Counterparty Credit Risk***

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. We and our counterparties do not post collateral or other security, nor have we entered into master netting arrangements with any of our counterparties. At March 31, 2014, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of €270.5 million.

**Details of our Derivative Instruments**

In the following tables, we present the details of the various categories of our subsidiaries' derivative instruments. For each subsidiary, the notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. In addition, for derivative instruments that were in effect as of March 31, 2014, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to March 31, 2014, we present a range of dates that represents the period covered by the applicable derivative instruments.

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2014**  
**(unaudited)**

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

*Cross-currency Derivative Contracts:*

The terms of our outstanding cross-currency swap contracts at March 31, 2014 are as follows:

Subsidiary / Final maturity date	Notional amount due from counterparty		Notional amount due to counterparty		Interest rate due from counterparty	Interest rate due to counterparty
in millions						
UPC Holding:						
April 2016 (a) .....	\$	400.0	CHF	441.8	9.88%	9.87%
UPC Broadband Holding B.V. (UPC Broadband Holding), a subsidiary of UPC Holding:						
July 2018.....	\$	525.0	€	396.3	6 mo. LIBOR + 1.99%	6.25%
September 2014 .....	\$	440.0	€	316.3	6 mo. LIBOR	6 mo. EURIBOR - 0.04%
December 2014.....	\$	340.0	€	244.6	6 mo. LIBOR	6 mo. EURIBOR
September 2014 - January 2020.....	\$	327.5	€	249.5	6 mo. LIBOR + 4.92%	7.52%
January 2015 - July 2021 ...	\$	312.0	€	240.0	6 mo. LIBOR + 2.50%	6 mo. EURIBOR + 2.87%
January 2015 .....	\$	300.0	€	226.5	6 mo. LIBOR + 1.75%	5.78%
October 2020 .....	\$	300.0	€	219.1	6 mo. LIBOR + 3.00%	6 mo. EURIBOR + 3.04%
January 2017 - July 2021 ...	\$	262.1	€	194.1	6 mo. LIBOR + 2.50%	6 mo. EURIBOR + 2.51%
November 2019 .....	\$	250.0	€	181.5	7.25%	7.74%
November 2021 .....	\$	250.0	€	181.4	7.25%	7.50%
December 2014 - July 2018.....	\$	200.0	€	151.0	6 mo. LIBOR + 3.00%	7.31%
January 2020 .....	\$	197.5	€	150.5	6 mo. LIBOR + 4.92%	6 mo. EURIBOR + 4.91%
September 2014 - July 2021 .....	\$	128.0	€	97.2	6 mo. LIBOR + 2.50%	6 mo. EURIBOR + 2.90%
January 2015 - July 2018...	\$	100.0	€	75.4	6 mo. LIBOR + 1.75%	5.77%
December 2016 .....	\$	340.0	CHF	370.9	6 mo. LIBOR + 3.50%	6 mo. CHF LIBOR + 4.01%
January 2017 - July 2021 ...	\$	300.0	CHF	278.3	6 mo. LIBOR + 2.50%	6 mo. CHF LIBOR + 2.46%
November 2019 .....	\$	250.0	CHF	226.8	7.25%	6 mo. CHF LIBOR + 5.01%
January 2020.....	\$	225.0	CHF	206.3	6 mo. LIBOR + 4.81%	5.44%
January 2015 - July 2021 ...	\$	200.0	CHF	186.0	6 mo. LIBOR + 2.50%	6 mo. CHF LIBOR + 2.55%
January 2015 .....	\$	171.5	CHF	187.1	6 mo. LIBOR + 2.75%	6 mo. CHF LIBOR + 2.95%
December 2014.....	\$	340.0	CLP	181,322.0	6 mo. LIBOR + 1.75%	8.76%
December 2016.....	\$	201.5	RON	489.3	6 mo. LIBOR + 3.50%	14.01%
January 2015 .....	€	898.4	CHF	1,466.0	6 mo. EURIBOR + 1.68%	6 mo. CHF LIBOR + 1.94%

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2014**  
**(unaudited)**

Subsidiary / Final maturity date	Notional amount due from counterparty		Notional amount due to counterparty		Interest rate due from counterparty	Interest rate due to counterparty
	in millions					
January 2015 - September 2022 .....	€	383.8	CHF	477.0	6 mo. EURIBOR + 2.00%	6 mo. CHF LIBOR + 2.22%
January 2015 - January 2017 .....	€	360.4	CHF	589.0	6 mo. EURIBOR + 3.75%	6 mo. CHF LIBOR + 3.94%
January 2020 .....	€	175.0	CHF	258.6	7.63%	6.76%
July 2020 .....	€	107.4	CHF	129.0	6 mo. EURIBOR + 3.00%	6 mo. CHF LIBOR + 3.28%
January 2017 .....	€	75.0	CHF	110.9	7.63%	6.98%
December 2014 .....	€	134.2	CLP	107,800.0	6 mo. EURIBOR + 2.00%	10.00%
December 2015 .....	€	69.1	CLP	53,000.0	3.50%	5.75%
January 2015 .....	€	365.8	CZK	10,521.8	5.48%	5.99%
January 2015 - January 2017 .....	€	60.0	CZK	1,703.1	5.50%	6.99%
July 2017 .....	€	39.6	CZK	1,000.0	3.00%	3.75%
January 2015 .....	€	260.0	HUF	75,570.0	5.50%	9.40%
January 2015 - January 2017 .....	€	260.0	HUF	75,570.0	5.50%	10.56%
December 2016 .....	€	150.0	HUF	43,367.5	5.50%	9.20%
July 2018 .....	€	78.0	HUF	19,500.0	5.50%	9.15%
January 2015 .....	€	400.5	PLN	1,605.6	5.50%	7.50%
January 2015 - January 2017 .....	€	245.0	PLN	1,000.6	5.50%	9.03%
September 2016 .....	€	200.0	PLN	892.7	6.00%	8.19%
July 2017 .....	€	82.0	PLN	318.0	3.00%	5.60%
December 2014 .....	CLP	181,322.0	\$	340.0	8.76%	6 mo. LIBOR + 1.75%
December 2014 .....	CLP	107,800.0	€	134.2	10.00%	6 mo. EURIBOR + 2.00%
December 2015 .....	CLP	53,000.0	€	69.1	5.75%	3.50%

- (a) Unlike the other cross-currency swaps presented in this table, the UPC Holding cross-currency swap does not involve the exchange of notional amounts at the inception and maturity of the instrument. Accordingly, the only cash flows associated with this instrument are interest payments and receipts.



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*Interest Rate Swaps:*

The terms of our outstanding interest rate swap contracts at March 31, 2014 are as follows:

<b>Subsidiary / Final maturity date</b>	<b>Notional amount</b>	<b>Interest rate due from counterparty</b>	<b>Interest rate due to counterparty</b>
	<b>in millions</b>		
UPC Broadband Holding:			
July 2020.....	\$ 1,000.0	6.63%	6 mo. LIBOR + 3.03%
January 2022.....	\$ 750.0	6.88%	6 mo. LIBOR + 4.89%
January 2015.....	€ 1,554.0	1 mo. EURIBOR + 3.75%	6 mo. EURIBOR + 3.56%
January 2015.....	€ 1,364.8	6 mo. EURIBOR	3.44%
July 2020.....	€ 750.0	6.38%	6 mo. EURIBOR + 3.16%
January 2015 - January 2021.....	€ 750.0	6 mo. EURIBOR	2.57%
January 2015 - December 2016.....	€ 500.0	6 mo. EURIBOR	4.32%
July 2014.....	€ 337.0	6 mo. EURIBOR	3.94%
January 2015 - January 2023.....	€ 290.0	6 mo. EURIBOR	2.79%
December 2015.....	€ 263.3	6 mo. EURIBOR	3.97%
January 2023.....	€ 210.0	6 mo. EURIBOR	2.88%
January 2015 - January 2018.....	€ 175.0	6 mo. EURIBOR	3.74%
January 2015 - July 2020.....	€ 171.3	6 mo. EURIBOR	3.95%
July 2020.....	€ 171.3	6 mo. EURIBOR	4.32%
December 2014.....	€ 107.0	6 mo. EURIBOR	4.73%
January 2015 - November 2021.....	€ 107.0	6 mo. EURIBOR	2.89%
January 2015.....	CHF 2,380.0	6 mo. CHF LIBOR	2.81%
January 2015 - January 2022.....	CHF 711.5	6 mo. CHF LIBOR	1.89%
January 2015 - January 2021.....	CHF 500.0	6 mo. CHF LIBOR	1.65%
January 2015 - January 2018.....	CHF 400.0	6 mo. CHF LIBOR	2.51%
January 2015 - December 2016.....	CHF 370.9	6 mo. CHF LIBOR	3.82%
January 2015 - November 2019.....	CHF 226.8	6 mo. CHF LIBOR + 5.01%	6.88%

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***Interest Rate Cap***

Our sold interest rate cap contract with respect to EURIBOR is detailed below:

<u>Subsidiary / Final maturity date</u>	<u>March 31, 2014</u>	
	<u>Notional amount</u> in millions	<u>EURIBOR cap rate</u>
Interest rate cap sold (a):		
UPC Broadband Holding:		
January 2015 - January 2020 .....	€ 735.0	7.00%

- (a) Our sold interest rate cap requires that we make payments to the counterparty when EURIBOR exceeds the EURIBOR cap rate.

***Interest Rate Collars***

Our interest rate collar contracts establish floor and cap rates with respect to EURIBOR on the indicated notional amounts, as detailed below:

<u>Subsidiary / Final maturity date</u>	<u>March 31, 2014</u>		
	<u>Notional amount</u> in millions	<u>EURIBOR floor rate (a)</u>	<u>EURIBOR cap rate (b)</u>
UPC Broadband Holding:			
January 2015 - January 2020 .....	€ 1,135.0	1.00%	3.54%

- (a) We make payments to the counterparty when EURIBOR is less than the EURIBOR floor rate.
- (b) We receive payments from the counterparty when EURIBOR is greater than the EURIBOR cap rate.

***UPC Holding Cross-currency Options***

Pursuant to its cross-currency option contracts, UPC Holding has the option to deliver U.S. dollars to the counterparty in exchange for Swiss francs at a fixed exchange rate of 0.7354 Swiss francs per one U.S. dollar, in the notional amounts listed below:

<u>Contract expiration date</u>	<u>Notional amount at March 31, 2014</u> in millions
April 2018 .....	\$ 419.8
October 2016 .....	\$ 19.8
April 2017 .....	\$ 19.8
October 2017 .....	\$ 19.8

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***Foreign Currency Forwards***

The following table summarizes our outstanding foreign currency forward contracts at March 31, 2014:

<u>Subsidiary</u>	<u>Currency purchased forward</u>		<u>Currency sold forward</u>		<u>Maturity dates</u>
	in millions				
UPC Holding .....	\$	479.0	CHF	415.1	October 2016 - April 2018
UPC Broadband Holding .....	\$	3.0	CZK	59.3	April 2014 - March 2015
UPC Broadband Holding .....	€	59.2	CHF	72.5	April 2014 - March 2015
UPC Broadband Holding .....	€	18.0	CZK	477.6	April 2014 - March 2015
UPC Broadband Holding .....	€	16.5	HUF	5,100.0	April 2014 - March 2015
UPC Broadband Holding .....	€	48.0	PLN	208.5	April 2014 - March 2015
UPC Broadband Holding .....	£	3.6	€	4.3	April 2014 - March 2015
UPC Broadband Holding .....	CHF	27.5	€	22.6	April 2014
UPC Broadband Holding .....	CZK	300.0	€	10.9	April 2014
UPC Broadband Holding .....	HUF	3,100.0	€	10.0	April 2014
UPC Broadband Holding .....	PLN	50.0	€	12.0	April 2014
UPC Broadband Holding .....	RON	16.0	€	3.6	April 2014

**(4) Fair Value Measurements**

We use the fair value method to account for our derivative instruments. The reported fair values of these derivative instruments as of March 31, 2014 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. We expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities in or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2014, no such transfers were made.

All of our Level 2 inputs (interest rate futures and swap rates) 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. In the normal course of business, we receive market value assessments from the counterparties to our derivative contracts. Although we compare these assessments to our internal valuations and investigate unexpected differences, we do not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. The midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

As further described in note 3, we have entered into various derivative instruments to manage our interest rate and foreign currency exchange risk. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data includes applicable interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair

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value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to our various interest rate and foreign currency derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative instruments, we have determined 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 3.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of reporting units, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of private reporting units is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer, contributory asset charges, and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of 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. We did not perform significant nonrecurring fair value measurements during the three months ended March 31, 2014 or 2013.

At March 31, 2014 and December 31, 2013, all of our derivative instruments fell under Level 2 of the fair value hierarchy.

**(5) Long-lived Assets**

***Property and Equipment, Net***

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>in millions</b>	
Distribution systems .....	€ 4,995.4	€ 4,908.3
Customer premises equipment.....	1,631.3	1,592.3
Support equipment, buildings and land .....	841.7	841.2
	<u>7,468.4</u>	<u>7,341.8</u>
Accumulated depreciation .....	<u>(3,723.7)</u>	<u>(3,597.0)</u>
Total property and equipment, net.....	<u>€ 3,744.7</u>	<u>€ 3,744.8</u>

During the three months ended March 31, 2014 and 2013, we recorded non-cash increases to our property and equipment related to (i) certain vendor financing arrangements of €83.4 million and €44.8 million, respectively, and (ii) assets acquired under capital leases of €0.1 million and €0.5 million, respectively. Furthermore, during the three months ended March 31, 2014 and 2013, we recorded non-cash increases to our property and equipment of €5.2 million and €3.4 million, respectively, related to assets acquired on our behalf pursuant to vendor financing and capital lease arrangements of Liberty Global B.V. (LG B.V.), a subsidiary of Liberty Global that is outside of UPC Holding. For additional information, see notes 6 and 9.

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***Goodwill***

Changes in the carrying amount of our goodwill during the three months ended March 31, 2014 are set forth below:

	January 1, 2014	Foreign currency translation adjustments	March 31, 2014
	in millions		
The Netherlands.....	€ 914.3	€ —	€ 914.3
Switzerland .....	2,318.8	14.4	2,333.2
Other Western Europe.....	783.0	—	783.0
Total Western Europe.....	4,016.1	14.4	4,030.5
Central and Eastern Europe .....	1,102.4	(10.3)	1,092.1
Total .....	€ 5,118.5	€ 4.1	€ 5,122.6

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

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

	March 31, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships .....	€ 789.6	€ (587.2)	€ 202.4	€ 887.8	€ (667.7)	€ 220.1
Other .....	3.5	(1.5)	2.0	19.1	(17.0)	2.1
Total.....	€ 793.1	€ (588.7)	€ 204.4	€ 906.9	€ (684.7)	€ 222.2

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

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

	March 31, 2014		Estimated fair value (c)		Carrying value (d)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
	in millions					
Third-party debt:						
Parent - UPC Holding Senior Notes (e) .....	7.51%	€ —	€ 2,470.3	€ 2,391.3	€ 2,250.3	€ 2,247.5
Subsidiaries:						
UPC Broadband Holding Bank Facility .....	3.71%	1,046.2	2,526.6	4,146.6	2,496.2	4,113.0
UPCB SPE Notes.....	6.88%	—	3,314.0	3,289.9	3,062.4	3,060.0
Vendor financing and other (f)....	3.64%	—	319.0	309.9	319.0	309.9
Total third-party debt.....	5.96%	1,046.2	€ 8,629.9	€ 10,137.7	8,127.9	9,730.4
Related-party debt (note 9):						
Shareholder Loan (g) .....	9.79%	—	(h)	(h)	8,812.7	9,695.4
Other (i).....	6.70%	—	(h)	(h)	84.5	74.7
Total related-party debt.....	9.74%	—			8,897.2	9,770.1
Total debt.....	7.93%	€ 1,046.2			17,025.1	19,500.5
Capital lease obligations.....					23.5	23.7
Total debt and capital lease obligations.....					17,048.6	19,524.2
Current portion of debt and capital lease obligations.....					(598.6)	(311.7)
Long-term debt and capital lease obligations.....					€ 16,450.0	€ 19,212.5

- (a) Represents the weighted average interest rate in effect at March 31, 2014 for all borrowings outstanding pursuant to each debt instrument including any applicable margin. The interest rates presented represent stated rates and do not include the impact of our interest rate derivative contracts, deferred financing costs, original issue discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate variable- and fixed-rate indebtedness was approximately 8.0% at March 31, 2014. For information concerning our derivative instruments, see note 3.
- (b) Unused borrowing capacity represents the maximum availability under the UPC Broadband Holding Bank Facility (as defined and described below) at March 31, 2014 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2014, our availability under the UPC Broadband Holding Bank Facility was limited to €776.0 million. When the relevant March 31, 2014 compliance reporting requirements have been completed and assuming no changes from March 31, 2014 borrowing levels, we anticipate that our availability under the UPC Broadband Holding Bank Facility will be limited to €744.3 million.
- (c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 4.
- (d) Amounts include the impact of discounts, where applicable.

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- (e) During April 2014, we used funds provided through the Shareholder Loan (as defined and described below) to repay in full UPC Holding's \$400.0 million (€290.4 million) principal amount of 9.875% senior notes due 2018 (the UPC Holding 9.875% Senior Notes).
- (f) Primarily represents amounts owed pursuant to interest-bearing vendor financing arrangements that are generally due within one year. At March 31, 2014 and December 31, 2013, the amounts owed pursuant to these arrangements include (i) €73.5 million and €127.4 million, respectively, related to third-party vendor financing obligations for which we and LG B.V. are co-obligors and (ii) €7.2 million and €10.4 million, respectively, of value-added taxes (VAT) that were paid on our behalf by the vendor. We expect to cash settle the co-obligor obligations with LG B.V. in advance of when we and LG B.V. are required to settle the obligations with the applicable third parties. Our cash payments to LG B.V. will be reflected as cash capital expenditures in our condensed consolidated statements of cash flows and any cash payments made prior to the settlement of the related co-obligor obligation will be reflected in our related-party accounts receivable from LG B.V. in our condensed consolidated balance sheet. Repayments of vendor financing obligations other than the co-obligor obligations are included in repayments and repurchases of debt and capital lease obligations in our condensed consolidated statements of cash flows.
- (g) UPC Holding has an unsecured shareholder loan (the Shareholder Loan) with its immediate parent, Liberty Global Europe Financing BV (LGE Financing), which, as amended, is scheduled to be repaid in 2030 and is subordinated in right of payment to the prior payment in full of UPC Holding's senior notes in the event of (i) a total or partial liquidation, dissolution or winding up of UPC Holding, (ii) a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to UPC Holding or its property, (iii) an assignment for the benefit of creditors or (iv) any marshaling of UPC Holding's assets or liabilities. Accrued interest is included in other long-term liabilities until the end of each fiscal year and then it is transferred to the loan balance. The interest rate on the Shareholder Loan is a fixed rate of 9.79%. The net decrease in the balance of the Shareholder Loan during 2014 includes (a) a €2,450.0 million non-cash decrease related to the consideration received associated with the VTR Extraction, (b) cash borrowings of €1,738.0 million, (c) cash payments of €1,171.3 million, (d) a €1,005.3 million non-cash increase related to the repayment of outstanding indebtedness under Facilities R, S and AE (as described below) and (e) a €4.7 million non-cash decrease related to the settlement of related-party charges and allocations. During the three months ended March 31, 2014 and 2013, none of the debt repayments were payments of interest.
- (h) The fair values are not subject to reasonable estimation due to the related-party nature of these loans.
- (i) Represents borrowings under (i) a loan agreement (the UPC Equipment Note) between a subsidiary of Liberty Global and our subsidiary, UPC Equipment B.V. and (ii) a loan agreement (the UMI Loan) between Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen), a subsidiary of Liberty Global that is outside of UPC Holding, and Unitymedia International GmbH (UMI), which, as further described in note 9, is consolidated within UPC Holding. The UPC Equipment Note (€52.4 million principal balance at March 31, 2014) bears interest at 9.29% as of March 31, 2014 and matures in March 2032. The UMI Loan (€32.1 million principal balance at March 31, 2014) bears interest at 2.47% as of March 31, 2014 and matures in February 2016. The interest rates on these notes are reviewed annually, with adjustments effective on January 1 of each year. Accrued interest is included in other long-term liabilities until the end of each fiscal year and then it is transferred to the loan balances. The net increase in the aggregate balance of the UPC Equipment Note and UMI Loan during 2014 includes (a) cash payments of €8.0 million, (b) cash borrowings of €15.2 million and (c) the non-cash transfer of €2.6 million in accrued interest to the loan balances.

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***UPC Broadband Holding Bank Facility***

The UPC Broadband Holding Bank Facility, as amended, is the senior secured credit facility of UPC Broadband Holding. The details of our borrowings under the UPC Broadband Holding Bank Facility as of March 31, 2014 are summarized in the following table:

<u>Facility</u>	<u>Final maturity date</u>	<u>Interest rate</u>	<u>Facility amount (in borrowing currency) (a)</u>	<u>Unused borrowing capacity (b)</u>	<u>Carrying value (c)</u>
<b>in millions</b>					
Q .....	July 31, 2014	EURIBOR + 2.75%	€ 30.0	€ 30.0	€ —
V (d).....	January 15, 2020	7.625%	€ 500.0	—	500.0
Y (d).....	July 1, 2020	6.375%	€ 750.0	—	750.0
Z (d).....	July 1, 2020	6.625%	\$ 1,000.0	—	726.1
AC (d).....	November 15, 2021	7.250%	\$ 750.0	—	544.6
AD (d).....	January 15, 2022	6.875%	\$ 750.0	—	544.6
AG .....	March 31, 2021	EURIBOR + 3.75%	€ 1,554.4	—	1,551.1
AH .....	June 30, 2021	LIBOR + 2.50% (e)	\$ 1,305.0	—	945.1
AI.....	April 30, 2019	EURIBOR + 3.25%	€ 1,016.2	1,016.2	—
Elimination of Facilities V, Y, Z, AC and AD in consolidation (d).....				—	(3,065.3)
Total.....				<u>€ 1,046.2</u>	<u>€ 2,496.2</u>

- (a) Except as described in (d) below, amounts represent total third-party facility amounts at March 31, 2014 without giving effect to the impact of discounts.
- (b) At March 31, 2014, our availability under the UPC Broadband Holding Bank Facility was limited to €776.0 million. When the relevant March 31, 2014 compliance reporting requirements have been completed, we anticipate that our availability under the UPC Broadband Holding Bank Facility will be limited to €744.3 million. Facilities Q and AI have commitment fees on unused and uncanceled balances of 0.75% and 1.3% per year, respectively.
- (c) The carrying values of Facilities AG and AH include the impact of discounts.
- (d) Amounts relate to certain senior secured notes (the UPCB SPE Notes) issued by special purpose financing entities (the UPCB SPEs) that are consolidated by UPC Holding. The proceeds from the UPCB SPE Notes were used to fund additional Facilities V, Y, Z, AC and AD, with our wholly-owned subsidiary, UPC Financing Partnership, as the borrower. Accordingly, the amounts outstanding under Facilities V, Y, Z, AC and AD are eliminated in our condensed consolidated financial statements.
- (e) Facility AH has a LIBOR floor of 0.75%.

In January 2014, the parent of VTR GlobalCom issued \$1,400.0 million (€1,016.5 million) principal amount of senior secured notes in connection with the extraction of the VTR Entities from the UPC Holding credit pool. The net proceeds from such senior secured notes of €1,005.3 million, together with an additional €253.8 million of cash that was borrowed from another subsidiary of Liberty Global that is outside of UPC Holding, were used to repay in full Facilities R, S and AE under the UPC Broadband Holding Bank Facility, which included €9.3 million of cash associated with the settlement of related derivatives. In connection with this transaction, we recognized a loss on debt modification and extinguishment of €5.3 million related to the write-off of deferred financing costs.

During the first quarter of 2014, the full amount outstanding under Facility AF was repaid with funds provided through the Shareholder Loan. In connection with this transaction, we recognized a loss on debt modification and extinguishment of €6.7



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million, including (i) a €3.5 million write-off of an unamortized discount and (ii) a €3.2 million write-off of deferred financing costs.

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

Maturities of our debt and capital lease obligations as of March 31, 2014 are presented below and such amounts represent euro equivalents based on March 31, 2014 exchange rates:

*Debt:*

	<b>Third-party debt (a)</b>	<b>Shareholder Loan and related- party debt in millions</b>	<b>Total</b>
Year ending December 31:			
2014 (remainder of year) .....	€ 536.5	€ —	€ 536.5
2015 .....	72.9	—	72.9
2016 .....	—	32.1	32.1
2017 .....	—	—	—
2018 .....	—	—	—
2019 .....	—	—	—
Thereafter .....	7,544.7	8,865.1	16,409.8
Total debt maturities .....	8,154.1	8,897.2	17,051.3
Unamortized discount .....	(26.2)	—	(26.2)
Total debt .....	€ 8,127.9	€ 8,897.2	€ 17,025.1
Current portion .....	€ 596.8	€ —	€ 596.8
Noncurrent portion .....	€ 7,531.1	€ 8,897.2	€ 16,428.3

- (a) Amounts include the UPCB SPE Notes issued by the UPCB SPEs. As described above, the UPCB SPEs are consolidated by UPC Holding. In addition, the maturities due during the remainder of 2014 include the \$400.0 million (€290.4 million) principal amount of the UPC Holding 9.875% Senior Notes that were repaid in full in April 2014.

*Capital lease obligations (in millions):*

Year ending December 31:	
2014 (remainder of year) .....	€ 3.2
2015 .....	3.5
2016 .....	3.5
2017 .....	3.3
2018 .....	2.6
2019 .....	2.2
Thereafter .....	17.8
Total principal and interest payments .....	36.1
Amounts representing interest .....	(12.6)
Present value of net minimum lease payments .....	€ 23.5
Current portion .....	€ 1.8
Noncurrent portion .....	€ 21.7

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***Non-cash Refinancing Transactions***

During the three months ended March 31, 2014 and 2013, certain of our refinancing transactions included non-cash borrowings and repayments of debt aggregating €1,005.3 million and €428.2 million, respectively.

**(7) Income Taxes**

Income tax expense attributable to our loss before income taxes differs from the amounts computed using the Dutch income tax rate of 25.0%, as a result of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>in millions</b>	
Computed “expected” tax benefit .....	€ 62.7	€ 50.0
Non-deductible or non-taxable interest and other expenses .....	(74.4)	(92.2)
Change in valuation allowances .....	(7.5)	33.6
Other, net .....	(0.8)	(0.9)
Total income tax expense .....	<u>€ (20.0)</u>	<u>€ (9.5)</u>

**(8) Share-based Compensation**

Our share-based compensation primarily represents amounts allocated to our company by Liberty Global. The amounts allocated by Liberty Global to our company represent the share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. Share-based compensation expense allocated to our company by Liberty Global is reflected as a decrease to parent’s deficit.

The following table summarizes our share-based compensation expense, substantially all of which is included in SG&A expense in our condensed consolidated statements of operations:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>in millions</b>	
Liberty Global shares:		
Performance-based incentive awards (a) .....	€ 3.5	€ 1.3
Other share-based incentive awards .....	3.0	2.3
Total Liberty Global shares .....	<u>€ 6.5</u>	<u>€ 3.6</u>

- (a) Includes share-based compensation expense related to Liberty Global performance-based restricted share units (PSUs) and, for the 2014 period, the challenge performance award plan (the Challenge Performance Awards).

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The following table provides certain information related to share-based compensation not yet recognized for Liberty Global share-based incentive awards held by employees of our subsidiaries as of March 31, 2014:

	<b>Liberty Global ordinary shares (a)</b>	<b>Liberty Global performance- based awards (b)</b>
Total compensation expense not yet recognized (in millions).....	€ 18.5	€ 19.0
Weighted average period remaining for expense recognition (in years).....	<u>2.4</u>	<u>1.9</u>

(a) Amounts relate to awards granted or assumed by Liberty Global under (i) the Liberty Global 2014 Incentive Plan and (ii) the Liberty Global, Inc. 2005 Incentive Plan (as amended and restated effective June 7, 2013) (the Liberty Global 2005 Incentive Plan). On January 30, 2014, Liberty Global's shareholders approved the Liberty Global 2014 Incentive Plan and, accordingly, no further awards will be granted under the Liberty Global 2005 Incentive Plan.

(b) Amounts relate to (i) the Challenge Performance Awards, which include performance-based share appreciation rights and PSUs that were granted in June 2013, and (ii) PSUs granted under the Liberty Global 2014 Incentive Plan.

The following table summarizes certain information related to the incentive awards exercised by employees of our subsidiaries with respect to Liberty Global ordinary shares:

	<b>Three months ended March 31,</b>			
	<b>2014</b>		<b>2013</b>	
	<b>in millions</b>			
Total intrinsic value of awards exercised:				
Options .....	€ —	€	2.3	
Share appreciation rights .....	€ 1.7	€	3.8	
Cash received by Liberty Global from exercise of options .....	€ —	€	0.1	

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**(9) Related-party Transactions**

Our related-party transactions are as follows:

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>in millions</b>	
Revenue.....	€ 2.9	€ 3.0
Operating expenses .....	(7.8)	(10.8)
SG&A expenses .....	0.4	(4.5)
Allocated share-based compensation expense .....	(6.5)	(3.6)
Fees and allocations, net .....	28.5	14.5
Included in operating income .....	17.5	(1.4)
Interest expense.....	(256.5)	(214.7)
Interest income.....	0.2	2.5
Included in net loss .....	€ (238.8)	€ (213.6)
Property and equipment additions, net.....	€ (10.0)	€ 76.5

*General.* Except as noted below, our related-party transactions are generally cash settled. Depending on the nature of our related-party transactions, the amount of the charges or allocations may be based on (i) estimated or allocated costs, (ii) estimated or allocated costs plus a mark-up or (iii) commercially negotiated rates. The amounts charged generally are based on the respective subsidiary's estimated share of the applicable costs incurred (including personnel and other costs related to the services provided) plus a mark-up. Although we believe that the related-party charges and fees described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

*Revenue.* Amounts consist primarily of backbone capacity provided to Unitymedia KabelBW GmbH (Unitymedia KabelBW), interconnect and other network access charges to Virgin Media Inc. (Virgin Media), construction and programming services provided to certain non-consolidated affiliates, and programming services provided to Chellomedia B.V. (Chellomedia) until the sale of substantially all of Chellomedia's assets by Liberty Global on January 31, 2014. As of March 31, 2014, Unitymedia KabelBW and Virgin Media were each subsidiaries of Liberty Global that are outside of UPC Holding.

*Operating expenses.* Amounts consist of (i) programming and digital interactive services provided by Chellomedia until the sale of substantially all of Chellomedia's assets by Liberty Global on January 31, 2014 and programming services provided by another subsidiary of Liberty Global that is outside of UPC Holding, in the aggregate amounts of €7.1 million and €12.8 million for the three months ended March 31, 2014 and 2013, respectively, and (ii) programming and interconnect fees charged by certain of Liberty Global's affiliates of €1.5 million and €0.6 million for the three months ended March 31, 2014 and 2013, respectively. In addition, amounts reflect (a) €3.0 million and €1.8 million for the three months ended March 31, 2014 and 2013, respectively, of encryption and other operating expenses charged to Unitymedia KabelBW, (b) €1.8 million and nil for the three months ended March 31, 2014 and 2013, respectively, of information technology-related expenses charged by Virgin Media and (c) aggregate recharges of network-related and other items to (from) LG B.V. and Liberty Global Europe Ltd. (LGE Ltd.), a subsidiary of Liberty Global that is outside of UPC Holding, of (€0.4 million) and €0.8 million for the three months ended March 31, 2014 and 2013, respectively.

*SG&A expenses.* Amounts consist primarily of net cash settled administrative and information technology-related expenses, primarily between our company, LG B.V., Virgin Media, LGE Ltd., Unitymedia KabelBW and other subsidiaries of Liberty Global that are outside of UPC Holding that resulted in net charges (credits) of (€0.4 million) and €4.5 million for the three months ended March 31, 2014 and 2013, respectively.

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*Allocated share-based compensation expense.* As further described in note 8, Liberty Global allocates share-based compensation to our company.

*Fees and allocations, net.* These amounts represent the aggregate net effect of charges between subsidiaries of UPC Holding and various Liberty Global subsidiaries that are outside of UPC Holding, including (i) charges to Unitymedia KabelBW of €26.5 million and €19.1 million for the three months ended March 31, 2014 and 2013, respectively, which were partially loan settled, (ii) charges to VTR Finance B.V. of €1.8 million and nil for the three months ended March 31, 2014 and 2013, (iii) net loan-settled charges to (from) Liberty Global of (€1.5 million) and €3.0 million for the three months ended March 31, 2014 and 2013, respectively, (iv) aggregate net charges from LG B.V. and LGE Ltd. of €0.1 million and €8.1 million for the three months ended March 31, 2014 and 2013, respectively, and (v) charges to certain other Liberty Global subsidiaries of €1.8 million and €0.5 million for the three months ended March 31, 2014 and 2013, respectively. These charges generally relate to management, finance, legal, technology and other corporate and administrative services provided to or by our subsidiaries and, in the case of charges to Unitymedia KabelBW, also include charges related to marketing and other services that support Unitymedia KabelBW's broadband communications operations, including the use of the UPC trademark. The amounts charged generally are based on the respective subsidiary's estimated share of the applicable costs incurred (including personnel and other costs related to the services provided) plus a mark-up. The quarterly charges are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified, generally the first quarter of the following year. The annual revision to reflect actual costs for 2013 and 2012 amounted to increases of €15.3 million and €8.4 million, respectively, in our billings to Liberty Global and certain other Liberty Global subsidiaries during the three months ended March 31, 2014 and 2013, respectively.

*Interest expense.* Amounts primarily include interest accrued on the Shareholder Loan. Interest expense is accrued and included in other long-term liabilities during the year and then added to the Shareholder Loan balance at the end of the year. For additional information, see note 6.

*Interest income.* Amounts represent interest income related to (i) the UPC Broadband France Loan Receivable, as defined and described below, and (ii) during the 2013 period, our loan receivable from Unitymedia Hessen, a subsidiary of Unitymedia KabelBW, as described below.

*Property and equipment additions.* These amounts primarily represent customer premises and network-related equipment acquired from other Liberty Global subsidiaries, including LG B.V., net of amounts transferred to other Liberty Global subsidiaries outside of UPC Holding.

The following table provides details of our related-party balances:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>in millions</b>	
Related-party receivables (a) .....	€ 201.0	€ 239.7
Other noncurrent assets (b) .....	€ —	€ 319.0
Accounts payable .....	€ 72.0	€ 64.7
Accrued liabilities (c) .....	135.1	506.8
Shareholder Loan (note 6) .....	8,812.7	9,695.4
Other related-party debt (note 6) .....	84.5	74.7
Other long-term liabilities (d) .....	257.8	2.6
Total .....	€ 9,362.1	€ 10,344.2

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- (a) Primarily includes various non-interest bearing related-party receivables, including certain amounts associated with the settlement of our co-obligor vendor financing obligations with LG B.V., as further described in note 6. With the exception of amounts related to our co-obligor vendor financing obligations with LG B.V., these receivables are typically cash settled on a monthly basis.
- (b) The December 31, 2013 amount represents the noncurrent portion of a loan receivable (the UPC Broadband France Loan Receivable) from VTR GlobalCom to our subsidiary, UPC Broadband France SAS (UPC Broadband France). In January 2014, we made a capital distribution of €325.6 million to the parent of VTR GlobalCom, which was used to acquire the UPC Broadband France Loan Receivable from UPC Broadband France and pay related accrued interest.
- (c) Includes a loan from another subsidiary of Liberty Global that is outside of UPC Holding. During the three months ended March 31, 2014, a significant portion of the loan was repaid.
- (d) Primarily includes accrued interest on the Shareholder Loan. For additional information see note 6.

During the three months ended March 31, 2014 and 2013, we recorded aggregate capital charges of €3.5 million and €5.7 million, respectively, in our condensed consolidated statements of owners' deficit in connection with the exercise of Liberty Global SARs and options and the vesting of Liberty Global restricted share awards held by employees of our subsidiaries. These capital charges, which generally are loan settled, are based on the fair value of the underlying Liberty Global shares on the exercise or vesting date, as applicable.

LG B.V. leases certain property and equipment on our behalf, which is then contributed by LG B.V. to our company. During the three months ended March 31, 2014, LG B.V.'s carrying values in such property and equipment of €5.2 million have been reflected as a decrease to parent's deficit in our condensed consolidated statement of owners' deficit.

**(10) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable operating leases, purchases of customer premises and other equipment, network and connectivity commitments, programming contracts and other items. The euro equivalents of such commitments as of March 31, 2014 are presented below:

	Payments due during:												
	Remainder of 2014		Year ending December 31,						Thereafter		Total		
			2015		2016		2017		2018		2019		

Purchase commitments include unconditional purchase obligations associated with commitments to purchase customer premises and other equipment that are enforceable and legally binding on us, including €26.1 million associated with related-party purchase obligations.

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Network and connectivity commitments include commitments associated with (i) satellite carriage services provided to our company and (ii) commitments associated with our mobile virtual network operator (MVNO) agreements.

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 or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the three months ended March 31, 2014 and 2013, the programming and copyright costs incurred by our broadband communications and DTH operations aggregated €102.8 million and €104.1 million, respectively.

Other commitments relate primarily to (i) obligations associated with information technology and other service agreements and (ii) certain fixed minimum contractual commitments associated with our agreements with a municipal authority. Commitments arising from acquisition agreements are not reflected in the above table.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2014 and 2013, see note 3.

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

***Guarantees and Other Credit Enhancements***

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

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

*Netherlands Regulatory Developments.* In December 2011, the Autoriteit Consument & Markt (ACM), formerly Onafhankelijke Post en Telecommunicatie Autoriteit, completed a market assessment of the television market in the Netherlands, concluding that there were no grounds for regulation of that market. On December 22, 2011, referring to its final assessment of the television market, ACM rejected previously filed requests from a number of providers to perform a new market analysis of the television market. This decision by ACM was appealed by such providers to the Dutch Supreme Administrative Court. On November 5, 2012, the Dutch Supreme Administrative Court rejected the appeals against ACM's decision.

In May 2012, the Dutch Senate adopted laws that provide, among other matters, the power to ACM to impose an obligation for the mandatory resale of television services and to the Commissariaat voor de Media to supervise the resale obligation introduced by these new laws. These laws became effective on January 1, 2013 notwithstanding the above-described November 5, 2012 decision of the Dutch Supreme Administrative Court. On January 29, 2014, a Dutch civil court, in a proceeding initiated by UPC Netherlands B.V., declared the resale obligation laws non-binding because they infringe European Union (EU) law. The Dutch Government did not appeal the January 19, 2014 decision, and the Dutch Minister of Economic Affairs has indicated that a new law will be prepared withdrawing the resale obligation laws. In addition, on October 24, 2012, the European Commission opened formal infringement proceedings against the Dutch government on the basis that the new laws pertaining to resale breach EU law. The Dutch government responded to the infringement proceedings on June 25, 2013 and the European Commission is currently reviewing the response. If such response is deemed to be unsatisfactory to the European Commission, it may refer the matter to the European Court of Justice. The infringement proceeding at the European Commission against the Dutch government is still pending. It is unclear how the Dutch civil court ruling and the indication by the Dutch Minister of Economic Affairs to withdraw

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the laws will impact the European Commission proceedings. We cannot predict the effect on our results of operations, cash flows or financial position from any implementation of a resale regime.

*Financial Transactions Tax.* Eleven countries in the EU, including Austria and Slovakia, are participating in an enhanced cooperation procedure to introduce a financial transactions tax (FTT). Under the draft language of the FTT proposal, a wide range of financial transactions could be taxed at rates of at least 0.01% for derivative transactions based on the notional amount and 0.1% for other covered financial transactions based on the underlying transaction price. Each of the individual countries would be permitted to determine an exact rate, which could be higher than the proposed rates of 0.01% and 0.1%. Any implementation of the FTT could have a global impact because it would apply to all financial transactions where a financial institution is involved (including unregulated entities that engage in certain types of covered activity) and either of the parties (whether the financial institution or its counterparty) is in one of the eleven participating countries. Although ongoing debate in the relevant countries demonstrates continued momentum around the FTT, uncertainty remains as to when the FTT would be implemented and the breadth of its application. We currently believe that the likelihood of the FTT becoming effective during 2014 is remote. Any imposition of the FTT could increase banking fees and introduce taxes on internal transactions that we currently perform. Due to the uncertainty regarding the FTT, we are currently unable to estimate the financial impact that the FTT could have on our results of operations, cash flows or financial position.

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

*Other.* In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business including (i) legal proceedings, (ii) issues involving VAT and wage, property and other tax issues and (iii) disputes over interconnection, programming, copyright and carriage fees. While we generally expect that the amounts required to satisfy these contingencies will not materially differ from any estimated amounts we have accrued, no assurance can be given that the resolution of one or more of these contingencies will not result in a material impact on our results of operations, cash flows or financial position in any given period. Due, in general, to the complexity of the issues involved and, in certain cases, the lack of a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavorable outcomes.

## **(11) Segment Reporting**

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

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance. Operating cash flow is also a key factor that is used by our internal decision makers to (i) determine how to allocate resources to segments and (ii) evaluate the effectiveness of our management for purposes of annual and other incentive compensation plans. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding share-based compensation, related-party fees and allocations, depreciation and amortization and impairment, restructuring and other operating items). Other operating items include (a) gains and losses on the disposition of long-lived assets, (b) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (c) other acquisition-related items, such as gains and losses on the settlement of contingent consideration. Our internal decision makers believe operating cash flow is a meaningful measure and is superior to available U.S. GAAP measures because it represents a transparent view of our recurring operating performance that is unaffected by our capital structure and allows management to (1) readily view operating trends, (2) perform analytical comparisons and benchmarking between segments



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and (3) identify strategies to improve operating performance in the different countries in which we operate. We believe our operating cash flow measure is useful to investors because it is one of the bases for comparing our performance with the performance of other companies in the same or similar industries, although our measure may not be directly comparable to similar measures used by other companies. Operating cash flow should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, operating income, net earnings (loss), cash flow from operating activities and other U.S. GAAP measures of income or cash flows. A reconciliation of total segment operating cash flow to our loss before income taxes is presented below.

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

- The Netherlands
- Switzerland
- Other Western Europe
- Central and Eastern Europe

All of the reportable segments set forth above derive their revenue primarily from broadband communications services, including video, broadband internet and fixed-line telephony services. All of our reportable segments also provide business-to-business (B2B) services and certain of our reportable segments provide mobile services. At March 31, 2014, we provided broadband communications services in nine European countries and DTH services to customers in the Czech Republic, Hungary, Romania and Slovakia through UPC DTH. Our Other Western Europe segment includes our broadband communications operating segments in Austria and Ireland. Our Central and Eastern Europe segment includes our broadband communications operating segments in the Czech Republic, Hungary, Poland, Romania and Slovakia. Our central and other category includes (i) the UPC DTH operating segment, (ii) costs associated with certain centralized functions, including billing systems, network operations, technology, marketing, facilities, finance and other administrative functions and (iii) intersegment eliminations.

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

		<b>Revenue</b>	
		<b>Three months ended March 31,</b>	
		<b>2014</b>	<b>2013</b>
		<b>in millions</b>	
The Netherlands .....	€	232.1	€ 238.4
Switzerland.....		257.4	246.9
Other Western Europe.....		168.3	168.7
Total Western Europe.....		657.8	654.0
Central and Eastern Europe.....		211.0	218.0
Central and other .....		25.9	24.3
Total.....	€	894.7	€ 896.3

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<b>Operating cash flow</b>			
<b>Three months ended March 31,</b>			
	<b>2014</b>		<b>2013</b>
	<b>in millions</b>		
The Netherlands.....	€	133.7	€ 139.9
Switzerland.....		150.6	138.0
Other Western Europe.....		82.6	79.4
Total Western Europe.....		366.9	357.3
Central and Eastern Europe.....		107.3	106.3
Central and other.....		(40.6)	(32.8)
Total.....	€	433.6	€ 430.8

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

<b>Three months ended March 31,</b>			
	<b>2014</b>		<b>2013</b>
	<b>in millions</b>		
Total segment operating cash flow.....	€	433.6	€ 430.8
Share-based compensation expense.....		(6.5)	(3.6)
Related-party fees and allocations, net.....		28.5	14.5
Depreciation and amortization.....		(214.3)	(217.1)
Impairment, restructuring and other operating items, net.....		(0.9)	(0.3)
Operating income.....		240.4	224.3
Interest expense:			
Third-party.....		(137.6)	(150.2)
Related-party.....		(256.5)	(214.7)
Interest income.....		0.6	2.9
Realized and unrealized gains (losses) on derivative instruments, net.....		(71.1)	159.3
Foreign currency transaction losses, net.....		(15.4)	(155.0)
Realized and unrealized gains (losses) due to changes in fair values of certain investments, net.....		0.9	(0.3)
Losses on debt modification and extinguishment, net.....		(12.0)	(66.3)
Loss before income taxes.....	€	(250.7)	€ (200.0)

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***Revenue by Major Category***

Our revenue by major category is set forth below:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>in millions</b>	
Subscription revenue (a):		
Video .....	€ 433.0	€ 434.6
Broadband internet (b) .....	242.1	234.7
Fixed-line telephony (b) .....	117.6	117.9
Cable subscription revenue .....	792.7	787.2
Mobile subscription revenue .....	0.4	0.3
Total subscription revenue .....	793.1	787.5
B2B revenue (c) .....	61.9	63.7
Other revenue (b) (d) .....	39.7	45.1
Total revenue .....	€ 894.7	€ 896.3

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile services revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service.
- (b) During the second quarter of 2013, we determined that we would no longer externally report digital subscriber line (DSL) subscribers as revenue generating units (RGUs). Accordingly, for the three months ended March 31, 2013, we have reclassified the revenue from our DSL subscribers in Austria from broadband internet and fixed-line telephony subscription revenue to other revenue.
- (c) These amounts include B2B revenue from business broadband internet, video, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small office and home office (SOHO) subscribers. SOHO subscribers pay a premium price to receive enhanced service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which aggregated €17.4 million and €12.8 million, respectively, is included in cable subscription revenue.
- (d) Other revenue includes, among other items, installation, late fee, carriage fee and interconnect revenue.

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***Geographic Segments***

The revenue of our geographic segments is set forth below:

		<b>Three months ended March 31,</b>	
		<b>2014</b>	<b>2013</b>
		<b>in millions</b>	
Switzerland .....	€	257.4	€ 246.9
The Netherlands .....		232.1	238.4
Poland .....		87.9	88.2
Ireland .....		87.3	86.7
Austria .....		81.0	82.0
Hungary .....		46.7	48.0
The Czech Republic .....		37.6	43.6
Romania .....		26.9	26.2
Slovakia .....		11.9	12.0
Other (a) .....		25.9	24.3
Total .....		<u>€ 894.7</u>	<u>€ 896.3</u>

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

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2013 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2014 and 2013.
- *Material Changes in Financial Condition.* This section provides an analysis of our corporate and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Unless otherwise indicated, convenience translations into euros are calculated, and operational data (including subscriber statistics) are presented, as of March 31, 2014.

### Forward-Looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* contain forward-looking statements, including statements regarding our business, product, foreign currency and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated revenue decreases or cost increases, liquidity, credit risks, foreign currency risks and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In addition to the risk factors described in our 2013 annual report, the following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we operate;
- the competitive environment in the industries in the countries in which we operate, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital video, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;

- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our digital video, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that could open our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof in countries in which we operate;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our digital video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- leakage of sensitive customer data;
- 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 and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband distribution services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained

herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

## Overview

We are an international provider of (i) video, broadband internet and fixed-line telephony services in nine European countries and (ii) mobile services in three European countries. We also provide DTH services to customers in the Czech Republic, Hungary, Romania and Slovakia through UPC DTH.

As further described in note 1 to our condensed consolidated financial statements, we completed the VTR Extraction in January 2014. We have accounted for this common control transfer at carryover basis and the applicable prior period information has been retrospectively revised to give effect to this transaction for all periods presented.

We have completed a number of transactions that somewhat impact the comparability of our 2014 and 2013 results of operations.

At March 31, 2014, we owned and operated networks that passed 15,600,700 homes and served 16,699,400 RGUs, consisting of 8,098,600 video subscribers, 4,957,500 broadband internet subscribers and 3,643,300 fixed-line telephony subscribers.

Including the effects of acquisitions, we added a total of 114,800 RGUs during the three months ended March 31, 2014. Excluding the effects of acquisitions (RGUs added on the acquisition date), but including post-acquisition date RGU additions, we added 105,100 RGUs on an organic basis during the three months ended March 31, 2014, as compared to 112,100 RGUs that we added on an organic basis during the corresponding period in 2013. The organic RGU growth during the three months ended March 31, 2014 is attributable to the growth of our (i) broadband internet services, which added 88,300 RGUs, (ii) digital cable services, which added 72,500 RGUs, and (iii) fixed-line telephony services, which added 69,300 RGUs. The growth of our broadband internet, digital cable and fixed-line telephony services was partially offset by a decline in our analog cable RGUs of 108,300 and less significant declines in our DTH video services and multi-channel multi-point (microwave) distribution system (MMDS) video RGUs.

We are experiencing significant competition from incumbent telecommunications operators (particularly in the Netherlands and, to a lesser extent, Switzerland, where the incumbent telecommunications operators are overbuilding our networks with fiber-to-the-home, -cabinet, -building or -node (referred to herein as FTTx) and advanced DSL technologies), DTH operators and/or other providers in all of our broadband communications markets. This significant competition, together with the maturation of certain of our markets, has contributed to organic declines in certain of our markets in revenue, RGUs and/or average monthly subscription revenue per average RGU (ARPU), the more notable of which include:

- (i) organic declines in total subscription revenue and overall revenue in the Netherlands during the first quarter of 2014, as compared to the first quarter of 2013;
- (ii) organic declines in subscription revenue from broadband internet services in the Netherlands during the first quarter of 2014, as compared to each of the first and fourth quarters of 2013;
- (iii) organic declines in video RGUs in most of our markets during the first quarter of 2014, as net declines in our analog cable RGUs generally exceeded net additions to our digital cable RGUs (including migrations from analog cable) in these markets;
- (iv) organic declines in ARPU from (a) broadband internet in the Netherlands and (b) fixed-line telephony services in all of our markets during the first quarter of 2014, as compared to the first quarter of 2013; and
- (v) organic declines in overall ARPU in the Netherlands and many of our other markets during the first quarter of 2014, as compared to the first quarter of 2013.

## Material Changes in Results of Operations

As noted under *Overview* above, the comparability of our operating results during 2014 and 2013 is affected by acquisitions. In the following discussion, we quantify the estimated impact of acquisitions on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, variances attributed to an acquired entity during the first twelve months following the acquisition date represent differences between the estimated acquisition impact and the actual results.

Changes in foreign currency exchange rates have a significant impact on our reported operating results as certain of our operating segments have functional currencies other than the euro. Our primary exposure to foreign currency translation effects (FX) risk during the three months ended March 31, 2014 was to the Swiss franc and other local currencies in Europe. In this regard, 51.0% of our euro revenue during the three months ended March 31, 2014 was derived from subsidiaries whose functional currency is other than the euro. The portions of the changes in the various components of our results of operations that are attributable to changes in FX are highlighted under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Consolidated Operating Results* below.

## Discussion and Analysis of our Reportable Segments

### *General*

All of the reportable segments set forth below derive their revenue primarily from broadband communications services, including video, broadband internet and fixed-line telephony services. Most of our reportable segments also provide B2B services and certain of our reportable segments provide mobile services. For detailed information regarding the composition of our reportable segments, see note 11 to our condensed consolidated financial statements.

The tables presented below in this section provide a separate analysis of each of the line items that comprise operating cash flow (revenue, operating expenses and SG&A expenses, excluding allocable share-based compensation expense, as further discussed in note 11 to our condensed consolidated financial statements) as well as an analysis of operating cash flow by reportable segment for the three months ended March 31, 2014 and 2013. These tables present (i) the amounts reported by each of our reportable segments for the comparative periods, (ii) the euro change and percentage change from period to period and (iii) the organic percentage change from period to period (percentage change after removing FX and the estimated impacts of acquisitions). The comparisons that exclude FX assume that exchange rates remained constant at the prior year rate during the comparative periods that are included in each table. We also provide a table showing the operating cash flow margins of our reportable segments for the three months ended March 31, 2014 and 2013 at the end of this section.

The revenue of our reportable segments includes revenue earned from subscribers for broadband communications and mobile services, revenue earned from B2B services, interconnect fees, installation fees, channel carriage fees, late fees and advertising revenue. Consistent with the presentation of our revenue categories in note 11 to our condensed consolidated financial statements, we use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees and late fees. In the following tables, mobile subscription revenue excludes the related interconnect revenue.

Most of our revenue is derived from jurisdictions that administer value-added or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our operating cash flow and operating cash flow margins to the extent of any such tax increases. In this regard, VAT rates have increased in certain of the countries in which we operate over the past few years. In addition, the VAT rates that are applicable to the operations of UPC DTH in the Czech Republic, Hungary and Slovakia are scheduled to increase significantly effective January 1, 2015.

We pay interconnection fees to telephony providers when calls or text messages from our subscribers terminate on another network and receive similar fees from providers when calls or text messages from their customers terminate on our network



through interconnection points. The amounts we charge and incur with respect to fixed-line telephony and mobile interconnection fees are subject to regulatory oversight in many of our markets. To the extent that regulatory authorities introduce fixed-line or mobile termination rate changes in future periods, we would experience corresponding changes in our interconnect revenue and costs. The ultimate impact of any such changes in termination rates on our operating cash flow would be dependent on the call or text messaging patterns that are subject to the changed termination rates.

### *Revenue of our Reportable Segments*

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2014	2013	€	%	%
	in millions				
The Netherlands .....	€ 232.1	€ 238.4	€ (6.3)	(2.6)	(2.6)
Switzerland .....	257.4	246.9	10.5	4.3	3.6
Other Western Europe .....	168.3	168.7	(0.4)	(0.2)	(0.5)
Total Western Europe .....	657.8	654.0	3.8	0.6	0.3
Central and Eastern Europe .....	211.0	218.0	(7.0)	(3.2)	(0.5)
Central and other .....	25.9	24.3	1.6	6.6	7.3
Total .....	€ 894.7	€ 896.3	€ (1.6)	(0.2)	0.3

*General.* While not specifically discussed in the below explanations of the changes in the revenue of our reportable segments, we are experiencing significant competition in all of our broadband communications markets. This competition has an adverse impact on our ability to increase or maintain our RGUs and/or ARPU. For a description of the more notable recent impacts of this competition on our broadband communications markets, see *Overview* above.

*The Netherlands.* The decrease in the Netherlands' revenue during the three months ended March 31, 2014, as compared to the corresponding period in 2013 is set forth below:

	Subscription revenue	Non- subscription revenue	Total
	in millions		
Increase (decrease) in cable subscription revenue due to change in:			
Average number of RGUs (a) .....	€ 0.1	€ —	€ 0.1
ARPU (b) .....	(5.4)	—	(5.4)
Total decrease in cable subscription revenue .....	(5.3)	—	(5.3)
Decrease in B2B revenue .....	—	(0.4)	(0.4)
Decrease in other non-subscription revenue (c) .....	—	(0.6)	(0.6)
Total .....	€ (5.3)	€ (1.0)	€ (6.3)

- (a) The increase in the Netherlands' cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of fixed-line telephony, broadband internet and digital cable RGUs that were largely offset by a decline in the average number of analog cable RGUs.
- (b) The decrease in the Netherlands' cable subscription revenue related to a change in ARPU is due to the net effect of (i) a decrease resulting primarily from the following factors: (a) lower ARPU due to the impact of an increase in the proportion of subscribers receiving lower-priced tiers of broadband internet and fixed-line telephony services and (b) lower ARPU due to a decrease in fixed-line telephony call volume and (ii) an improvement in RGU mix, primarily attributable to higher proportions of digital cable RGUs.

- (c) The decrease in the Netherlands' other non-subscription revenue is due to individually insignificant changes in various non-subscription revenue categories.

For information concerning certain regulatory developments that could have an adverse impact on our revenue in the Netherlands, see note 10 to our condensed consolidated financial statements.

*Switzerland.* The increase in Switzerland's revenue during the three months ended March 31, 2014, as compared to the corresponding period in 2013, includes (i) an organic increase of €8.9 million or 3.6%, (ii) the impact of acquisitions and (iii) the impact of FX, as set forth below:

	Subscription revenue	Non- subscription revenue in millions	Total
Increase in cable subscription revenue due to change in:			
Average number of RGUs (a).....	€ 5.8	€ —	€ 5.8
ARPU (b).....	4.5	—	4.5
Total increase in cable subscription revenue .....	10.3	—	10.3
Increase in B2B revenue .....	—	1.1	1.1
Decrease in other non-subscription revenue (c) .....	—	(2.5)	(2.5)
Total organic increase (decrease).....	10.3	(1.4)	8.9
Impact of acquisitions .....	1.0	(0.5)	0.5
Impact of FX.....	0.5	0.6	1.1
Total .....	€ 11.8	€ (1.3)	€ 10.5

- (a) The increase in Switzerland's cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of broadband internet, digital cable and fixed-line telephony RGUs that were only partially offset by a decline in the average number of analog cable RGUs.
- (b) The increase in Switzerland's cable subscription revenue related to a change in ARPU is due to (i) an improvement in RGU mix, primarily attributable to higher proportions of broadband internet and digital cable RGUs, and (ii) a net increase resulting largely from the following factors: (a) higher ARPU due to January 2014 price increases for broadband internet and video services, (b) higher ARPU from incremental digital cable services and (c) lower ARPU due to the impact of bundling discounts.
- (c) The decrease in Switzerland's other non-subscription revenue is primarily attributable to (i) a decrease in installation revenue and (ii) a net decrease resulting from individually insignificant changes in other non-subscription revenue categories.

*Other Western Europe.* The decrease in Other Western Europe's revenue during the three months ended March 31, 2014, as compared to the corresponding period in 2013, includes (i) an organic decrease of €0.8 million or 0.5%, and (ii) the impact of an acquisition, as set forth below:

	Subscription revenue	Non- subscription revenue in millions	Total
Increase (decrease) in cable subscription revenue due to change in (a):			
Average number of RGUs (b).....	€ 7.4	€ —	€ 7.4
ARPU (c).....	(4.4)	—	(4.4)
Total increase in cable subscription revenue.....	3.0	—	3.0
Decrease in B2B revenue.....	—	(1.7)	(1.7)
Decrease in other non-subscription revenue (a) (d).....	—	(2.1)	(2.1)
Total organic increase (decrease).....	3.0	(3.8)	(0.8)
Impact of acquisitions.....	0.4	—	0.4
Total.....	€ 3.4	€ (3.8)	€ (0.4)

- (a) During the second quarter of 2013, we determined that we would no longer externally report DSL subscribers as RGUs. Accordingly, we have reclassified the revenue from our DSL subscribers in Austria from broadband internet and fixed-line telephony subscription revenue to non-subscription revenue for all periods presented.
- (b) The increase in Other Western Europe's cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of fixed-line telephony, broadband internet and, to a lesser extent, digital cable RGUs in each of Ireland and Austria that were only partially offset by a decline in the average number of analog cable RGUs in each of Austria and Ireland and, to a lesser extent, MMDS video RGUs in Ireland.
- (c) The decrease in Other Western Europe's cable subscription revenue related to a change in ARPU is attributable to a decrease in ARPU in each of Ireland and Austria. Other Western Europe's overall ARPU was impacted by an adverse change in RGU mix, primarily attributable to a higher proportion of digital cable RGUs in Ireland and a lower proportion of fixed-line telephony RGUs in each of Ireland and Austria. The lower ARPU in Ireland is also largely due to the net effect of (i) lower ARPU due to the impact of bundling discounts, (ii) higher ARPU due to the inclusion of higher-priced tiers of broadband internet and digital cable services in our promotional bundles and (iii) lower ARPU due to a decrease in fixed-line telephony call volume for customers on usage-based plans. Austria's ARPU slightly decreased as the impact of higher bundling discounts was only partially offset by a January 2014 price increase for video services.
- (d) The decrease in Other Western Europe's other non-subscription revenue is due primarily to (i) a decrease in installation revenue in Ireland and (ii) a net decrease resulting from individually insignificant changes in other non-subscription revenue categories.

*Central and Eastern Europe.* The decrease in Central and Eastern Europe's revenue during the three months ended March 31, 2014, as compared to the corresponding period in 2013, includes (i) an organic decrease of €1.1 million or 0.5% and (ii) the impact of FX, as set forth below:

	Subscription revenue	Non- subscription revenue in millions	Total
Increase (decrease) in cable subscription revenue due to change in:			
Average number of RGUs (a).....	€ 3.9	€ —	€ 3.9
ARPU (b).....	(4.9)	—	(4.9)
Total decrease in cable subscription revenue.....	(1.0)	—	(1.0)
Increase in B2B revenue.....	—	0.7	0.7
Decrease in other non-subscription revenue (c) .....	—	(0.8)	(0.8)
Total organic decrease.....	(1.0)	(0.1)	(1.1)
Impact of FX.....	(5.4)	(0.5)	(5.9)
Total .....	€ (6.4)	€ (0.6)	€ (7.0)

- (a) The increase in Central and Eastern Europe's cable subscription revenue related to a change in the average number of RGUs is primarily attributable to increases in the average numbers of digital cable, broadband internet and fixed-line telephony RGUs in Poland, Romania, Hungary and Slovakia that were only partially offset by (i) declines in the average numbers of analog cable RGUs in Poland, Romania, Hungary and Slovakia and (ii) declines in the average numbers of digital cable and fixed-line telephony RGUs in the Czech Republic.
- (b) The decrease in the Central and Eastern Europe's cable subscription revenue related to a change in ARPU is due to the net effect of (i) a decrease resulting primarily from the following factors: (a) lower ARPU due to the impact of higher bundling discounts, (b) higher ARPU due to the inclusion of higher-priced tiers of digital cable and broadband internet services in our promotional bundles, (c) lower ARPU from fixed-line telephony services, primarily due to (1) an increase in the proportion of subscribers receiving lower-priced calling plans and (2) a decrease in call volume for customers on usage-based calling plans and (d) lower ARPU from incremental digital cable services and (ii) an improvement in RGU mix, primarily attributable to higher proportions of digital cable and broadband internet RGUs.
- (c) The decrease in Central and Eastern Europe's non-subscription revenue is primarily due to a decrease in interconnect revenue, largely in Poland as a result of lower fixed-line telephony termination rates.

## Operating Expenses of our Reportable Segments

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2014	2013	€	%	%
	in millions				
The Netherlands .....	€ 70.1	€ 72.2	€ (2.1)	(2.9)	(2.9)
Switzerland.....	71.8	69.8	2.0	2.9	2.3
Other Western Europe.....	62.4	65.9	(3.5)	(5.3)	(5.6)
Total Western Europe.....	204.3	207.9	(3.6)	(1.7)	(2.0)
Central and Eastern Europe.....	75.7	83.1	(7.4)	(8.9)	(6.1)
Central and other .....	26.9	24.0	2.9	12.1	12.6
Total.....	€ 306.9	€ 315.0	€ (8.1)	(2.6)	(2.0)

Operating expenses include programming and copyright, network operations, interconnect, customer operations, customer care, share-based compensation and other costs related to our operations. We do not include share-based compensation in the following discussion and analysis of the operating expenses of our reportable segments as share-based compensation expense is not included in the performance measures of our reportable segments. Share-based compensation expense is discussed under *Discussion and Analysis of Our Consolidated Operating Results* below. Programming and copyright costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) growth in the number of our digital video subscribers, (ii) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (iii) rate increases. In addition, we are subject to inflationary pressures with respect to our labor and other costs and foreign currency exchange risk with respect to costs and expenses that are denominated in currencies other than the respective functional currencies of our operating segments (non-functional currency expenses). Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

Our operating expenses (exclusive of share-based compensation expense) decreased €8.1 million or 2.6%, during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This decrease includes €0.2 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and FX, our operating expenses decreased €6.2 million or 2.0%. This decrease includes the following factors:

- A decrease in interconnect costs of €5.0 million or 6.8% due predominantly to (i) decreased costs due to lower call volumes, primarily in the Netherlands and Ireland, and (ii) decreased costs due to lower rates primarily in the Netherlands and Poland;
- A decrease in programming and copyright costs of €1.7 million or 0.9% due largely to the net effect of (i) a net decrease due to the net impact of accrual releases related to the settlement or reassessment of operational contingencies of (a) €5.3 million in Poland during the first quarter of 2014 and (b) €1.3 million in the Netherlands during the first quarter of 2013, and (ii) an increase due to growth in digital video services primarily in Switzerland and Hungary;
- An increase in personnel costs of €1.4 million or 1.3% due primarily to annual wage increases, largely in the Netherlands, our central operations and Switzerland; and
- A decrease in network-related expenses of €1.0 million or 1.0% due primarily to the net effect of (i) lower outsourced labor costs associated with customer-facing activities in Poland and the Netherlands, (ii) higher costs associated with the refurbishment of customer premises equipment, primarily in the Netherlands and Poland, and (iii) increased encryption costs primarily in Switzerland and the Netherlands.

## SG&A Expenses of our Reportable Segments

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2014	2013	€	%	%
	in millions				
The Netherlands .....	€ 28.3	€ 26.3	€ 2.0	7.6	7.6
Switzerland.....	35.0	39.1	(4.1)	(10.5)	(10.8)
Other Western Europe .....	23.3	23.4	(0.1)	(0.4)	(0.9)
Total Western Europe.....	86.6	88.8	(2.2)	(2.5)	(2.7)
Central and Eastern Europe.....	28.0	28.6	(0.6)	(2.1)	0.5
Central and other .....	39.6	33.1	6.5	19.6	19.7
Total SG&A expenses excluding share-based compensation expense .....	154.2	150.5	3.7	2.5	2.8
Share-based compensation expense .....	6.5	3.6	2.9	80.6	
Total.....	€ 160.7	€ 154.1	€ 6.6	4.3	

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

Our SG&A expenses (exclusive of share-based compensation expense) increased €3.7 million or 2.5% during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This increase includes €0.1 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and FX, our SG&A expenses increased €4.2 million or 2.8%. This increase includes the following factors:

- An increase in personnel costs of €5.1 million or 4.8% due primarily to (i) increased staffing levels, primarily in our central operations and the Netherlands, (ii) annual wage increases, largely in the Netherlands and our central operations, and (iii) higher bonus costs in our central operations;
- A decrease in sales and marketing costs of €3.6 million or 3.9% due primarily to (i) lower costs associated with rebranding and other advertising campaigns, primarily in Switzerland, and (ii) lower third-party sales commissions, primarily in Switzerland and Poland; and
- An increase in information technology-related expenses of €2.9 million or 21.7% due largely to higher software and other information technology-related maintenance costs, primarily in our central operations.

### ***Operating Cash Flow of our Reportable Segments***

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding share-based compensation, related-party fees and allocations, depreciation and amortization and impairment, restructuring and other operating items). For additional information concerning this performance measure and for a reconciliation of total segment operating cash flow to our loss before income taxes, see note 11 to our condensed consolidated financial statements.

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2014	2013	€	%	%
	in millions				
The Netherlands.....	€ 133.7	€ 139.9	€ (6.2)	(4.4)	(4.4)
Switzerland.....	150.6	138.0	12.6	9.1	8.3
Other Western Europe.....	82.6	79.4	3.2	4.0	3.9
Total Western Europe.....	366.9	357.3	9.6	2.7	2.4
Central and Eastern Europe.....	107.3	106.3	1.0	0.9	3.6
Central and other.....	(40.6)	(32.8)	(7.8)	(23.8)	(23.8)
Total.....	€ 433.6	€ 430.8	€ 2.8	0.6	1.0

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

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

	Three months ended March 31,	
	2014	2013
	%	
The Netherlands.....	57.6	58.7
Switzerland.....	58.5	55.9
Other Western Europe.....	49.0	47.1
Total Western Europe.....	55.8	54.6
Central and Eastern Europe.....	50.8	48.9
Total, including central and other.....	48.5	48.1

With the exception of the Netherlands, the operating cash flow margins of our reportable segments increased during the three months ended March 31, 2014, as compared to the corresponding period in 2013. These increases are attributable to (i) improved operational leverage, resulting from revenue growth that more than offset the accompanying increases in operating and SG&A expenses, and (ii) the favorable impact of a nonrecurring item in Poland as described in the operating expenses section of the *Discussion and Analysis of our Reportable Segments*. As discussed above under *Overview*, the incumbent telecommunications operator is overbuilding our network in the Netherlands using FTTx and advanced DSL technologies. As a result, the Netherlands is experiencing significant competition from this telecommunications operator and we expect that the Netherlands will be challenged to maintain its current operating cash flow margin for the remainder of 2014 and future periods. In addition, our operating cash flow margin during the first quarter of 2014 was negatively impacted by increases in the operating cash flow deficit of our central and other category, primarily attributable to (a) an increase in personnel costs and (b) increases in consulting and information technology-related expenses associated with strategic initiatives.

For additional discussion of the factors contributing to the changes in the operating cash flow margins of our reportable segments, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments.

## Discussion and Analysis of our Consolidated Operating Results

### General

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

### Revenue

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2014	2013	€	%	%
	in millions				
Subscription revenue (a):					
Video .....	€ 433.0	€ 434.6	€ (1.6)	(0.4)	(0.1)
Broadband internet (b) .....	242.1	234.7	7.4	3.2	4.0
Fixed-line telephony (b) .....	117.6	117.9	(0.3)	(0.3)	0.1
Cable subscription revenue.....	792.7	787.2	5.5	0.7	1.2
Mobile subscription revenue .....	0.4	0.3	0.1	33.3	68.9
Total subscription revenue.....	793.1	787.5	5.6	0.7	1.2
B2B revenue (c).....	61.9	63.7	(1.8)	(2.8)	(1.5)
Other revenue (b) (d) .....	39.7	45.1	(5.4)	(12.0)	(13.0)
Total revenue .....	€ 894.7	€ 896.3	€ (1.6)	(0.2)	0.3

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile services revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service.
- (b) During the second quarter of 2013, we determined that we would no longer externally report DSL subscribers as RGUs. Accordingly, for the three months ended March 31, 2013, we have reclassified the revenue from our DSL subscribers in Austria from broadband internet and fixed-line telephony subscription revenue to other revenue.
- (c) These amounts include B2B revenue from business broadband internet, video, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain SOHO subscribers. SOHO subscribers pay a premium price to receive enhanced service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which aggregated €17.4 million and €12.8 million, respectively, is included in cable subscription revenue.
- (d) Other revenue includes, among other items, installation, late fee, carriage fee and interconnect revenue.

**Total revenue.** Our consolidated revenue decreased €1.6 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This decrease includes €0.9 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and FX, total consolidated revenue increased €2.5 million or 0.3%.



*Subscription revenue.* The details of the increase in our consolidated subscription revenue for the three months ended March 31, 2014, as compared to the corresponding period in 2013, are as follows (in millions):

Increase in cable subscription revenue due to change in:	
Average number of RGUs.....	€ 18.6
ARPU .....	(9.6)
Total increase in cable subscription revenue.....	9.0
Increase in mobile subscription revenue .....	0.2
Total organic increase in subscription revenue.....	9.2
Impact of acquisitions.....	1.4
Impact of FX.....	(5.0)
Total.....	€ 5.6

Excluding the effects of acquisitions and FX, our consolidated cable subscription revenue increased €9.0 million or 1.2% during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This increase is attributable to (i) an increase in subscription revenue from broadband internet services of €9.4 million or 4.0%, as the impact of an increase in the average number of broadband internet RGUs was only partially offset by lower ARPU from broadband internet services, (ii) a decrease in subscription revenue from video services of €0.5 million or 0.1%, as the decline in the average number of video RGUs was offset by the impact of higher ARPU from video services, and (iii) an increase in subscription revenue from fixed-line telephony services of €0.1 million or 0.1%, as the impact of an increase in the average number of fixed-line telephony RGUs was offset by lower ARPU from fixed-line telephony services.

*B2B revenue.* Excluding the effects of acquisitions and FX, our consolidated B2B revenue decreased €0.9 million or 1.5% during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This decrease is primarily due to the net effect of (i) decreases in Ireland and Austria and (ii) an increase in Switzerland.

*Other revenue.* Excluding the effects of acquisitions and FX, our consolidated other revenue decreased €5.9 million or 13.0% during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This decrease is primarily attributable to decreases in (i) installation revenue and (ii) fixed-line interconnect revenue.

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

### *Operating expenses*

Our operating expenses decreased €8.1 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013. The decrease during the three-month period includes €0.2 million attributable to the impact of acquisitions. Our operating expenses include share-based compensation expense, which was insignificant during the three months ended March 31, 2014. For additional information, see the discussion following SG&A expenses below. Excluding the effects of acquisitions, FX and share-based compensation expense, our operating expenses decreased €6.2 million or 2.0% during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This decrease is primarily attributable to the net effect of (i) a decrease in interconnect costs, (ii) a decrease in programming and copyright costs, (iii) an increase in personnel costs and (iv) a decrease in network-related expenses. For additional information regarding the changes in our operating expenses, see *Operating Expenses of our Reportable Segments* above.

### *SG&A expenses*

Our SG&A expenses increased €6.6 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013. The increase during the three-month period includes €0.1 million attributable to the impact of acquisitions. Our SG&A expenses include share-based compensation expense, which increased €2.9 million during the three months ended March 31, 2014. For additional information, see the discussion in the following paragraph. Excluding the effects of acquisitions, FX and share-based compensation expense, our SG&A expenses increased €4.2 million or 2.8% during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This increase is primarily attributable to the net effect of (i) an increase in personnel costs, (ii) a decrease in sales and marketing costs and (iii) an increase in information technology-related expenses. For additional information regarding the changes in our SG&A expenses, see *SG&A Expenses of our Reportable Segments* above.

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

Our share-based compensation expense includes amounts allocated to our company by Liberty Global. The amounts allocated by Liberty Global to our company represent the share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. A summary of the aggregate share-based compensation expense, substantially all of which is included in our SG&A expenses, is set forth below:

	Three months ended March 31,	
	2014	2013
	in millions	
Liberty Global shares:		
Performance-based incentive awards (a) .....	€ 3.5	€ 1.3
Other share-based incentive awards .....	3.0	2.3
Total Liberty Global shares .....	€ 6.5	€ 3.6

- (a) Includes share-based compensation expense related to Liberty Global PSUs, and for the 2014 period, the Challenge Performance Awards.

For additional information concerning our share-based compensation, see note 8 to our condensed consolidated financial statements.

### *Depreciation and amortization expense*

Our depreciation and amortization expense decreased €2.8 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013. Excluding the effects of FX, depreciation and amortization expense decreased €1.6 million or 0.7%, due primarily to the net effect of (i) an increase associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) a decrease associated with certain assets becoming fully depreciated, primarily in Switzerland, Ireland, Poland, the Czech Republic and Slovakia, (iii) a decrease associated with changes in the useful lives of certain assets, primarily in Switzerland Ireland and Austria and (iv) a decrease associated with fully amortized intangible assets, primarily in Poland and Romania.

### *Impairment, restructuring and other operating items, net*

We recognized net charges related to our impairment, restructuring and other operating items of €0.9 million during the three months ended March 31, 2014, as compared to €0.3 million during the three months ended March 31, 2013.

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to

be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

*Interest expense — third-party*

Our third-party interest expense decreased €12.6 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This decrease is primarily attributable to a lower average outstanding debt balance. For additional information regarding our outstanding indebtedness, see note 6 to our condensed consolidated financial statements.

It is possible that (i) the interest rates on any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) the interest rates on our variable-rate indebtedness could increase in future periods. As further discussed in note 3 to our condensed consolidated financial statements, we use derivative instruments to manage our interest rate risks.

*Interest expense — related-party*

Our consolidated related-party interest expense primarily relates to the interest expense on the Shareholder Loan. Our total consolidated related-party interest expense increased €41.8 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013. This increase is due to an increase in the average outstanding balance of the Shareholder Loan. For additional information, see note 6 to our condensed consolidated financial statements.

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

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

	Three months ended March 31,	
	2014	2013
	in millions	
Cross-currency and interest rate derivative contracts (a) .....	€ (78.4)	€ 144.0
Foreign currency forward contracts .....	7.7	15.1
Embedded derivatives .....	(0.4)	0.2
Total .....	<u>€ (71.1)</u>	<u>€ 159.3</u>

- (a) The loss during the 2014 period is primarily attributable to the net effect of (i) losses associated with decreases in market interest rates in the Swiss franc and euro markets, (ii) gains associated with decreases in the values of the Hungarian forint and Chilean peso relative to the euro and (iii) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar. In addition, the loss during the 2014 period includes a net loss of €11.0 million, resulting from changes in our credit risk valuation adjustments. The gain during the 2013 period is primarily attributable to the net effect of (i) gains associated with decreases in the values of the euro and Swiss franc relative to the U.S. dollar, (ii) gains associated with decreases in the values of the Hungarian forint, Polish zloty, Swiss franc and Czech koruna relative to the euro, (iii) gains associated with increases in market interest rates in the euro and Swiss franc markets, (iv) losses associated with increases in market interest rates in the U.S. dollar market and (v) losses associated with an increase in the value of the Chilean peso relative to the euro. In addition, the gain during the 2013 period includes a net loss of €23.9 million resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 3 and 4 to our condensed consolidated financial statements.

*Foreign currency transaction losses, net*

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

	Three months ended March 31,	
	2014	2013
	in millions	
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a) .....	€ (11.5)	€ (104.6)
U.S. dollar denominated debt issued by euro functional currency entities .....	(3.5)	(48.9)
Cash and restricted cash denominated in a currency other than the entity's functional currency .....	(0.6)	(1.1)
Other .....	0.2	(0.4)
Total .....	€ (15.4)	€ (155.0)

- (a) Amounts primarily relate to (i) loans between certain of our non-operating and operating subsidiaries in Europe, which generally are denominated in the currency of the applicable operating subsidiary and (ii) loans between certain of our non-operating subsidiaries in Europe.

*Realized and unrealized gains (losses) due to changes in fair values of certain investments, net*

Our realized and unrealized gains or losses due to changes in fair values of certain investments, net, include unrealized gains or losses associated with changes in fair values that are non-cash in nature until such time as these gains or losses are realized through cash transactions. We recognized realized and unrealized gains (losses) due to changes in fair values of certain investments, net, of €0.9 million and (€0.3 million) during the three months ended March 31, 2014 and 2013, respectively.

*Losses on debt modification and extinguishment, net*

We recognized a loss on debt modification and extinguishment, net, of €12.0 million during the three months ended March 31, 2014, as compared to €66.3 million, during the corresponding prior year period. The loss during the 2014 period relates to the repayment of Facilities R, S, AE and AF under the UPC Broadband Holding Bank Facility and includes (i) a €8.5 million write-off of deferred financing costs and (ii) a €3.5 million write-off of an unamortized discount.

The loss during the 2013 period includes aggregate debt extinguishment losses of UPC Holding of €65.9 million, which include (i) €27.5 million of aggregate redemption premiums related to UPC Holding's then existing euro-denominated 8.0% senior notes (the UPC Holding 8.0% Senior Notes) and euro-denominated 9.75% senior notes (the UPC Holding 9.75% Senior Notes), (ii) the write-off of €18.9 million of unamortized discount related to the UPC Holding 9.75% Senior Notes, (iii) the write-off of €14.7 million of aggregate deferred financing costs associated with the UPC Holding 8.0% Senior Notes and the UPC Holding 9.75% Senior Notes and (iv) €4.8 million of aggregate interest incurred on the UPC Holding 8.0% Senior Notes and the UPC Holding 9.75% Senior Notes between the respective dates that we and the trustee were legally discharged.

For additional information concerning our losses on debt modification and extinguishment, net, see note 6 to our condensed consolidated financial statements.

### *Income tax expense*

We recognized income tax expense of €20.0 million and €9.5 million during the three months ended March 31, 2014 and 2013, respectively.

The income tax expense during the three months ended March 31, 2014 differs from the expected income tax benefit of €62.7 million (based on the Dutch 25.0% income tax rate) due primarily to the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax expense during the three months ended March 31, 2013 differs from the expected income tax benefit of €50.0 million (based on the Dutch 25.0% income tax rate) due primarily to the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items, due mostly to a change in tax legislation enacted on January 1, 2013 restricting the deductibility of interest expense in the Netherlands. The negative impact of this item was partially offset by the positive impact of a net decrease in valuation allowances. The impact of the change in tax legislation described above positively impacted our valuation allowances by an equal and offsetting amount, resulting in no net impact to our current or deferred income taxes during the three months ended March 31, 2013.

For additional information concerning our income taxes, see note 7 to our condensed consolidated financial statements.

### *Net loss*

During the three months ended March 31, 2014 and 2013, we reported net losses of €270.7 million and €209.5 million, respectively, including (i) operating income of €240.4 million and €224.3 million, respectively, (ii) non-operating expense of €491.1 million and €424.3 million, respectively, and (iii) income tax expense of €20.0 million and €9.5 million, respectively.

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

Due largely to the fact that we seek to maintain our debt at levels that provide for attractive returns, as discussed under *Material Changes in Financial Condition — Capitalization* below, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion under *Overview* above. For information concerning the reasons for changes in specific line items in our condensed consolidated statements of operations, see the discussion under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Consolidated Operating Results* above.

### *Net earnings attributable to noncontrolling interests*

Net earnings attributable to noncontrolling interests decreased €0.2 million during the three months ended March 31, 2014, as compared to the corresponding period in 2013.

## Material Changes in Financial Condition

### *Sources and Uses of Cash*

As a holding company, UPC Holding's primary assets are its investments in consolidated subsidiaries. UPC Holding's primary subsidiary is UPC Broadband Holding, which owns all of the operating subsidiaries that are consolidated by UPC Holding. Although our consolidated operating subsidiaries have generated cash from operating activities, the terms of the instruments governing the indebtedness of UPC Broadband Holding may restrict our ability to access the assets of these subsidiaries. As set forth in the table below, these subsidiaries accounted for substantially all of our consolidated cash and cash equivalents at March 31, 2014. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax and legal considerations, the presence of noncontrolling interests and other factors.

### *Cash and cash equivalents*

The details of the euro equivalent balances of our consolidated cash and cash equivalents at March 31, 2014 are set forth in the following table. With the exception of UPC Holding, which is reported on a standalone basis, the amounts presented below include the cash and cash equivalents of UPC Broadband Holding and its subsidiaries unless otherwise noted (in millions):

Cash and cash equivalents held by:

UPC Holding.....	€	—
UPC Broadband Holding.....		22.8
Total cash and cash equivalents.....	€	<u>22.8</u>

### *Liquidity of UPC Holding*

As UPC Holding typically does not hold significant amounts of cash and cash equivalents at the parent level, UPC Holding's primary source of liquidity is proceeds received from UPC Broadband Holding (and indirectly from UPC Broadband Holding's subsidiaries) in the form of loans or distributions. As noted above, various factors may limit the ability of UPC Holding's direct and indirect subsidiaries to loan or distribute cash to UPC Holding. From time to time, UPC Holding may also supplement its sources of liquidity with net proceeds received in connection with the issuance of debt instruments and/or loans or contributions from LGE Financing (and ultimately Liberty Global and other Liberty Global subsidiaries). No assurance can be given that any external funding would be available on favorable terms, or at all.

The ongoing cash needs of UPC Holding include (i) corporate general and administrative expenses, (ii) interest payments on UPC Holding's senior notes and (iii) payments required by UPC Holding's derivative instruments. From time to time, UPC Holding may also require cash in connection with (a) the repayment of outstanding debt (including the repurchase or exchange of outstanding debt securities in the open market or privately-negotiated transactions and net repayments to LGE Financing pursuant to the Shareholder Loan), (b) the funding of loans or distributions to LGE Financing (and ultimately Liberty Global and other Liberty Global subsidiaries), (c) the satisfaction of contingent liabilities, (d) acquisitions, (e) other investment opportunities, or (f) income tax payments.

### *Liquidity of Subsidiaries*

The cash and cash equivalents of our significant subsidiaries are detailed in the table above. In addition to cash and cash equivalents, the primary sources of liquidity of our subsidiaries are cash provided by operations and, in the case of UPC Broadband Holding, borrowing availability under the UPC Broadband Holding Bank Facility. For the details of the borrowing availability under the UPC Broadband Holding Bank Facility at March 31, 2014, see note 6 to our condensed consolidated financial statements. Our subsidiaries' liquidity generally is used to fund property and equipment additions and debt service requirements. For a discussion of our consolidated cash flows, see the discussion under *Condensed Consolidated Statements of Cash Flows* below. From time to time, our subsidiaries may also require funding in connection with (i) acquisitions and other investment opportunities, (ii) loans to UPC Holding or other Liberty Global subsidiaries, (iii) capital distributions to UPC Holding or (iv) the satisfaction of contingencies. No assurance can be given that any external funding would be available to our subsidiaries on favorable terms, or at all.

## ***Capitalization***

At March 31, 2014, our outstanding consolidated third-party debt and capital lease obligations aggregated €8,151.4 million, including €598.6 million that is classified as current in our condensed consolidated balance sheet and €7,544.3 million that is not due until 2020 or thereafter. The amount classified as current includes \$382.5 million (€277.7 million) related to the UPC Holding 9.875% Senior Notes that were redeemed in April 2014. For additional information concerning our current debt maturities, see note 6 to our condensed consolidated financial statements.

When it is cost effective, we generally seek to match the denomination of the borrowings of our subsidiaries with the functional currency of the operations that are supporting the respective borrowings. As further discussed in note 3 to our condensed consolidated financial statements, we also use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in the credit agreements and indentures of UPC Holding and UPC Broadband Holding is dependent primarily on our ability to maintain or increase the operating cash flow of our operating subsidiaries and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our and UPC Broadband Holding's debt instruments. For example, if the operating cash flow of UPC Broadband Holding were to decline, we could be required to partially repay or limit our borrowings under the UPC Broadband Holding Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment. The ability to access available borrowings under the UPC Broadband Holding Bank Facility and/or our ability to complete additional financing transactions can also be impacted by the interplay of average and spot foreign currency rates with respect to leverage calculations under the indentures for UPC Holding's senior notes.

At March 31, 2014, UPC Holding and UPC Broadband Holding were in compliance with their respective debt covenants. In addition, we do not anticipate any instances of non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at March 31, 2014, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

With the exception of UPC Holding's senior notes, all of our consolidated third-party debt and capital lease obligations had been borrowed or incurred by our subsidiaries at March 31, 2014.

For additional information concerning our debt and capital lease obligations, see note 6 to our condensed consolidated financial statements.

## ***Condensed Consolidated Statements of Cash Flows***

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

*Summary.* The condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013 are summarized as follows:

	Three months ended March 31,			Change
	2014	2013		
	in millions			
Net cash provided by operating activities .....	€ 87.5	€ 136.2	€	(48.7)
Net cash provided (used) by investing activities .....	196.3	(153.2)		349.5
Net cash provided (used) by financing activities .....	(725.7)	25.7		(751.4)
Effect of exchange rate changes on cash .....	(1.5)	(1.3)		(0.2)
Net increase (decrease) in cash and cash equivalents .....	€ (443.4)	€ 7.4	€	(450.8)

*Operating Activities.* The decrease in net cash provided by our operating activities is primarily attributable to (i) a decrease in cash provided due to higher cash payments for interest and (ii) a decrease in cash provided due to higher cash payments related to derivative instruments.

*Investing Activities.* The increase in net cash provided by our investing activities is due primarily to (i) an increase in cash provided of €323.3 million associated with the sale of a loan receivable and (ii) an increase in cash provided of €26.8 million associated with lower capital expenditures.

The capital expenditures that we report in our condensed consolidated statements of cash flows do not include (i) amounts that our company has financed under vendor financing or capital lease arrangements or (ii) purchased assets transferred to our company by another entity under the common control of Liberty Global in exchange for non-cash increases to the Shareholder Loan or non-cash contributions from our parent (non-cash related-party capital additions). Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and in the case of vendor financing and capital lease arrangements and non-cash related-party capital additions that are settled through increases to the Shareholder Loan, as repayments of debt when the principal is repaid. In the following discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude non-cash related-party capital additions and amounts financed under vendor financing or capital lease arrangements, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis, non-cash related-party capital additions and amounts financed under vendor financing or capital lease arrangements. For additional information, see notes 5 and 6 to our condensed consolidated financial statements.

A reconciliation of our consolidated property and equipment additions to our consolidated capital expenditures as reported in the condensed consolidated statements of cash flows is set forth below:

	Three months ended March 31,	
	2014	2013
	in millions	
Property and equipment additions .....	€ 192.1	€ 189.1
Assets acquired under capital-related vendor financing arrangements .....	(83.4)	(44.8)
Assets acquired under capital leases .....	(0.1)	(0.5)
Assets contributed by parent company .....	(5.2)	(3.4)
Changes in current liabilities related to capital expenditures (including related-party amounts) .....	17.1	6.9
Capital expenditures .....	€ 120.5	€ 147.3



The increase in our property and equipment additions is due primarily to the net effect of (i) a decrease in expenditures for the purchase and installation of customer premises equipment, (ii) an increase in scalable infrastructure and (iii) an increase in expenditures for new build and upgrade projects to expand services.

**Financing Activities.** The increase in net cash used by our financing activities is primarily attributable to the net effect of (i) an increase in cash used of €666.6 million due to higher net repayments of third-party debt, (ii) a decrease in cash used of €560.2 million due to higher net borrowings of related-party debt, (iii) an increase in cash used of €349.5 million due to higher distributions to related parties, (iv) an increase in cash used of €314.7 million related to a return of an advance to a subsidiary of Liberty Global, (v) an increase in cash used of €36.5 million due to higher cash payments related to derivative instruments and (vi) a decrease in cash used of €33.1 million due to lower payments for financing costs and debt premiums.

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

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

### ***Contractual Commitments***

The euro equivalents of our commitments as of March 31, 2014 are presented below:

		Payments due during:							
	Remainder of 2014	Year ending December 31,							Total
		2015	2016	2017	2018	2019	Thereafter		
		in millions							
Debt (excluding interest):									
Third-party.....	€ 536.5	€ 72.9	€ —	€ —	€ —	€ —	€ 7,544.7	€	8,154.1
Related-party .....	—	—	32.1	—	—	—	8,865.1		8,897.2
Capital leases (excluding interest).....	1.7	1.9	2.1	2.0	1.5	1.2	13.1		23.5
Operating leases .....	43.1	43.4	35.6	27.9	23.0	21.1	114.1		308.2
Purchase commitments .....	170.9	29.4	25.0	—	—	—	—		225.3
Network and connectivity commitments .....	37.8	32.6	26.9	18.1	4.3	4.3	9.0		133.0
Programming obligations...	28.4	18.5	5.3	4.8	4.9	—	—		61.9
Other commitments.....	78.6	61.5	48.1	42.0	31.5	7.4	22.2		291.3
Total (a) .....	€ 897.0	€ 260.2	€ 175.1	€ 94.8	€ 65.2	€ 34.0	€ 16,568.2	€	18,094.5
Projected cash interest payments on third-party debt and capital lease obligations (b) .....									
	€ 320.6	€ 491.3	€ 490.7	€ 490.5	€ 476.0	€ 452.6	€ 797.3	€	3,519.0

- (a) The commitments reflected in this table do not reflect any liabilities that are included in our March 31, 2014 condensed consolidated balance sheet other than debt and capital lease obligations. Our liability for uncertain tax positions in the various jurisdictions in which we operate (€12.6 million at March 31, 2014) has been excluded from the table as the amount and timing of any related payments are not subject to reasonable estimation.
- (b) Amounts are based on interest rates, interest payment dates and contractual maturities in effect as of March 31, 2014. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts,

deferred financing costs, or discounts, all of which affect our overall cost of borrowing. Amounts associated with related-party debt are excluded from the table.

Purchase commitments include unconditional purchase obligations associated with commitments to purchase customer premises and other equipment that are enforceable and legally binding on us, including €26.1 million associated with related-party purchase obligations.

Network and connectivity commitments include commitments associated with (i) satellite carriage services provided to our company and (ii) commitments associated with MVNO agreements.

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 or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the three months ended March 31, 2014 and 2013, the programming and copyright costs incurred by our broadband communications and DTH operations aggregated €102.8 million and €104.1 million, respectively.

Other commitments relate primarily to (i) obligations associated with information technology and other service agreements and (ii) certain fixed minimum contractual commitments associated with our agreements with a municipal authority. Commitments arising from acquisition agreements are not reflected in the above table.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2014 and 2013, see note 3 to our condensed consolidated financial statements.

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

### *Projected Cash Flows Associated with Derivative Instruments*

The following table provides information regarding the projected cash flows associated with our derivative instruments. The euro equivalents presented below are based on interest rates and exchange rates that were in effect as of March 31, 2014. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, see note 3 to our condensed consolidated financial statements.

	Payments (receipts) due during:							Total
	Remainder of 2014	Year ended December 31,					Thereafter	
	2015	2016	2017	2018	2019			
	in millions							
Projected derivative cash payments (receipts), net:								
Interest-related (a).....	€ 72.3	€ 167.5	€ 146.8	€ 54.3	€ 29.2	€ (0.3)	€ 21.0	€ 490.8
Principal-related (b) ...	(27.3)	193.5	26.5	99.2	9.2	4.7	109.4	415.2
Other .....	1.4	—	(0.3)	(0.6)	(6.0)	—	—	(5.5)
Total .....	€ 46.4	€ 361.0	€ 173.0	€ 152.9	€ 32.4	€ 4.4	€ 130.4	€ 900.5

- (a) Includes (i) the cash flows of our interest rate cap, collar and swap contracts and (ii) the interest-related cash flows of our cross-currency and interest rate swap contracts.
- (b) Includes the principal-related cash flows of our cross-currency contracts.