



**unitymedia
kabel bw**

**Condensed Consolidated Financial Statements
March 31, 2013**

**UNITYMEDIA KABELBW GMBH
Aachener Strasse 746-750
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Germany**

UNITYMEDIA KABELBW GMBH

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CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31,	December 31,	
	2013	2012	
	in millions		
ASSETS			
Current assets:			
Cash and cash equivalents.....	€ 26.4	€ 20.2	
Trade receivables and unbilled revenue, net.....	140.5	107.7	
Loan receivable – related-party (note 10).....	296.9	168.7	
Other current assets (note 5).....	18.9	13.7	
Total current assets.....	482.7	310.3	
Property and equipment, net (note 7).....	3,438.8	3,480.4	
Goodwill.....	2,841.7	2,841.7	
Intangible assets subject to amortization, net (note 7).....	1,076.6	1,100.4	
Investment in associate (note 10).....	62.1	64.3	
Other noncurrent assets (note 5).....	119.6	86.7	
Total noncurrent assets.....	7,538.8	7,573.5	
Total assets.....	€ 8,021.5	€ 7,883.8	

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

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CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)
(unaudited)

	March 31, 2013	December 31, 2012 (a)
	in millions	
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable.....	€ 38.7	€ 83.2
Accrued liabilities.....	189.4	193.9
Accounts payable and accrued liabilities – related-party (note 10)	48.8	44.4
Corporate income taxes payable.....	24.5	21.0
Current provisions	17.7	17.9
Deferred revenue and advance payments from subscribers and others.....	227.9	100.3
Current portion of debt and finance lease obligations (note 8):		
Third-party	92.5	88.6
Related-party.....	0.3	1.1
Other current liabilities.....	14.7	22.2
Total current liabilities.....	654.5	572.6
Noncurrent debt and finance lease obligations (note 8):		
Third-party	5,200.2	5,114.3
Related-party	1,454.3	1,396.7
Deferred tax liabilities.....	444.5	457.7
Noncurrent provisions.....	24.5	24.0
Other noncurrent liabilities (note 5).....	12.2	15.4
Total noncurrent liabilities.....	7,135.7	7,008.1
Total liabilities.....	7,790.2	7,580.7
Commitments and contingencies (note 11)		
Shareholder's equity:		
Share capital	—	—
Additional paid-in capital.....	941.7	941.4
Accumulated deficit	(707.1)	(635.0)
Accumulated other comprehensive loss, net of taxes	(3.3)	(3.3)
Total shareholder's equity.....	231.3	303.1
Total liabilities and shareholder's equity.....	€ 8,021.5	€ 7,883.8

(a) As retrospectively revised – see note 2.

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

UNITYMEDIA KABELBW GMBH
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended	
	March 31,	
	2013	2012
	in millions	
Revenue (note 3)	€ 468.9	€ 430.6
Operating costs and expenses:		
Operating (other than depreciation and amortization) (OpEx) (note 10).....	134.7	124.7
Selling, general and administrative expenses (other than depreciation and amortization) (including stock-based compensation) (SG&A) (note 10).....	59.6	56.9
Impairment, restructuring and other operating items, net.....	1.5	(0.4)
Related-party fees and allocations (note 10).....	19.1	13.3
	<u>214.9</u>	<u>194.5</u>
Earnings before interest, taxes, depreciation and amortization (EBITDA).....	254.0	236.1
Depreciation and amortization	161.8	153.9
Earnings before interest and taxes (EBIT).....	<u>92.2</u>	<u>82.2</u>
Financial and other expense:		
Interest expense:		
Third-party	(100.1)	(106.7)
Related-party (note 10).....	(33.4)	(3.8)
Foreign currency transaction gains (losses), net.....	(32.8)	29.4
Realized and unrealized gains (losses) on derivative instruments, net (note 5).....	40.9	(34.2)
Losses on debt extinguishment.....	(52.6)	—
Other income (expense), net (note 10)	2.6	(1.2)
Net financial and other expense.....	<u>(175.4)</u>	<u>(116.5)</u>
Loss before income taxes.....	(83.2)	(34.3)
Income tax benefit (note 9)	11.1	16.0
Net loss / comprehensive loss (a)	<u>€ (72.1)</u>	<u>€ (18.3)</u>
Further details of OpEx and SG&A:		
Direct costs (programming and copyright, interconnect and other)	€ 48.6	€ 42.9
Staff-related costs (excluding restructuring charges).....	40.4	38.1
Network operating costs.....	36.8	38.1
Sales and marketing costs	22.7	23.8
Other indirect costs	45.8	38.7
	<u>€ 194.3</u>	<u>€ 181.6</u>
Further details of impairment, restructuring and other operating items:		
Restructuring charges	€ 1.8	€ 1.2
Gain on disposal of assets.....	(0.3)	(1.6)
	<u>€ 1.5</u>	<u>€ (0.4)</u>

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

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

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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(unaudited)**

	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss, net of taxes</u>	<u>Total shareholder's equity</u>
	in millions			
Balance at January 1, 2012	€ 2,071.0	€ (375.7)	€ —	€ 1,695.3
Net loss	—	(18.3)	—	(18.3)
Stock-based compensation (note 10)	0.3	—	—	0.3
Balance at March 31, 2012	<u>€ 2,071.3</u>	<u>€ (394.0)</u>	<u>€ —</u>	<u>€ 1,677.3</u>
Balance at January 1, 2013 (note 2)	€ 941.4	€ (635.0)	€ (3.3)	€ 303.1
Net loss	—	(72.1)	—	(72.1)
Stock-based compensation (note 10)	0.3	—	—	0.3
Balance at March 31, 2013	<u>€ 941.7</u>	<u>€ (707.1)</u>	<u>€ (3.3)</u>	<u>€ 231.3</u>

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

UNITYMEDIA KABELBW GMBH

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended	
	March 31,	
	2013	2012
	in millions	
Cash flows from operating activities:		
Net loss	€ (72.1)	€ (18.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation expense	0.3	0.3
Impairment, restructuring and other operating items, net	1.5	(0.4)
Related-party fees and allocations.....	19.1	13.3
Depreciation and amortization	161.8	153.9
Amortization of deferred financing costs and non-cash interest accretion	2.1	3.0
Non-cash related-party interest expense	33.4	3.8
Foreign currency transaction losses (gains), net	32.8	(29.4)
Realized and unrealized losses (gains) on derivative instruments, net	(40.9)	34.2
Losses on debt extinguishment	52.6	—
Deferred tax benefit.....	(13.1)	(12.8)
Changes in operating assets and liabilities	49.4	128.5
Net cash provided by operating activities	<u>226.9</u>	<u>276.1</u>
Cash flows from investing activities:		
Capital expenditures	(99.1)	(119.7)
Advances to parent	(126.8)	(81.9)
Other investing activities	—	0.8
Net cash used by investing activities	<u>(225.9)</u>	<u>(200.8)</u>
Cash flows from financing activities:		
Borrowings of third-party debt	500.0	43.0
Repayments of third-party debt and finance lease obligations	(460.3)	(123.2)
Net borrowings of related-party debt.....	6.2	18.9
Payment of financing costs and debt premiums	(40.7)	—
Net cash provided (used) by financing activities	<u>5.2</u>	<u>(61.3)</u>
Net increase in cash and cash equivalents	6.2	14.0
Cash and cash equivalents:		
Beginning of period.....	20.2	48.1
End of period.....	<u>€ 26.4</u>	<u>€ 62.1</u>
The following amounts are included in net cash provided by operating activities:		
Cash paid for interest (excluding payments related to derivative instruments).....	<u>€ 97.0</u>	<u>€ 83.9</u>
Net cash paid (refunded) for taxes.....	<u>€ (1.7)</u>	<u>€ 1.7</u>

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

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Notes to Condensed Consolidated Financial Statements
March 31, 2013
(unaudited)

(1) Basis of Presentation

Unitymedia KabelBW GmbH (Unitymedia KabelBW) is a wholly-owned subsidiary of UPC Germany Holding B.V. (UPC Germany), which in turn is an indirect subsidiary of Liberty Global, Inc. (Liberty Global). Unitymedia KabelBW was formed by Liberty Global on October 15, 2009 and registered with the commercial register on October 23, 2009 in contemplation of the issuance of debt financing in connection with Unitymedia KabelBW's then potential acquisition of the entity (Old Unitymedia) that owned the largest cable operator in the German federal states of North Rhine-Westphalia and Hesse. In the following text, the terms "Unitymedia KabelBW," "we," "our," "our company," and "us" may refer, as the context requires, to Unitymedia KabelBW, or collectively to Unitymedia KabelBW and its subsidiaries.

Unitymedia KabelBW, which operates in the German federal states of North Rhine-Westphalia, Hesse and Baden-Württemberg, provides video, broadband internet, telephony and mobile services to its customers.

Through a series of transactions that were completed during the second quarter of 2012 in conjunction with a debt exchange where debt previously issued by the Kabel BW Group was exchanged for new debt issued by Unitymedia KabelBW, UPC Germany, our immediate parent company, transferred UPC Germany Holdings GmbH (UPC Germany Holdings), an indirect parent company of Kabel BW GmbH (KBW), then the largest cable operator in Baden-Württemberg, to Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen), one of our wholly-owned subsidiaries (the KBW Fold-in). We accounted for the KBW Fold-in as a reorganization of entities under common control. Accordingly, we recorded the transfer of UPC Germany Holdings and its subsidiaries (collectively, the Kabel BW Group) at carryover basis and the applicable prior period information was retrospectively revised to give effect to the resulting change in reporting entities for all periods in which we and the Kabel BW Group were under the common control of Liberty Global (namely all periods beginning on or after the December 15, 2011 acquisition of a then indirect parent of KBW by a then indirect subsidiary of UPC Germany Holdings (the LGI/KBW Transaction). For additional information, see note 4. Additionally, in the third quarter of 2012, Unitymedia Hessen sold its shares of UPC Germany Holdings to UPC Germany NewCo GmbH (UPC Germany NewCo) and UPC Germany Holdings was merged into UPC Germany NewCo.

Our unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 and do not include all of the information required by International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) (EU-IFRS) for full annual financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our 2012 annual report, which include a description of the significant accounting policies followed in these financial statements.

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

The Unitymedia KabelBW Notes, as defined in note 8, are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market, which is not a regulated market (as defined by Article 1(13) of Directive 93/22/EEC). For additional information regarding the Unitymedia KabelBW Notes, see note 8.

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of March 31, 2013.

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

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Notes to Condensed Consolidated Financial Statements – (Continued)
March 31, 2013
(unaudited)

These condensed consolidated financial statements were approved for publication by the Managing Directors on May 17, 2013.

(2) Accounting Changes and Recent Pronouncements

First-time Application of Accounting Standards

With the exception of the revised IAS 19, the application of the following accounting standards did not have any impact on our condensed consolidated financial statements:

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the EU
IAS 1 (amendments)	Presentation of items of other comprehensive income	July 1, 2012	June 5, 2012
IAS 19 (amendments)	Amendments to IAS 19 employee benefits	January 1, 2013	June 5, 2012
IFRS 7 (amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013	December 13, 2012
Improvements to IFRSs	Collection of amendments to several standards made in response to six issues addressed during the 2009 - 2011 project cycle	January 1, 2013	March 27, 2013
IFRS 13	Fair value measurement	January 1, 2013	December 11, 2012

Effective January 1, 2013, we adopted the revised IAS 19 *Employee Benefits*, which requires retrospective application to our 2012 financial statements. The revised IAS 19 requires the recognition of service cost and net interest on the net defined benefit liability in income or loss and the recognition of remeasurements of the net defined benefit liability, in particular actuarial gains and losses, in other comprehensive income or loss. Prior to January 1, 2013, we recognized actuarial gains and losses deferred under the corridor approach in income or loss. As of January 1, 2012 and through September 30, 2012, our condensed consolidated financial statements were not impacted by the adoption of IAS 19. During the fourth quarter of 2012, the adoption resulted in comprehensive loss before tax of €4.6 million (€3.3 million including tax effects) and corresponding adjustments to our pension liabilities (included in noncurrent provisions) and deferred tax liabilities.

New Accounting Standard, Not Yet Effective

The following accounting standard was endorsed by the EU during 2013 but is not yet effective for the reporting period. We have not early adopted this accounting standard.

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the EU
IFRS 10 / IFRS 11 / IFRS 12 (amendments)	Transition Guidance	January 1, 2014	April 4, 2013

We have not fully evaluated the impact of applying this new, but not yet effective accounting standard on our condensed consolidated financial statements, however, we currently do not expect the impact, if any, to be material.

(3) Segment Reporting

We operate in one geographical area, the country of Germany. We operate in the cable segment, providing video, broadband internet, telephony and mobile services to residential and/or business customers over an integrated broadband communications network.

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Notes to Condensed Consolidated Financial Statements – (Continued)
March 31, 2013
(unaudited)

Our revenue by major category is as follows:

	Three months ended	
	March 31,	
	2013	2012
	in millions	
Subscription revenue (a):		
Video.....	€ 241.8	€ 232.8
Broadband internet.....	81.7	66.6
Telephony	96.5	81.2
Total subscription revenue	420.0	380.6
Non-subscription revenue (b).....	48.9	50.0
Total revenue	€ 468.9	€ 430.6

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

(4) Common Control Transfer

In May 2012, in conjunction with a debt exchange where debt previously issued by the Kabel BW Group was exchanged for new debt issued by Unitymedia KabelBW, UPC Germany completed the KBW Fold-in by transferring its 100% ownership interest in UPC Germany Holdings to Unitymedia Hessen. We have accounted for this common control transfer at carryover basis and the applicable prior period information was retrospectively revised to give effect to the change in reporting entities for all periods during which we and the Kabel BW Group were under the common control of Liberty Global (namely all periods beginning on or after the December 15, 2011 LGI/KBW Transaction). Prior to December 15, 2011, UPC Germany Holdings had no operating results, cash flows or capital transactions.

Consideration for the transfer of all outstanding shares of UPC Germany Holdings to Unitymedia Hessen in the amount of €1,230.0 million was based upon a valuation of UPC Germany Holdings as of the date of transfer. This amount, which was settled in the form of the 2012 Shareholder Loan (as defined and described in note 8) to UPC Germany, was recorded as a capital transaction during the second quarter of 2012.

(5) Derivative Instruments

We have entered into certain derivative instruments to manage interest rate exposure and foreign currency exposure with respect to the United States (U.S.) dollar. Hedge accounting is not applied to our derivative instruments.

UNITYMEDIA KABELBW GMBH
Notes to Condensed Consolidated Financial Statements – (Continued)
March 31, 2013
(unaudited)

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

	March 31, 2013			December 31, 2012		
	Current (a)	Noncurrent (a)	Total	Current (a)	Noncurrent (a)	Total
	in millions					
Assets:						
Cross-currency derivative contracts (b).....	€ 5.6	€ 90.3	€ 95.9	€ 2.0	€ 56.9	€ 58.9
Liabilities:						
Cross-currency derivative contracts (b).....	€ —	€ 2.1	€ 2.1	€ —	€ 5.7	€ 5.7

- (a) Our current derivative assets are included in other current assets and our noncurrent derivative assets and liabilities are included in other noncurrent assets and other noncurrent liabilities, respectively, in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of March 31, 2013 and December 31, 2012, (i) the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €8.0 million and €4.5 million, respectively, and (ii) the fair values of our cross-currency derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating €0.9 million and €1.7 million, respectively. The adjustments to our derivative assets relate to credit risk associated with counterparty nonperformance and adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market. The changes in the credit risk valuation adjustments associated with our derivative instruments resulted in a net gain (loss) of (€4.3 million) and €4.5 million during the three months ended March 31, 2013 and 2012, 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 6.

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

	Three months ended March 31,	
	2013	2012
	in millions	
Cross-currency derivative contracts.....	€ 40.9	€ (32.3)
Interest rate derivative contracts (a).....	—	(1.9)
Total.....	€ 40.9	€ (34.2)

- (a) During the third quarter of 2012, our interest rate derivative contracts were terminated.

The net cash paid or received related to our derivative instruments is classified as an operating, investing or financing activity in our condensed consolidated statements of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. For cross-currency or interest rate 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. Our net cash received (paid) related to derivative instruments of €0.3 million and (€1.0 million) for the three months ended March 31, 2013 and 2012, respectively, were classified as operating activities in our condensed consolidated statements of cash flows.

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Notes to Condensed Consolidated Financial Statements – (Continued)
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The terms of our outstanding cross-currency swap contracts at March 31, 2013 are as follows:

<u>Final maturity date (a)</u>	<u>Notional amount due from counterparty</u>		<u>Notional amount due to counterparty</u>		<u>Interest rate due from counterparty</u>	<u>Interest rate due to counterparty</u>
	in millions					
January 2021	\$	1,000.0	€	688.2	5.50%	5.58%
March 2019	\$	459.3	€	326.5	7.50%	7.98%

(a) 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.

(6) Fair Value Measurements

Our derivative instruments are the only financial instruments that were accounted for at fair value as of March 31, 2013. The reported fair values of our derivative instruments as of March 31, 2013 likely will not represent the value that will be realized upon their ultimate settlement or disposition. In this regard, we expect that the values realized 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.

We disclose fair value measurements according to a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of our derivative instruments 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, 2013, no such transfers were made.

All of our Level 2 inputs (interest rate futures, swap rates and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (credit spreads) are obtained from pricing services. These inputs, or interpolations or extrapolations thereof, are used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we receive market value assessments from the counterparties to our derivative contracts. Although we compare these assessments to our internal valuations and investigate unexpected differences, we do not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. The midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

As further described in note 5, 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. All but one of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data includes applicable interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to our various interest rate and foreign currency derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative instruments, we 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 5.

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

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Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of our company (our only cash-generating unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs 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 our company to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform significant nonrecurring fair value measurements during the three months ended March 31, 2013 or 2012.

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

Category (a)	March 31, 2013		December 31, 2012		
	Carrying amount	Fair value	Carrying amount	Fair value	
in millions					
Assets carried at fair value – derivative financial instruments	I	€ 95.9	€ 95.9	€ 58.9	€ 58.9
Assets carried at cost or amortized cost:					
Loan receivable – related-party	II	€ 296.9	(b)	€ 168.7	(b)
Trade receivables and unbilled revenue	II	144.0	€ 144.0	111.2	€ 111.2
Cash and cash equivalents	II	26.4	€ 26.4	20.2	€ 20.2
Other current and noncurrent financial assets	II	8.0	€ 8.0	8.0	€ 8.0
Restricted cash	II	1.8	€ 1.8	1.8	€ 1.8
Total assets carried at cost or amortized cost		€ 477.1		€ 309.9	
Liabilities carried at fair value – derivative financial instruments	I	€ 2.1	€ 2.1	€ 5.7	€ 5.7
Liabilities carried at cost or amortized cost:					
Debt obligations	III	€ 5,286.8	€ 5,662.1	€ 5,196.7	€ 5,707.8
Loans payable – related-party	III	1,454.6	(b)	1,397.8	(b)
Accrued liabilities (including related-party accrued liabilities)	III	216.2	€ 216.2	214.4	€ 214.4
Accounts payable and other (including related-party accounts payable)	III	63.5	€ 63.5	109.5	€ 109.5
Finance lease obligations	V	5.9	€ 5.9	6.2	€ 6.2
Total liabilities carried at cost or amortized cost		€ 7,027.0		€ 6,924.6	

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

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Notes to Condensed Consolidated Financial Statements – (Continued)
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(unaudited)

(b) Due to the related-party nature of these loans, the fair value is not subject to reasonable estimation.

Pre-tax amounts recognized in our condensed consolidated statements of operations related to our financial assets and liabilities are as follows:

	<u>Interest income</u>	<u>Interest expense</u>	<u>Other statement of operations effects (a)</u>	<u>Impact on earnings before income taxes</u>
	in millions			
Three months ended March 31, 2013:				
Derivative assets carried at fair value through our condensed consolidated statement of operations.....	€ —	€ —	€ 37.3	€ 37.3
Assets carried at cost or amortized cost:				
Trade receivables (b).....	0.2	—	(3.4)	(3.2)
Loan receivable – related-party	1.6	—	—	1.6
Derivative liabilities carried at fair value through our condensed consolidated statement of operations.....	—	—	3.6	3.6
Liabilities carried at cost or amortized cost	—	(133.5)	(85.4)	(218.9)
	<u>€ 1.8</u>	<u>€ (133.5)</u>	<u>€ (47.9)</u>	<u>€ (179.6)</u>
Three months ended March 31, 2012:				
Derivative assets carried at fair value through our condensed consolidated statement of operations.....	€ —	€ —	€ (32.3)	€ (32.3)
Assets carried at cost or amortized cost:				
Trade receivables (b).....	0.3	—	(2.5)	(2.2)
Loan receivable – related-party	0.1	—	—	0.1
Derivative liabilities carried at fair value through our condensed consolidated statement of operations.....	—	—	(1.9)	(1.9)
Liabilities carried at cost or amortized cost	—	(110.5)	29.4	(81.1)
	<u>€ 0.4</u>	<u>€ (110.5)</u>	<u>€ (7.3)</u>	<u>€ (117.4)</u>

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

(b) The “Other statement of operations effects” amounts represent provisions for impairment of trade receivables and are included in OpEx in our condensed consolidated statements of operations.

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(7) **Long-lived Assets**

Property and Equipment, Net

Changes during the three months ended March 31, 2013 in the carrying amounts of our property and equipment, net, are as follows:

	<u>Cable distribution systems</u>	<u>Customer premises equipment</u>	<u>Support equipment, buildings and land</u>	<u>Total</u>
	in millions			
Cost:				
January 1, 2013	€ 3,749.2	€ 368.1	€ 185.4	€ 4,302.7
Additions.....	52.9	15.9	2.9	71.7
Retirements and disposals.....	(0.3)	(1.1)	(0.7)	(2.1)
Reclassification to intangible assets.....	—	—	(11.6)	(11.6)
March 31, 2013	<u>€ 3,801.8</u>	<u>€ 382.9</u>	<u>€ 176.0</u>	<u>€ 4,360.7</u>
Accumulated depreciation:				
January 1, 2013	€ 639.0	€ 135.9	€ 47.4	€ 822.3
Depreciation.....	78.2	17.8	5.7	101.7
Retirements and disposals.....	(0.3)	(1.1)	(0.7)	(2.1)
March 31, 2013	<u>€ 716.9</u>	<u>€ 152.6</u>	<u>€ 52.4</u>	<u>€ 921.9</u>
Property and equipment, net:				
March 31, 2013	<u>€ 3,084.9</u>	<u>€ 230.3</u>	<u>€ 123.6</u>	<u>€ 3,438.8</u>

During the three months ended March 31, 2013, no borrowing costs were capitalized.

For information concerning purchase obligations for property and equipment, see note 11.

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Intangible Assets Subject to Amortization, net

Changes during the three months ended March 31, 2013 in the carrying amounts of our finite-lived intangible assets are as follows:

	<u>Customer relationships</u>	<u>Subscriber acquisition costs</u>	<u>Other (a)</u>	<u>Total</u>
	in millions			
Cost:				
January 1, 2013	€ 1,358.6	€ 72.8	€ 90.1	€ 1,521.5
Additions	—	19.6	5.1	24.7
Retirements and disposals	—	(9.6)	(0.1)	(9.7)
Reclassification from property and equipment	—	—	11.6	11.6
March 31, 2013	<u>€ 1,358.6</u>	<u>€ 82.8</u>	<u>€ 106.7</u>	<u>€ 1,548.1</u>
Accumulated amortization:				
January 1, 2013	€ 349.1	€ 29.1	€ 42.9	€ 421.1
Amortization	40.4	13.9	5.8	60.1
Retirements and disposals	—	(9.6)	(0.1)	(9.7)
March 31, 2013	<u>€ 389.5</u>	<u>€ 33.4</u>	<u>€ 48.6</u>	<u>€ 471.5</u>
Intangible assets subject to amortization, net:				
March 31, 2013	<u>€ 969.1</u>	<u>€ 49.4</u>	<u>€ 58.1</u>	<u>€ 1,076.6</u>

(a) Primarily includes computer software costs and trade name.

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(8) Debt and Finance Lease Obligations

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

	March 31, 2013			Estimated fair value (a)		Carrying value (b)	
	Interest rate (c)	Borrowing currency	Euro equivalent	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
in millions							
Third-party debt:							
Parent:							
2009 UM Senior Notes (d)	9.625%	€	665.0	€	743.1	€	653.0
UM Senior Exchange Notes (d)....	9.500%	€	618.0		709.1		616.4
Subsidiaries:							
2009 UM Euro Senior Secured Notes (d)	8.125%	€	446.0		480.3		439.6
UM Euro Senior Secured Exchange Notes (d)	7.500%	€	735.1		802.6		740.9
UM Dollar Senior Secured Exchange Notes (d)	7.500%	\$	459.3		392.7		364.0
September 2012 UM Senior Secured Notes (d)	5.500%	€	650.0		648.8		650.0
December 2012 UM Dollar Senior Secured Notes (d).....	5.500%	\$	1,000.0		800.9		779.9
December 2012 UM Euro Senior Secured Notes (d)	5.750%	€	500.0		506.3		500.0
January 2013 UM Senior Secured Notes (d)	5.125%	€	500.0		486.3		500.0
New Unitymedia KabelBW Revolving Credit Facility (e)....	3.367%	€	337.5		—		—
Unitymedia KabelBW Revolving Credit Facility (e).....	2.617%	€	80.0		—		—
Vendor Financing (f).....	3.560%	€	22.2		22.2		19.8
Total third-party debt before transaction costs and accrued interest.....	7.105%		5,691.9	€	5,592.3	€	5,639.6
Transaction costs							(49.0)
Accrued interest – third-party.....							69.8
Total third-party debt.....							5,286.8
Related-party debt: (note 10)							
2010 Shareholder Loan (g).....	8.125%	€	95.8		(g)	(g)	95.8
2012 Shareholder Loan (h).....	9.625%	€	1,309.7		(h)	(h)	1,309.7
UMI Loan Payable (i)	10.000%	€	15.7		(i)	(i)	15.7
Total related-party debt before accrued interest	9.528%		1,421.2				1,421.2
Accrued interest – related-party							33.4
Total related-party debt							1,454.6
Total debt.....	7.620%		€ 7,113.1				6,741.4
Finance lease obligations.....							5.9
Total debt and finance lease obligations.....							6,747.3
Current portion							(92.8)
Noncurrent portion							€ 6,654.5
							€ 6,511.0

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- (a) 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) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on the market interest rates and estimated credit spreads, to the extent available, and other relevant factors. For additional information concerning fair value hierarchies, see note 6.
- (b) Amounts include the impact of premiums and discounts, where applicable.
- (c) Represents the stated interest rate of the debt instrument as of March 31, 2013 and does not include the impact of our deferred financing costs, premiums or discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party indebtedness was approximately 7.3% at March 31, 2013. For information concerning our derivative instruments, see note 5.
- (d) We collectively refer to the 2009 UM Senior Notes, the UM Senior Exchange Notes, the 2009 UM Euro Senior Secured Notes, the UM Euro Senior Secured Exchange Notes, the UM Dollar Senior Secured Exchange Notes, the September 2012 UM Senior Secured Notes, the December 2012 UM Dollar Senior Secured Notes, the December 2012 UM Euro Senior Secured Notes and the January 2013 UM Senior Secured Notes as the “Unitymedia KabelBW Notes”.
- (e) Unused borrowing capacity represents the maximum availability under the applicable facility at March 31, 2013 without regard to covenant compliance calculations. At March 31, 2013, the full amounts of the €337.5 million borrowing capacity under the New Unitymedia KabelBW Revolving Credit Facility and the €80.0 million borrowing capacity under the Unitymedia KabelBW Revolving Credit Facility were available to be borrowed. We collectively refer to the New Unitymedia KabelBW Revolving Credit Facility and the Unitymedia KabelBW Revolving Credit Facility as the “Unitymedia KabelBW Revolving Credit Facilities”.
- (f) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are generally due within one year. Repayments of vendor financing obligations are included in repayments of third-party debt and finance lease obligations in our condensed consolidated statements of cash flows.
- (g) Represents a loan payable to our shareholder, UPC Germany, that originated on December 1, 2010 (the 2010 Shareholder Loan). The 2010 Shareholder Loan bears interest at 8.125% per annum and accrued interest is transferred to the loan balance annually on January 1. All principal and interest on this loan (collectively €97.4 million at March 31, 2013) is due and payable on the maturity date of January 1, 2030. The net increase in the principal amount during the three months ended March 31, 2013 includes (i) a non-cash increase of €20.1 million related to the settlement of related-party payables and (ii) the transfer of €5.3 million in non-cash accrued interest to the loan balance. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (h) Represents a loan payable to our shareholder, UPC Germany, issued in May 2012 as consideration for all outstanding shares of UPC Germany Holdings transferred in connection with the KBW Fold-in (the 2012 Shareholder Loan). All principal and accrued interest (collectively €1,341.2 million at March 31, 2013) outstanding under this loan is due and payable on December 31, 2025. Interest accrues on the principal balance at 9.625% per annum, is subject to adjustment annually and will be transferred to the loan balance on January 1 of each year. Amounts outstanding may be converted to equity at the option of UPC Germany. The increase in the principal amount during the three months ended March 31, 2013 relates to the transfer of €79.7 million in non-cash accrued interest to the loan balance. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (i) Represents a loan payable to Unitymedia International GmbH (UMI), an entity that is consolidated by UPC Holding B.V. (UPC Holding), as further described in note 10. All principal (€15.7 million at March 31, 2013) outstanding under this loan is due and payable on December 31, 2025. The principal amount outstanding under this loan bears interest at an agreed upon rate that is subject to adjustment (10.000% per annum at March 31, 2013). Accrued interest (€0.3 million at March 31, 2013) may be, at the option of UMI, (i) transferred to the loan balance annually on January 1 or (ii) repaid on the last day of each month and on the date of principal repayments. The net increase in the principal amount during the three months ended March 31, 2013 includes (i) cash borrowings of €6.6 million, (ii) a decrease of €3.0 million related to the non-cash settlement of a distribution from UMI, (iii) the transfer of €1.1 million in non-cash accrued interest to the loan balance and (iv) cash payments of €0.4 million. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.

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Maturities of Debt

Maturities of our debt as of March 31, 2013 are presented below. The principal amounts presented below represent euro equivalents based on March 31, 2013 exchange rates:

	<u>Third-party debt</u>	<u>Related- party debt</u>	<u>Total</u>
	<u>in millions</u>		
Year ending December 31:			
2013 (remainder of year)	€ 22.2	€ —	€ 22.2
2014	—	—	—
2015	—	—	—
2016	—	—	—
2017	446.0	—	446.0
2018	—	—	—
Thereafter	4,806.2	1,421.2	6,227.4
Total maturities	<u>5,274.4</u>	<u>1,421.2</u>	<u>6,695.6</u>
Unamortized discount, net of premium	(8.4)	—	(8.4)
Total debt before transaction costs and accrued interest	<u>5,266.0</u>	<u>1,421.2</u>	<u>6,687.2</u>
Accrued interest, transaction costs and finance lease obligations, net	26.7	33.4	60.1
Total debt and finance lease obligations	<u>€ 5,292.7</u>	<u>€ 1,454.6</u>	<u>€ 6,747.3</u>

Subsequent Events

For information concerning a financing transaction completed subsequent to March 31, 2013, see note 12.

(9) Income Taxes

The income tax benefit attributable to our loss before income taxes differs from the income tax benefit computed by applying the German income tax rate of 32.37% for the 2013 period and 31.88% for the 2012 period as a result of the following:

	<u>Three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
	<u>in millions</u>	
Computed expected income tax benefit	€ 26.9	€ 10.9
Non-deductible or non-taxable interest and other items (a)	(11.3)	(4.9)
Recognized (unrecognized) net operating losses and interest carryforwards, net (b)	(4.2)	11.0
Other, net	(0.3)	(1.0)
Total	<u>€ 11.1</u>	<u>€ 16.0</u>

(a) The amount for the three months ended March 31, 2013 includes a net deferred tax expense of €1.3 million related to prior year non-deductible expenses. The amount for the three months ended March 31, 2012 includes a current tax benefit of €3.4 million and a net deferred tax expense of €3.2 million related to the reallocation of prior year interest expense within different fiscal entities.

(b) The amount for the three months ended March 31, 2012 includes a net deferred tax benefit of €14.9 million related to the reallocation of prior year interest expense within different fiscal entities.

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(10) Related-Party Transactions

Our related-party transactions consist of the following:

	Three months ended	
	March 31,	
	2013	2012
	in millions	
OpEx.....	€ 2.7	€ 1.8
SG&A	1.1	—
Allocated stock-based compensation expense.....	0.3	0.3
Fees and allocations.....	19.1	13.3
Included in EBIT.....	23.2	15.4
Interest expense	33.4	3.8
Interest income	(1.6)	(0.1)
Share of associate gain	(0.8)	(0.7)
Included in net loss	€ 54.2	€ 18.4
Property, equipment and intangible asset additions	€ 7.4	€ 1.5

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

SG&A. These amounts represent certain cash settled charges from other Liberty Global subsidiaries, including charges that originate with UPC Holding, to our company primarily for information technology maintenance costs.

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

Fees and allocations. These amounts represent charges that originate with UPC Holding and include charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations. The amounts charged generally are based on our company's estimated share of the applicable costs (including personnel-related and other costs associated with the services provided) incurred by the other Liberty Global subsidiaries, plus a mark-up. The monthly amounts charged are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified. Charges that originate with UPC Holding may be cash or loan settled. With respect to the amounts settled during the three months ended March 31, 2013 and 2012, all amounts were loan settled with the exception of €2.9 million and €4.8 million, respectively, that were cash settled.

In addition, in December 2012, Liberty Global Services B.V., a subsidiary of UPC Holding, entered into a sub-license agreement with UPC Germany and UPC Germany, in turn, entered into a sub-license agreement with our company for the use of the UPC trademark through April 2, 2017. The sub-license agreement between UPC Germany and our company was effective April 2, 2012 (the date of initial commercial use by Unitymedia KabelBW) and provides for an annual fee for the use of the UPC trademark equal to 0.5% of our revenue (as defined in the sub-license agreement). A fee of €2.5 million was recorded during the three months ended March 31, 2013. Sub-license fees are payable quarterly and are loan settled unless otherwise determined by UPC Germany.

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

Interest expense. Related-party interest expense relates to (i) our 2010 Shareholder Loan and 2012 Shareholder Loan to UPC Germany and (ii) our loan with UMI. Accrued interest is transferred to the respective loan balance annually on January 1 for the 2010 Shareholder Loan and the 2012 Shareholder Loan. For the loan with UMI, accrued interest may be, at the option of UMI, (a) transferred to the loan balance annually on January 1 or (b) repaid on the last day of each month and on the date of principal repayments. For additional information, see note 8.

Interest income. These amounts relate to the UPC Germany Loan Receivable, as discussed below. Interest income is included in other income (expense), net, in our condensed consolidated statements of operations.

Share of associate gain. These amounts relate to gains from our investment in UMI, as discussed below. Share of associate gain is included in other income (expense), net, in our condensed consolidated statements of operations.

Property, equipment and intangible asset additions. These amounts primarily represent customer premises and network-related equipment acquired from other Liberty Global subsidiaries, including Liberty Global Europe B.V. and UPC Holding. During the three months ended March 31, 2013 and 2012, €0.6 million and nil, respectively, of our property, equipment and intangible asset additions were cash settled.

UPC Germany loan receivable. Pursuant to our loan agreement with UPC Germany, we can require the repayment of all or part of the amount outstanding (€296.9 million at March 31, 2013) within five-days of providing notice to UPC Germany. Amounts loaned to UPC Germany pursuant to this agreement are subject to certain restrictions contained in the instruments governing our indebtedness. The interest rate on this loan, which is subject to adjustment, was 2.19% as of March 31, 2013. The net increase in the loan receivable – related-party during the three months ended March 31, 2013 includes (i) cash loaned of €917.0 million, (ii) cash received of €790.2 million and (iii) €1.4 million of accrued interest.

Investment in associate. We own a 100% equity interest in UMI. UMI was formed for the purpose of effecting certain asset purchase and related leasing transactions involving certain of UPC Holding's subsidiaries, including certain purchase and leaseback transactions that were initiated in December 2011. UMI is considered a special purpose entity and is consolidated by UPC Holding. Although UPC Holding has no equity or voting interest in UMI, all of the revenue of UMI is derived from UPC Holding. As such, UPC Holding is required by the provisions of EU-IFRS to consolidate UMI. As a result, we use the equity method to account for our investment in UMI. For more information regarding a loan from UMI to our company, see note 8.

Accounts payable and accrued liabilities – related-party. At March 31, 2013 and 2012, our accounts payable and accrued liabilities – related-party balances represent amounts owed to UPC Holding and other Liberty Global subsidiaries outside of our company for various related-party charges and fees and allocations, as further described above. These amounts may be cash or loan settled.

Related-party debt. For information regarding our 2010 Shareholder Loan and 2012 Shareholder Loan to UPC Germany and our loan payable to UMI, see note 8.

(11) Commitments and Contingencies

Commitments

In the ordinary course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable operating leases, programming contracts, purchases of customer premises equipment and other items. These include several long-term agreements with Deutsche Telekom AG (Deutsche Telekom) and its affiliates with respect to usage and access for underground cable duct space, the use of fiber optic transmission systems, tower and facility space. In general, these agreements primarily impose fixed prices for a limited period of time, which may then be raised to reflect additional

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services requested and increased costs, subject to index-linked limitations. Some agreements impose prices based on the cost to Deutsche Telekom of services that are passed through to us. In accordance with EU-IFRS, we treat these agreements as operating rather than finance leases or as other commitments, as applicable. We expect that in the ordinary course of business, operating leases that expire generally will be renewed or replaced by similar leases.

Legal Proceedings

Deutsche Telekom Litigation. On December 28, 2012, we filed a lawsuit against Telekom Deutschland GmbH, an operating subsidiary of Deutsche Telekom, in which we assert that we pay excessive prices for the co-use of Deutsche Telekom's cable ducts in our footprint. The Federal Network Agency approved rates for the co-use of certain ducts of Telekom Deutschland GmbH in March 2011. Based in part on these approved rates, we are seeking a reduction of the annual lease fees (approximately €76 million for 2012) by approximately two-thirds and the return of similarly calculated overpayments from 2009 through the ultimate settlement date, plus accrued interest. The resolution of this matter may take several years and no assurance can be given that our claims will be successful. Any recovery by our company will not be reflected in our consolidated financial statements until such time as the final disposition of this matter has been reached.

Guarantees and Other Credit Enhancements

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

Regulatory Issues

Our existing and planned activities in the cable television, broadband internet and telephony industries are subject to significant regulation and supervision by various regulatory bodies, including state authorities in the jurisdictions in which we operate, and German and EU authorities. 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 capital expenditures. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

FCO Regulatory Issues. The LGI/KBW Transaction was subject to the approval of the Federal Cartel Office (*FCO*) in Germany, which approval was received in December 2011. In January 2012, two of our competitors, including the incumbent telecommunications operator, each filed an appeal against the FCO regarding its decision to approve the LGI/KBW Transaction. We believe that the FCO's decision will ultimately be upheld and we currently intend to support the FCO in defending the decision. In addition, we do not expect that the filing of these appeals will have any impact on the ongoing integration and development of our operations. The ultimate resolution of this matter is expected to take up to four years, including the appeals process.

The FCO is investigating customary practices regarding the duration of contracts with multiple dwelling units for analog television services, including with respect to one such contract that the FCO had previously identified between our company and a landlord as potentially being subject to amendment by order. The FCO indicated that the contract term of 10 years may be an infringement of European and German antitrust laws and that it is inclined to open a test case that could set a precedent for all (or almost all) market participants. We cannot predict the outcome of these FCO proceedings, however, any FCO decision that would limit the duration of our contracts with multiple dwelling units could have a material adverse impact on the financial condition and results of operations of our company.

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Other

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

(12) Subsequent Event

Unitymedia KabelBW Notes

On April 16, 2013, Unitymedia Hessen and Unitymedia NRW GmbH (Unitymedia NRW) (together, the UM Senior Secured Notes Issuers) issued €350.0 million principal amount of 5.625% senior secured notes due April 15, 2023 (the April 2013 UM Senior Secured Notes).

The April 2013 UM Senior Secured Notes are (i) senior obligations of the UM Senior Secured Notes Issuers that rank equally with all of the existing and future senior debt of each UM Senior Secured Notes Issuer and are senior to all existing and future subordinated debt of each of the UM Senior Secured Notes Issuers and (ii) are secured by a first-ranking pledge over the shares of Unitymedia KabelBW and the UM Senior Secured Notes Issuers and certain other share and/or asset security of Unitymedia KabelBW and certain of its subsidiaries.

The April 2013 UM Senior Secured Notes contain certain customary incurrence-based covenants. For example, the ability to raise certain additional debt and make certain distributions or loans to other subsidiaries of Liberty Global is subject to a Consolidated Leverage Ratio test, as defined in the indenture.

Subject to the circumstances described below, the April 2013 UM Senior Secured Notes are non-callable until April 15, 2018. At any time prior to April 15, 2018, the UM Senior Secured Notes Issuers may redeem some or all of the April 2013 UM Senior Secured Notes by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments to the redemption date using the discount rate (as specified in the indenture) as of the redemption date plus 50 basis points.

The UM Senior Secured Notes Issuers may redeem some or all of the April 2013 UM Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and Additional Amounts (as defined in the indenture), if any, to the redemption date, if redeemed during the twelve-month period commencing on April 15 of the years set forth below:

<u>Year</u>	<u>Redemption price</u>
2018.....	102.813%
2019.....	101.875%
2020.....	100.938%
2021 and thereafter	100.000%

In addition, at any time prior to April 15, 2016, the UM Senior Secured Notes Issuers may redeem up to 40% of the April 2013 UM Senior Secured Notes (at redemption prices of 105.625%) with the net proceeds from one or more specified equity offerings.

The UM Senior Secured Notes Issuers may redeem all of the April 2013 UM Senior Secured Notes at prices equal to their respective principal amounts, plus accrued and unpaid interest, upon the occurrence of certain changes in tax law. If the UM Senior Secured Notes Issuers or certain of Unitymedia KabelBW’s subsidiaries sell certain assets or experience specific changes in control, the UM Senior Secured Notes Issuers must offer to repurchase the April 2013 UM Senior Secured Notes at a redemption price of 101%.

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 2012 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings 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, 2013 and 2012.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed consolidated statements of cash flows.

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 Unitymedia KabelBW or collectively to Unitymedia KabelBW and its subsidiaries.

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* may contain forward-looking statements, including statements regarding our business, product and finance strategies, our property, equipment and intangible asset additions, liquidity, subscriber growth and retention rates, competitive and economic factors and our plans to launch Horizon TV (as defined and described below under *Overview*). 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 2012 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 markets in which we operate;
- the competitive environment in the broadband communications and programming industries in Germany, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the EU and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital video, broadband internet, telephony and mobile 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 renew on equivalent terms existing contracts with housing associations and Professional Operators (as defined below), especially in light of the conditions imposed on us as a result of the LGI/KBW Transaction;
- our ability to maintain our revenue from channel carriage arrangements;

- our ability to maintain or increase the number of subscriptions to our digital video, broadband internet, 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 markets in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would impact our contractual relationships with housing associations and Professional Operators (as defined below) or would open our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions, including the impact of the conditions imposed in connection with the LGI/KBW Transaction on our operations;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the markets in which we operate;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our digital video services at reasonable costs;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- 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;
- our ability to successfully integrate and realize anticipated efficiencies from the businesses we or Liberty Global acquire, including the Kabel BW Group;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in the nature of key relationships with Deutsche Telekom and certain of its affiliates for the access and operation of a significant portion of our network;
- our ability to successfully interact with labor councils and unions; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband communications services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

Overview

We are a subsidiary of Liberty Global and we provide digital and analog cable television, broadband internet and telephony services over our broadband communications network and mobile services as a mobile virtual network operator (MVNO). We are the second largest cable operator in Germany and largest cable operator in the German federal states of North Rhine-Westphalia and Hesse (collectively, the Unitymedia footprint) and Baden-Württemberg (the KabelBW footprint) in terms of the number of video subscribers.

We focus on achieving organic revenue and customer growth in our broadband communications operations by developing and marketing bundled entertainment and communications services, and extending and upgrading the quality of our networks where appropriate. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of advanced services, comprised of digital cable, broadband internet, telephony and mobile services, with existing customers through product bundling and upselling, or by migrating analog cable customers to digital cable services that include various incremental service offerings, such as premium subscription channels, high definition (HD) programming and digital video recorder (DVR) services. We plan to continue to employ this strategy to achieve organic revenue and subscriber growth.

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

- Video Services. As of March 31, 2013, we provided our basic digital and analog cable services to 53.0% of the homes passed by our network. Our basic digital television channels are unencrypted in our KabelBW footprint and, effective January 1, 2013, are unencrypted in our Unitymedia footprint as well. Where our basic digital television channels are unencrypted, subscribers who have the necessary equipment and who pay the monthly subscription fee for our analog package are able to watch our basic digital television channels. Our premium digital cable service offerings include premium subscription channels and HD and DVR services. As of March 31, 2013, 16.6% of our video base subscribed to premium digital cable services. We provide video services via individual contracts with single dwelling units or bulk contracts with landlords or housing associations or with third parties that operate and administer the in-building network on behalf of housing associations (Professional Operators).
- Broadband Internet Services. Our current service portfolio consists of services with download speeds ranging from 10 Mbps to 150 Mbps with no time or data volume restrictions. Our customers can choose between various packages and bundles. As of March 31, 2013, our ultra high-speed broadband internet services were available to 97% of our homes passed.
- Telephony Services. We market our telephony services principally as a component of our product bundles but also on a standalone basis.
- Mobile Services. As an MVNO, we offer mobile voice and data services to our customers as a component of our product bundles or on a standalone basis.

We plan to introduce a next generation set-top box platform, which we refer to as Horizon TV, during 2013. Horizon TV is a family of media products that allows customers to view and share content across the television, computer, tablet and smartphone. Horizon TV is powered by a user interface that provides customers a seamless intuitive way to access linear, time-shifted, on-demand and web-based content on the television. It also features an advanced set-top box that delivers not only video, but also internet and voice connections along with a wireless network for the home. For our Horizon TV customers, we also plan to offer applications for various services.

As of March 31, 2013, we served 6,667,200 video revenue generating units (RGUs) (including 2,177,800 digital cable RGUs), 2,323,300 telephony RGUs and 2,319,100 broadband internet RGUs over a broadband communications network that passed 12,582,500 homes. We also offer mobile services using third-party networks, but do not currently include subscriptions to mobile services in our reported RGU statistics.

We added 168,900 RGUs on an organic basis during the three months ended March 31, 2013 as compared to 219,100 RGUs that we added on an organic basis during the three months ended March 31, 2012. The organic RGU growth during three months ended March 31, 2013 is attributable to the growth of our (i) broadband internet services, which added 99,900 RGUs and (ii)

telephony services, which added 91,300 RGUs. The growth of our broadband internet and telephony RGUs was partially offset by declines in our analog cable RGUs of 14,200 and our digital cable RGUs of 8,100.

Due to the expected impacts of, among other matters, (i) the ongoing negotiations related to the special termination right granted with respect to certain of our access agreements with our largest housing associations and (ii) the scheduled expiration of contracts for certain of our residential subscribers and housing associations, our analog cable RGU losses during the remainder of 2013 and over the next few years have the potential to be higher than current levels. For additional information, see the below discussion under *Material Changes in Results of Operations – Revenue*.

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

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

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

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

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant additions to our property, equipment and intangible assets are required to add customers to our networks and to upgrade our broadband communications networks and customer premises equipment to enhance our service offerings and improve the customer experience, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies, the expansion of existing technologies such as fiber-to-the-home or adverse regulatory developments could cause us to decide to undertake previously unplanned upgrades of our networks and customer premises equipment. In addition, no assurance can be given that any future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned additions to our property, equipment and intangible assets, our growth could be limited and our competitive position could be harmed. For information regarding our property and equipment additions, see *Material Changes in Financial Condition – Condensed Consolidated Statements of Cash Flows* below.

Certain public broadcasters have sent us notices purporting to terminate, effective December 31, 2012, the contracts that govern the fees we receive for the carriage of their channels. In addition, we made certain commitments to address the competition concerns of the Federal Cartel Office in Germany with respect to the LGI/KBW Transaction. These developments could have an adverse impact on our operating results and cash flows. For additional information, see the below discussion under *Material Changes in Results of Operations – Revenue*.

Material Changes in Results of Operations

This section provides an analysis of our results of operations for the three months ended March 31, 2013 and 2012.

Revenue

Revenue includes amounts earned from subscribers for ongoing services as well as channel carriage fees, interconnect fees, installation fees, late fees and other non-subscription revenue. We use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile services revenue.

The details of our revenue are as follows:

	Three months ended		Increase (decrease)	
	March 31,		€	%
	2013	2012		
	in millions			
Subscription revenue:				
Video	€ 241.8	€ 232.8	€ 9.0	3.9
Broadband internet	81.7	66.6	15.1	22.7
Telephony	96.5	81.2	15.3	18.8
Total subscription revenue	420.0	380.6	39.4	10.4
Non-subscription revenue (a)	48.9	50.0	(1.1)	(2.2)
Total	€ 468.9	€ 430.6	€ 38.3	8.9

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

The details of our revenue increase during the three months ended March 31, 2013, as compared to the corresponding period in 2012, are as follows (in millions):

Increase in subscription revenue due to change in (a):	
Average number of RGUs (b)	€ 27.0
Average monthly subscription revenue per average RGU (ARPU) (c)	12.4
Decrease in non-subscription revenue (d)	(1.1)
Total	€ 38.3

(a) Our subscription revenue includes revenue from multi-year bulk agreements with landlords, housing associations or with Professional Operators. These bulk agreements, which generally allow for the procurement of the basic video signals at volume-based discounts, provide access to nearly two-thirds of our video cable subscribers. Our bulk agreements are, to a significant extent, medium and long-term contracts, although approximately 47% of these agreements are scheduled to expire by the end of 2014. During the three months ended March 31, 2013, our 20 largest bulk agreement accounts generated approximately 7% of our revenue (including estimated amounts billed directly to the building occupants for premium cable, broadband internet and telephony services). No assurance can be given that our bulk agreements will be renewed or extended on financially equivalent terms or at all, particularly in light of the commitments we made to regulators in connection with the LGI/KBW Transaction. In this regard, we have, among other items, agreed to grant a special termination right with respect to certain of our existing access agreements (the Remedy HA Agreements). The total number of dwelling units covered by the affected agreements was approximately 340,000 as of December 15, 2011. At March 31, 2013, approximately

35% of the dwelling units covered by the Remedy HA Agreements remain subject to special termination rights. These dwelling units (which include agreements that are not among the 20 largest bulk agreements) accounted for approximately 1% of our total revenue during the three months ended March 31, 2013.

- (b) The increase in our subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of broadband internet, telephony and digital cable RGUs that were only partially offset by a decline in the average number of analog cable RGUs. The decline in our average number of analog cable RGUs led to a decline in the average number of total video RGUs during the three months ended March 31, 2013.
- (c) The increase in our subscription revenue related to a change in ARPU is due to (i) a net increase resulting primarily from the following factors: (a) higher ARPU from digital cable services, (b) higher ARPU due to a lower negative impact from free bundled services provided to new subscribers during promotional periods, (c) higher ARPU from analog cable services, as price increases were only partially offset by lower ARPU due to higher proportions of customers receiving discounted analog cable services through bulk agreements, (d) higher ARPU from broadband internet services and (e) slightly lower ARPU from telephony services due to the net impact of a decrease in ARPU associated with lower telephony call volume for customers on usage-based calling plans and an increase in ARPU associated with the migration of customers to fixed-rate plans and related value added services and (ii) an improvement in RGU mix, attributable to higher proportions of telephony, broadband internet and digital cable RGUs.
- (d) The decrease in our non-subscription revenue is primarily attributable to the net effect of (i) a decrease in carriage fee revenue, (ii) an increase in mobile services revenue and (iii) an increase in installation revenue that is attributable to a higher number of installations and an increase in the average installation fee. The carriage fee revenue is subject to contracts that expire or are otherwise terminable by either party on various dates ranging from 2013 through 2017. The aggregate amount of revenue related to these carriage contracts represented approximately 5% of our total revenue during the three months ended March 31, 2013. Public broadcasters have sent us notices purporting to terminate their carriage fee arrangements effective December 31, 2012. While we are still seeking to negotiate with the public broadcasters to reach acceptable agreements, we have rejected the termination notices and filed lawsuits for payment of carriage fees against the public broadcasters. Until such time as we resolve these disputes or obtain favorable outcomes in our lawsuits, we don't believe we meet the criteria to recognize the impacted revenue for 2013 and future periods. The aggregate amount of revenue related to these public broadcasters was €6.0 million or 1% of our total revenue during the three months ended March 31, 2012. In addition, some private broadcasters are seeking to change the distribution model to eliminate the payment of carriage fees and instead require that cable operators pay license fees to the broadcasters. In light of the foregoing, no assurance can be given that any of our carriage fee contracts will be renewed or extended on financially equivalent terms, or at all. Also, our ability to increase the aggregate carriage fees that we receive for each channel is limited by certain commitments we made to regulators in connection with the LGI/KBW Transaction.

OpEx

General. OpEx includes programming and copyright, network operations, interconnect, customer operations, customer care and other operating costs. Our network operating costs include significant expenses incurred pursuant to long-term agreements with Deutsche Telekom for the use of assets and other services provided by Deutsche Telekom. Our programming costs, which represent the majority of our direct costs, are expected to rise in future periods as a result of (i) growth in digital cable services, in combination with the planned introduction of Horizon TV, and (ii) price increases. In addition, we are subject to inflationary pressures with respect to our staff-related and other costs. 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. The details of our OpEx costs are as follows:

	Three months ended March 31,		Increase (decrease)	
	2013	2012	€	%
	in millions			
Direct costs (programming and copyright, interconnect and other)	€ 48.6	€ 42.9	€ 5.7	13.3
Staff-related costs	23.4	21.7	1.7	7.8
Network operating costs	36.8	38.1	(1.3)	(3.4)
Other indirect costs	25.9	22.0	3.9	17.7
Total.....	€ 134.7	€ 124.7	€ 10.0	8.0

Our total OpEx increased €10.0 million or 8.0% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase includes the following factors:

- An increase in direct costs of €5.7 million or 13.3%, primarily due to the net effect of (i) an increase in programming and copyright costs, primarily due to growth in digital video services, and (ii) a decrease in interconnect costs primarily due to lower rates; and
- An increase in other indirect costs of €3.9 million or 17.7%, mostly due to an increase in outsourced labor and professional fees, primarily attributable to (i) increased costs from higher call volumes due to a higher proportion of calls handled by third parties and (ii) higher consulting fees related to a customer retention project.

SG&A

General. SG&A includes human resources, information technology, general services, management, finance, legal and marketing costs, stock-based compensation and other general expenses. As noted above under *OpEx*, we are subject to inflationary pressures with respect to our staff-related and other costs. The details of our SG&A costs are as follows:

	Three months ended March 31,		Increase (decrease)	
	2013	2012	€	%
	in millions			
Staff-related costs	€ 17.0	€ 16.4	€ 0.6	3.7
Sales and marketing costs	22.7	23.8	(1.1)	(4.6)
Other indirect costs	19.9	16.7	3.2	19.2
Total.....	€ 59.6	€ 56.9	€ 2.7	4.7

Our total SG&A increased €2.7 million or 4.7% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase is primarily due to an increase in other indirect costs of €3.2 million or 19.2%, due to the net impact of (i) increases in facilities expense and other SG&A expense categories and (ii) a decrease in outsourced labor and professional fees, primarily due to consulting costs that were incurred in the 2012 period related to the integration of KBW's operations.

Related-Party Fees and Allocations

We recorded related-party fees and allocations related to corporate services performed by certain subsidiaries of Liberty Global of €19.1 million during the three months ended March 31, 2013, as compared to €13.3 million during the corresponding period in 2012. These amounts represent charges, which originate with UPC Holding and other Liberty Global subsidiaries, to our company, including charges for management, finance, legal, technology, marketing and other services that support our company's operations. For additional information, see note 10 to our condensed consolidated financial statements.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €7.9 million or 5.1% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. These changes are due primarily to the net effect of (i) an increase associated with property, equipment and intangible asset additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives and (ii) a decrease associated with certain assets becoming fully depreciated.

Net Financial and Other Expense

Our net financial and other expense primarily includes interest expense, interest income, foreign currency transaction gains or losses, realized and unrealized gains or losses on derivative instruments and losses on debt extinguishment. As further described below, we recorded net financial and other expense during the three months ended March 31, 2013 of €175.4 million, as compared to €116.5 million, during the corresponding period in 2012.

Interest expense – third-party

Interest expense – third-party decreased €6.6 million or 6.2% during the three months ended March 31, 2013, as compared to the corresponding period in 2012, primarily due to the net effect of (i) lower weighted average interest rates and (ii) higher average outstanding third-party debt balances.

Interest expense – related-party

Interest expense – related-party increased €29.6 million during the three months ended March 31, 2013, as compared to the corresponding period in 2012, due primarily to higher average outstanding related-party debt balances and, to a lesser extent, higher weighted average interest rates. Our related-party interest expense relates to (i) our shareholder loans payable to UPC Germany, including (a) the 2010 Shareholder Loan and (b) following the May 2012 KBW Fold-in, the 2012 Shareholder Loan and (ii) our loan to UMI. For additional information, see note 8 to our condensed consolidated financial statements.

Foreign currency transaction gains (losses), net

We recognized foreign currency transaction gains (losses), net, of (€32.8 million) during the three months ended March 31, 2013, as compared to €29.4 million during the corresponding period in 2012. These amounts primarily relate to the remeasurement of our U.S. dollar-denominated indebtedness.

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

	Three months ended	
	March 31,	
	2013	2012
	in millions	
Cross-currency derivative contracts (a).....	€ 40.9	€ (32.3)
Interest rate derivative contracts (a) (b).....	—	(1.9)
Total.....	€ 40.9	€ (34.2)

- (a) The gain during the three months ended March 31, 2013 is primarily attributable to the net effect of (i) gains associated with an increase in the value of the U.S. dollar relative to the euro, (ii) gains associated with increases in market interest rates in the euro market and (iii) losses associated with increases in market interest rates in the U.S. dollar market. The losses during the three months ended March 31, 2012 are primarily attributable to (a) losses associated with a decrease in the value of the U.S. dollar relative to the euro and (b) losses associated with decreases in market interest rates in the euro market.
- (b) During the third quarter of 2012, our interest rate derivative contracts were terminated.

For additional information regarding our derivative instruments, see notes 5 and 6 to our condensed consolidated financial statements.

Losses on debt extinguishment

We recognized losses on debt extinguishment of €52.6 million and nil during the three months ended March 31, 2013 and 2012, respectively. The loss during the 2013 period relates to a debt extinguishment loss for the redemption of a portion of our 2009 UM Euro Senior Secured Notes, which includes (i) €37.4 million representing the difference between the principal amount and redemption price of the debt redeemed and (ii) €15.2 million associated with the write-off of deferred financing costs and an unamortized discount.

Income tax benefit

We recognized income tax benefit of €11.1 million and €16.0 million during the three months ended March 31, 2013 and 2012, respectively.

The income tax benefit during the three months ended March 31, 2013 differs from the expected income tax benefit of €26.9 million (based on the German group income tax rate of 32.37%) due primarily to the negative impact of (i) certain permanent differences between the financial and tax accounting treatment of interest and other items and (ii) the nonrecognition of certain net operating losses and interest carryforwards.

The income tax benefit during the three months ended March 31, 2012 differs from the expected income tax benefit of €10.9 million (based on the German group income tax rate of 31.88%) due primarily to the positive impact of the recognition of certain net operating losses and interest carryforwards. This positive impact was partially offset by the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

For additional information regarding our income taxes, see note 9 to our condensed consolidated financial statements.

Net loss

We reported net losses of €72.1 million and €18.3 million during the three months ended March 31, 2013 and 2012, 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 are subject to a high degree of volatility and, as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-operating items, our ability to achieve net earnings is largely dependent on our ability to increase our aggregate Adjusted EBITDA to a level that more than offsets the aggregate amount of our (a) stock-based compensation, (b) related-party fees and allocations, (c) impairment, restructuring and other operating items, (d) depreciation and amortization, (e) net financial and other expense and (f) income taxes. As we use the term, Adjusted EBITDA is defined as EBITDA before stock-based compensation, impairment, restructuring and other operating items and related-party fees and allocations.

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

Although our consolidated operating subsidiaries have generated cash from operating activities, the terms of our subsidiaries, debt instruments restrict our ability to access the assets of our subsidiaries. At March 31, 2013, substantially all of our consolidated cash and cash equivalents of €26.4 million were held by our subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax considerations or other factors.

Liquidity of Unitymedia KabelBW

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

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

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

In addition to cash and cash equivalents, the primary sources of liquidity of Unitymedia Hessen, Unitymedia NRW, KBW and our other operating subsidiaries is cash provided by operations and, in the case of Unitymedia Hessen and Unitymedia NRW, any borrowing availability under the Unitymedia KabelBW Revolving Credit Facilities. At March 31, 2013, we had aggregate borrowing capacity of €417.5 million under the Unitymedia KabelBW Revolving Credit Facilities.

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

Our most significant financial obligations are our debt obligations, as described in note 8 to our condensed consolidated financial statements. The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result, additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments.

Capitalization

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash and cash equivalents, our loan receivable from UPC Germany, the cash provided from the operations of our subsidiaries and any available borrowings under the Unitymedia KabelBW Revolving Credit Facilities will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. However, as our debt matures in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase the Adjusted EBITDA of our operating subsidiaries and to achieve adequate returns on our capital expenditures and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our and our subsidiaries' various debt instruments. In this regard, if our Adjusted EBITDA were to decline, we could be required to repay or limit our borrowings under the Unitymedia KabelBW Revolving Credit Facilities 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.

Condensed Consolidated Statements of Cash Flows

The below discussion is based on the amounts as presented in our condensed consolidated statements of cash flows.

Summary. Our condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012 are summarized as follows:

	Three months ended		Change
	March 31,		
	2013	2012	
	in millions		
Net cash provided by operating activities	€ 226.9	€ 276.1	€ (49.2)
Net cash used by investing activities	(225.9)	(200.8)	(25.1)
Net cash provided (used) by financing activities	5.2	(61.3)	66.5
Net increase in cash and cash equivalents	<u>€ 6.2</u>	<u>€ 14.0</u>	<u>€ (7.8)</u>

Operating activities. The decrease in net cash provided is primarily attributable to (i) a decrease in the cash provided by our working capital items that more than offset an increase in our Adjusted EBITDA and (ii) a decrease in cash provided due to higher cash payments for interest.

Investing activities. The increase in net cash used is primarily attributable to the net effect of (i) an increase in cash used to fund advances to UPC Germany of €44.9 million and (ii) a decrease in cash used due to lower capital expenditures of €20.6 million.

The capital expenditures that we report in our consolidated statements of cash flows do not include amounts that are financed under vendor financing or finance lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In the following discussion, we present (i) our capital expenditures as reported in our consolidated statements of cash flows, which exclude amounts financed under vendor financing or finance lease arrangements, and (ii) our total property, equipment and intangible asset additions,

which include our capital expenditures on an accrual basis and amounts financed under vendor financing or finance lease arrangements.

Our capital expenditures were €99.1 million and €119.7 million during the three months ended March 31, 2013 and 2012, respectively, and our property, equipment and intangible asset additions were €96.4 million and €118.9 million during the three months ended March 31, 2013 and 2012, respectively. The decrease in our property, equipment and intangible asset additions is primarily due to the net effect of (i) a decrease in expenditures for the purchase and installation of customer premises equipment, (ii) a decrease in expenditures for new build and upgrade projects to expand services and (iii) an increase in capitalized third-party commissions of €1.4 million, from €18.2 million during the 2012 period to €19.6 million during the 2013 period. In terms of the composition of our property, equipment and intangible asset additions during the first three months of 2013, (a) 55% relates to the rebuild and upgrade of our distribution network, primarily in connection with the upgrade of in-home wiring, (b) 20% relates to capitalized third-party commissions, (c) 17% relates to the purchase and installation of customer premises equipment and (d) the remainder relates to expenditures for general support systems and other intangible assets.

Financing activities. The increase in cash is due to the net effect of (i) an increase in cash related to higher net borrowings of third-party debt of €119.9 million, (ii) a decrease in cash associated with higher payments of financing costs and debt premiums of €40.7 million and (iii) a decrease in cash related to lower net borrowings of related-party debt of €12.7 million.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.