unitymedia
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Condensed Consolidated Financial Statements
June 30, 2014

UNITYMEDIA KABELBW GMBH
Aachener Strasse 746-750
50933 Cologne
Germany

UNITYMEDIA KABELBW GMBH

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CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2014	December 31, 2013
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	€ 20.0	€ 13.6
Trade receivables and unbilled revenue, net	116.6	107.1
Loan receivable – related-party (note 9)	747.4	413.2
Other current assets (notes 4 and 9)	37.9	28.2
Total current assets	921.9	562.1
Property and equipment, net (note 6)	3,357.7	3,403.7
Goodwill	2,841.7	2,841.7
Intangible assets subject to amortization, net (note 6)	904.8	971.9
Investment in associate (note 9)	62.1	61.1
Other noncurrent assets (notes 4 and 9)	62.2	62.2
Total noncurrent assets	7,228.5	7,340.6
Total assets	€ 8,150.4	€ 7,902.7

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

CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)
(unaudited)

	June 30, 2014	December 31, 2013
	in millions	
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	€ 51.1	€ 64.8
Accrued liabilities	172.0	173.3
Accounts payable and accrued liabilities – related-party (note 9)	57.8	45.5
Corporate income taxes payable	35.2	25.8
Current provisions	21.7	23.5
Deferred revenue and advance payments from subscribers and others	180.7	100.0
Current portion of debt and finance lease obligations (note 7)	268.1	139.5
Other current liabilities (note 4)	19.0	27.8
Total current liabilities	805.6	600.2
Noncurrent debt and finance lease obligations (note 7):		
Third-party	5,515.7	5,506.4
Related-party	1,305.8	1,219.5
Deferred tax liabilities	488.3	495.9
Noncurrent provisions	27.9	25.8
Other noncurrent liabilities (note 4)	41.1	38.4
Total noncurrent liabilities	7,378.8	7,286.0
Total liabilities	8,184.4	7,886.2
Commitments and contingencies (note 10)		
Shareholder's equity (deficit):		
Share capital	—	—
Additional paid-in capital	940.8	940.7
Accumulated deficit	(971.3)	(920.7)
Accumulated other comprehensive loss, net of taxes	(3.5)	(3.5)
Total shareholder's equity (deficit)	(34.0)	16.5
Total liabilities and shareholder's equity (deficit)	€ 8,150.4	€ 7,902.7

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	in millions			
Revenue (note 3)	€ 503.6	€ 479.7	€ 1,012.3	€ 948.6
Operating costs and expenses:				
Operating (other than depreciation and amortization) (OpEx) (note 9)	132.9	138.9	269.2	279.4
Selling, general and administrative (other than depreciation and amortization) (including share-based compensation) (SG&A) (note 9)	55.7	60.6	116.1	114.4
Impairment, restructuring and other operating items, net	1.0	2.2	2.6	3.7
Related-party fees and allocations (note 9)	22.4	17.3	48.9	36.4
	212.0	219.0	436.8	433.9
Earnings before interest, taxes, depreciation and amortization (EBITDA)	291.6	260.7	575.5	514.7
Depreciation and amortization	177.3	167.0	354.1	328.8
Earnings before interest and taxes (EBIT)	114.3	93.7	221.4	185.9
Financial and other expense:				
Interest expense:				
Third-party	(101.1)	(100.9)	(200.4)	(201.0)
Related-party (note 9)	(29.5)	(34.0)	(58.6)	(67.4)
Foreign currency transaction gains (losses), net	(6.5)	16.1	(7.6)	(16.7)
Realized and unrealized gains (losses) on derivative instruments, net (note 4)	(1.0)	(40.8)	(8.3)	0.1
Losses on debt extinguishment	—	—	—	(52.6)
Other income, net (note 9)	4.2	3.8	7.7	6.4
Net financial and other expense	(133.9)	(155.8)	(267.2)	(331.2)
Loss before income taxes	(19.6)	(62.1)	(45.8)	(145.3)
Income tax expense (note 8)	(10.3)	(60.1)	(4.8)	(49.0)
Net loss / comprehensive loss (a)	€ (29.9)	€ (122.2)	€ (50.6)	€ (194.3)
Further details of OpEx and SG&A:				
Network operating costs	€ 44.3	€ 43.1	€ 89.7	€ 86.2
Direct costs (programming and copyright, interconnect and other)	42.9	46.7	86.9	94.8
Staff-related costs (excluding restructuring charges)	39.3	40.9	78.1	81.8
Sales and marketing costs	21.9	27.0	48.9	49.7
Outsourced labor and professional services	17.3	17.5	35.4	33.8
Other indirect costs	22.9	24.3	46.3	47.5
	€ 188.6	€ 199.5	€ 385.3	€ 393.8
Further details of impairment, restructuring and other operating items, net:				
Restructuring charges	€ 1.0	€ 2.4	€ 3.4	€ 4.2
Gains on disposal of assets	(0.5)	(0.2)	(1.4)	(0.5)
Other	0.5	—	0.6	—
	€ 1.0	€ 2.2	€ 2.6	€ 3.7

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

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

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

	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss, net of taxes	Total shareholder's equity (deficit)
	in millions			
Balance at January 1, 2013	€ 941.4	€ (635.0)	€ (3.3)	€ 303.1
Net loss	—	(194.3)	—	(194.3)
Share-based compensation (note 9)	0.7	—	—	0.7
Balance at June 30, 2013	€ 942.1	€ (829.3)	€ (3.3)	€ 109.5
Balance at January 1, 2014	€ 940.7	€ (920.7)	€ (3.5)	€ 16.5
Net loss	—	(50.6)	—	(50.6)
Share-based compensation (note 9)	1.2	—	—	1.2
Capital charge in connection with the exercise of Liberty Global share-based incentive awards (note 9)	(1.1)	—	—	(1.1)
Balance at June 30, 2014	€ 940.8	€ (971.3)	€ (3.5)	€ (34.0)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six months ended June 30, 2014	Six months ended June 30, 2013
	in millions	
Cash flows from operating activities:		
Net loss	€ (50.6)	€ (194.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense	1.2	0.7
Impairment, restructuring and other operating items, net	2.6	3.7
Related-party fees and allocations	48.9	36.4
Depreciation and amortization	354.1	328.8
Amortization of deferred financing costs and non-cash interest accretion	2.7	4.1
Non-cash related-party interest expense	58.6	67.4
Foreign currency transaction losses, net	7.6	16.7
Realized and unrealized losses (gains) on derivative instruments, net	8.3	(0.1)
Losses on debt extinguishment	—	52.6
Deferred tax expense (benefit)	(7.6)	45.1
Changes in operating assets and liabilities	64.1	39.0
Net cash provided by operating activities	489.9	400.1
Cash flows from investing activities:		
Advances to parent, net	(327.9)	(194.0)
Capital expenditures	(217.4)	(193.1)
Other investing activities	—	1.1
Net cash used by investing activities	(545.3)	(386.0)
Cash flows from financing activities:		
Borrowings of third-party debt	80.0	850.0
Repayments of third-party debt and finance lease obligations	(15.9)	(468.1)
Payment of financing costs and debt premiums	(2.0)	(44.0)
Net repayments of related-party debt	—	(357.8)
Other financing activities	(0.3)	(0.1)
Net cash provided (used) by financing activities	61.8	(20.0)
Net increase (decrease) in cash and cash equivalents	6.4	(5.9)
Cash and cash equivalents:		
Beginning of period	13.6	20.2
End of period	€ 20.0	€ 14.3
The following amounts are included in net cash provided by operating activities:		
Cash paid for interest (excluding payments related to derivative instruments)	€ 180.4	€ 148.7
Net cash paid (refunded) for taxes	€ 5.2	€ (1.5)

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

(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 plc (Liberty Global), the successor to Liberty Global, Inc. Unitymedia KabelBW was formed in October 2009 in contemplation of the issuance of debt financing in connection with Unitymedia KabelBW's then potential acquisition of the entity 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, fixed-line telephony and mobile services to its residential and business customers.

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 2013 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 share-based compensation. Actual results could differ from those estimates.

The Unitymedia KabelBW Notes, as defined and described in note 7, are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market, which is not a regulated market (as defined by Article 1(13) of Directive 93/22/EEC).

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of June 30, 2014.

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

These condensed consolidated financial statements were submitted to our supervisory board and approved for publication by the Managing Directors on August 20, 2014.

(2) Accounting Changes and Recent Pronouncements

First-time Application of Accounting Standards

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

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the EU
IFRS 10	Consolidated Financial Statements	January 1, 2014	December 11, 2012
IFRS 10 / IFRS11 / IFRS 12 (amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities - Transition Guidance	January 1, 2014	April 4, 2013
IAS 32 (amendments)	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	January 1, 2014	December 13, 2012
IAS 36 (amendments)	Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014	December 19, 2013
IAS 39 (amendments)	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014	December 19, 2013

New Accounting Standards, Not Yet Effective

Except for the following accounting standards that are endorsed and relevant for our Company, there were no additional standards and interpretations either issued by the International Accounting Standards Board (IASB) or endorsed by the EU but are not yet effective for the current reporting period which we see as relevant for our Company. We have not early adopted the accounting standards that are relevant for us.

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the EU
IFRS 15	Revenue from Contracts with Customers	January 1, 2017 (a)	Not yet endorsed
IAS 16 / IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016 (b)	Not yet endorsed
IAS 19 (amendments)	Defined benefit plans: Employee contributions	July 1, 2014 (b)	Not yet endorsed

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(a) In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. IFRS 15 will replace most existing revenue recognition guidance when it becomes effective on January 1, 2017. We are currently evaluating the effect that IFRS 15 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

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

(3) Segment Reporting

We operate in one segment in the country of Germany, within which we provide video, broadband internet, fixed-line telephony and mobile services to residential and business customers.

Our revenue by major category is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	in millions			
Subscription revenue (a):				
Video	€ 242.4	€ 242.9	€ 483.9	€ 484.7
Broadband internet	109.0	88.9	214.2	170.6
Fixed-line telephony	104.3	98.8	205.4	195.3
Cable subscription revenue	455.7	430.6	903.5	850.6
Mobile subscription revenue (b)	4.6	3.6	9.0	6.9
Total subscription revenue	460.3	434.2	912.5	857.5
Non-subscription revenue (b) (c)	43.3	45.5	99.8	91.1
Total revenue	€ 503.6	€ 479.7	€ 1,012.3	€ 948.6

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(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(b) Mobile subscription revenue excludes mobile interconnect revenue of €0.3 million during each of the three months ended June 30, 2014 and 2013, and €0.6 million and €0.5 million during the six months ended June 30, 2014 and 2013, respectively. Mobile interconnect revenue is included in non-subscription revenue.

(c) Non-subscription revenue includes carriage fee, installation and interconnect revenue. In addition, non-subscription revenue includes Business-to-Business (B2B) revenue from business broadband internet, video, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small office and home office (SOHO) subscribers. SOHO subscribers pay a premium price to receive enhanced service levels along with video, broadband internet or fixed-line telephony services that are similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which aggregated €4.7 million and €2.6 million during the three months ended June 30, 2014 and 2013, respectively, and €8.9 million and €4.8 million during the six months ended June 30, 2014 and 2013, respectively, is included in cable subscription revenue.

(4) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt, as applicable, and (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than our functional currency. In this regard, we have entered into various derivative instruments to manage foreign currency exposure with respect to the United States (U.S.) dollar. Hedge accounting is not applied to our cross-currency swaps.

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

	June 30, 2014			December 31, 2013		
	Current (a)	Noncurrent (a)	Total	Current (a)	Noncurrent (a)	Total
	in millions					
Assets:						
Cross-currency derivative contracts (b)	€ 1.9	€ 0.2	€ 2.1	€ 1.7	€ 3.2	€ 4.9
Liabilities:						
Cross-currency derivative contracts (b)	€ 1.1	€ 31.5	€ 32.6	€ 1.3	€ 25.4	€ 26.7

(a) Our current derivative assets and liabilities are included in other current assets and other current liabilities, respectively, 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 June 30, 2014 and December 31, 2013, (i) the fair values of our cross-currency derivative contracts that represented assets have been increased by credit risk valuation adjustments aggregating nil and €0.1 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 €3.0 million and €3.7 million, respectively. The adjustments to our derivative assets relate to credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market. The changes in the credit risk valuation adjustments associated with our cross-currency derivative contracts resulted in net gains (losses) of (€0.5 million) and €4.6 million during the three months ended June 30, 2014 and 2013, respectively, and (€0.8 million) and €0.3 million during the six months ended June 30, 2014 and 2013, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information concerning our fair value measurements, see note 5.

Our realized and unrealized gains (losses) on derivative instruments, net, were (€1.0 million) and (€40.8 million) during the three months ended June 30, 2014 and 2013, respectively, and (€8.3 million) and €0.1 million during the six months ended June 30, 2014 and 2013, respectively. These gains (losses) relate entirely to our cross-currency swap contracts.

The net cash paid or received related to each of our derivative instruments is classified as an operating, investing or financing activity in our condensed consolidated statements of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. For derivative contracts that are terminated prior to maturity, the cash paid or received upon termination that relates to future periods is classified as a financing activity. Our cash inflows related to derivative instruments during the six months ended June 30, 2014 and 2013 were €0.4 million and €0.2 million, respectively, and are classified as operating activities in our condensed consolidated statements of cash flows.

The terms of our outstanding cross-currency swap contracts at June 30, 2014 are as follows:

Final maturity date (a)	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate due from counterparty	Interest rate due to counterparty
	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.

(5) Fair Value Measurements

Our derivative instruments are the only financial instruments that are accounted for at fair value as of June 30, 2014. The reported fair values of our derivative instruments as of June 30, 2014 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 six months ended June 30, 2014, 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 4, we have entered into various derivative instruments to manage our 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 swaps are quantified and further explained in note 4.

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

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of our company (our only cash-generating unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs 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 six months ended June 30, 2014 or 2013.

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

		June 30, 2014		December 31, 2013	
	Category (a)	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value
		in millions			
Assets carried at fair value – derivative financial instruments	I	€ 2.1	€ 2.1	€ 4.9	€ 4.9
Assets carried at cost or amortized cost:					
Loan receivable – related-party	II	€ 747.4	(b)	€ 413.2	(b)
Trade receivables and unbilled revenue	II	122.9	€ 122.9	111.5	€ 111.5
Cash and cash equivalents	II	20.0	€ 20.0	13.6	€ 13.6
Other current and noncurrent financial assets (including related-party amounts)	II	43.1	€ 43.1	44.5	€ 44.5
Restricted cash	II	1.6	€ 1.6	1.6	€ 1.6
Total assets carried at cost or amortized cost		€ 935.0		€ 584.4	
Liabilities carried at fair value – derivative financial instruments	I	€ 32.6	€ 32.6	€ 26.7	€ 26.7
Liabilities carried at cost or amortized cost:					
Debt obligations	III	€ 5,778.5	€ 6,313.2	€ 5,640.3	€ 5,983.1
Loans payable – related-party	III	1,305.8	(b)	1,219.5	(b)
Accrued liabilities (including related-party accrued liabilities)	III	210.6	€ 210.6	194.5	€ 194.5
Accounts payable and other liabilities (including related-party accounts payable)	III	71.1	€ 71.1	92.6	€ 92.6
Finance lease obligations	V	5.3	€ 5.3	5.6	€ 5.6
Total liabilities carried at cost or amortized cost		€ 7,371.3		€ 7,152.5	

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

(b) 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:

	Interest income	Interest expense	Other statement of operations effects (a)	Impact on loss before income taxes
		in millions		
Three months ended June 30, 2014:				
Derivative assets carried at fair value through our condensed consolidated statement of operations	€ —	€ —	€ 0.1	€ 0.1
Assets carried at cost or amortized cost:				
Trade receivables (b)	0.1	—	(2.7)	(2.6)
Loan receivable – related-party	3.7	—	—	3.7
Derivative liabilities carried at fair value through our condensed consolidated statement of operations	—	—	(1.1)	(1.1)
Liabilities carried at cost or amortized cost	—	(130.6)	(6.5)	(137.1)
	€ 3.8	€ (130.6)	€ (10.2)	€ (137.0)
Three months ended June 30, 2013:				
Derivative assets carried at fair value through our condensed consolidated statement of operations	€ —	€ —	€ (37.2)	€ (37.2)
Assets carried at cost or amortized cost:				
Trade receivables (b)	0.2	—	(4.6)	(4.4)
Loan receivable – related-party	3.2	—	—	3.2
Derivative liabilities carried at fair value through our condensed consolidated statement of operations	—	—	(3.6)	(3.6)
Liabilities carried at cost or amortized cost	—	(134.9)	16.1	(118.8)
	€ 3.4	€ (134.9)	€ (29.3)	€ (160.8)
Six months ended June 30, 2014:				
Derivative assets carried at fair value through our condensed consolidated statement of operations	€ —	€ —	€ (1.8)	€ (1.8)
Assets carried at cost or amortized cost:				
Trade receivables (b)	0.5	—	(6.6)	(6.1)
Loan receivable – related-party	6.3	—	—	6.3
Derivative liabilities carried at fair value through our condensed consolidated statement of operations	—	—	(6.5)	(6.5)
Liabilities carried at cost or amortized cost	—	(259.0)	(7.6)	(266.6)
	€ 6.8	€ (259.0)	€ (22.5)	€ (274.7)
Six months ended June 30, 2013:				
Derivative assets carried at fair value through our condensed consolidated statement of operations	€ —	€ —	€ 0.1	€ 0.1
Assets carried at cost or amortized cost:				
Trade receivables (b)	0.4	—	(8.0)	(7.6)
Loan receivable – related-party	4.8	—	—	4.8
Derivative liabilities carried at fair value through our condensed consolidated statement of operations	—	—	—	—
Liabilities carried at cost or amortized cost	—	(268.4)	(69.3)	(337.7)
	€ 5.2	€ (268.4)	€ (77.2)	€ (340.4)

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

(6) Long-lived Assets

Property and Equipment, Net

Changes during the six months ended June 30, 2014 in the carrying amounts of our property and equipment, net, are as follows:

	Cable distribution systems	Customer premises equipment	Support equipment, buildings and land	Total
		in millions		
Cost:				
January 1, 2014	€ 3,947.4	€ 465.3	€ 187.7	€ 4,600.4
Additions	118.0	52.7	12.5	183.2
Retirements and disposals	(6.2)	(58.4)	(2.8)	(67.4)
June 30, 2014	€ 4,059.2	€ 459.6	€ 197.4	€ 4,716.2
Accumulated depreciation:				
January 1, 2014	€ 930.9	€ 198.0	€ 67.8	€ 1,196.7
Depreciation	170.4	43.7	15.1	229.2
Retirements and disposals	(6.2)	(58.4)	(2.8)	(67.4)
June 30, 2014	€ 1,095.1	€ 183.3	€ 80.1	€ 1,358.5
Property and equipment, net:				
June 30, 2014	€ 2,964.1	€ 276.3	€ 117.3	€ 3,357.7

During the six months ended June 30, 2014, no borrowing costs were capitalized.

Intangible Assets Subject to Amortization, net

Changes during the six months ended June 30, 2014 in the carrying amounts of our finite-lived intangible assets are as follows:

	Customer relationships	Subscriber acquisition costs	Other (a)	Total
	in millions			
Cost:				
January 1, 2014	€ 1,358.6	€ 100.5	€ 117.4	€ 1,576.5
Additions	—	34.8	23.0	57.8
Retirements and disposals	—	(30.2)	(9.2)	(39.4)
June 30, 2014	€ 1,358.6	€ 105.1	€ 131.2	€ 1,594.9
Accumulated amortization:				
January 1, 2014	€ 510.8	€ 46.0	€ 47.8	€ 604.6
Amortization	80.9	28.7	15.3	124.9
Retirements and disposals	—	(30.2)	(9.2)	(39.4)
June 30, 2014	€ 591.7	€ 44.5	€ 53.9	€ 690.1
Intangible assets subject to amortization, net:				
June 30, 2014	€ 766.9	€ 60.6	€ 77.3	€ 904.8

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

(7) Debt and Finance Lease Obligations

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

	June 30, 2014			Estimated fair value (a)		Carrying value (b)	
	Interest rate (c)	Borrowing currency	Euro equivalent	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
				in millions			
Third-party debt:							
Parent:							
2009 UM Senior Notes (d)	9.625%	€ 665.0	€ 665.0	€ 715.7	€ 738.6	€ 654.7	€ 654.0
UM Senior Exchange Notes (d)	9.500%	€ 618.0	618.0	706.8	719.6	616.6	616.5
Subsidiaries:							
UM Euro Senior Secured Exchange Notes (d)	7.500%	€ 735.1	735.1	789.3	801.3	739.8	740.3
UM Dollar Senior Secured Exchange Notes (d)	7.500%	$ 459.3	335.5	359.2	361.8	340.3	338.3
September 2012 UM Senior Secured Notes (d)	5.500%	€ 650.0	650.0	704.8	671.5	650.0	650.0
December 2012 UM Dollar Senior Secured Notes (d)	5.500%	$ 1,000.0	730.4	756.5	707.1	730.4	725.2
December 2012 UM Euro Senior Secured Notes (d)	5.750%	€ 500.0	500.0	546.9	517.5	500.0	500.0
January 2013 UM Senior Secured Notes (d)	5.125%	€ 500.0	500.0	539.7	500.6	500.0	500.0
April 2013 UM Senior Secured Notes (d)	5.625%	€ 350.0	350.0	382.2	355.5	350.0	350.0
November 2013 UM Senior Secured Notes (d)	6.250%	€ 475.0	475.0	544.8	470.5	475.0	475.0
New Unitymedia KabelBW Revolving Credit Facility (e)	3.406%	€ 337.5	337.5	—	—	—	—
Unitymedia KabelBW Revolving Credit Facility (e)	2.656%	€ 80.0	80.0	79.4	—	80.0	—
Vendor financing (f)	3.620%	€ 67.8	67.8	67.8	36.0	67.8	36.0
Total third-party debt before transaction costs and accrued interest	6.786%		6,044.3	€ 6,193.1	€ 5,880.0	5,704.6	5,585.3
Transaction costs						(46.2)	(48.1)
Accrued interest – third-party						120.1	103.1
Total third-party debt						5,778.5	5,640.3
Related-party debt (note 9):							
2010 Shareholder Loan (g)	8.125%	€ 162.7	162.7	(g)	(g)	162.7	126.1
2012 Shareholder Loan (h)	9.625%	€ 1,071.8	1,071.8	(h)	(h)	1,071.8	961.4
2013 Shareholder Capex Loan (i)	7.500%	€ 12.7	12.7	(i)	(i)	12.7	11.8
Total related-party debt before accrued interest	9.408%		1,247.2			1,247.2	1,099.3
Accrued interest – related-party						58.6	120.2
Total related-party debt						1,305.8	1,219.5
Total debt	7.256%		€ 7,291.5			7,084.3	6,859.8
Finance lease obligations						5.3	5.6
Total debt and finance lease obligations						7,089.6	6,865.4
Current portion						(268.1)	(139.5)
Noncurrent portion						€ 6,821.5	€ 6,725.9

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(a) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 5.

(b) Amounts include the impact of premiums and discounts, where applicable.

(c) Represents the stated interest rate of the debt instrument as of June 30, 2014 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 6.9% at June 30, 2014. For information concerning our derivative instruments, see note 4.

(d) We collectively refer to the 2009 UM Senior Notes, UM Senior Exchange 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, the January 2013 UM Senior Secured Notes, the April 2013 UM Senior Secured Notes and the November 2013 UM Senior Secured Notes as the "Unitymedia KabelBW Notes."

(e) 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." At June 30, 2014, the remaining €337.5 million of borrowing capacity under the Unitymedia KabelBW Revolving Credit Facilities was available to be borrowed. When the June 30, 2014 compliance reporting requirements have been completed and assuming no changes from June 30, 2014 borrowing levels, we anticipate that the remaining €337.5 million borrowing capacity of the Unitymedia KabelBW Revolving Credit Facilities will continue to be available to be borrowed. The aggregate principal amount outstanding under the Unitymedia KabelBW Revolving Credit Facilities is included in current portion of debt and finance lease obligations in our condensed consolidated balance sheet.

(f) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are generally due within one year. At June 30, 2014 and December 31, 2013, the amounts owed pursuant to these arrangements include €9.6 million and €5.2 million, respectively, of value-added tax (VAT) that was paid on our behalf to the vendor. 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 €168.8 million at June 30, 2014) is due and payable on the maturity date of January 1, 2030. The net increase in the principal amount during the six months ended June 30, 2014 includes (i) a non-cash increase of €27.7 million related to the settlement of related-party payables and (ii) the transfer of €8.9 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 (the 2012 Shareholder Loan). All principal and accrued interest (collectively €1,123.8 million at June 30, 2014) 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 is 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 net increase in the principal amount during the six months ended June 30, 2014 includes the transfer of €110.4 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 our shareholder, UPC Germany, issued in September 2013 (the 2013 Shareholder Capex Loan). All principal and accrued interest (€13.2 million at June 30, 2014) outstanding under this loan is due and payable on January 1, 2030. The interest rate (7.500% as of June 30, 2014) is subject to adjustment on a quarterly basis. Interest is either (i) payable on the last day of each month or (ii) may be added to the outstanding principal amount on January 1 of each year. Amounts outstanding may be converted to equity at the option of UPC Germany. The net increase in the principal amount during the six months ended June 30, 2014 includes the transfer of €0.9 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.

Maturities of Debt

The euro equivalents of the maturities of our debt as of June 30, 2014 are presented below:

	Third-party debt	Related-party debt	Total
		in millions	
Year ending December 31:			
2014 (remainder of year)	€ 100.4	€ —	€ 100.4
2015	47.4	—	47.4
2016	—	—	—
2017	—	—	—
2018	—	—	—
2019	1,735.6	—	1,735.6
Thereafter	3,823.4	1,247.2	5,070.6
Total maturities	5,706.8	1,247.2	6,954.0
Unamortized discount, net of premium	(2.2)	—	(2.2)
Total debt before transaction costs and accrued interest	5,704.6	1,247.2	6,951.8
Accrued interest, transaction costs and finance lease obligations, net	79.2	58.6	137.8
Total debt and finance lease obligations	€ 5,783.8	€ 1,305.8	€ 7,089.6

(8) Income Taxes

The income tax expense attributable to our loss before income taxes differs from the income tax benefit computed by applying the German income tax rate of 32.59% for the 2014 periods and 32.37% for the 2013 periods as a result of the following:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
		in millions		
Computed expected income tax benefit	€ 6.4	€ 20.1	€ 14.9	€ 47.0
Non-deductible or non-taxable interest and other items (a)	(18.3)	(10.5)	(32.7)	(21.8)
Recognition of previously unrecognized tax benefits (expense) (b)	—	—	21.0	—
Unrecognized net operating losses and interest carryforwards, net	2.0	(4.8)	(7.3)	(9.0)
Loss of tax attributes due to a deemed change in control (c)	—	(64.5)	—	(64.5)
Other, net	(0.4)	(0.4)	(0.7)	(0.7)
Total	€ (10.3)	€ (60.1)	€ (4.8)	€ (49.0)

(a) Includes (i) a deferred tax benefit (expense) of €0.4 million and nil during the three months ended June 30, 2014 and 2013, respectively, and (€3.2 million) and (€1.3 million) during the six months ended June 30, 2014 and 2013, respectively, related to prior year items and (ii) a current tax benefit (expense) of €0.3 million and (€2.1 million) during the three and six months ended June 30, 2014, respectively, related to prior year items.

(b) The amount for the six months ended June 30, 2014 includes a net deferred tax benefit of €14.9 million and a current tax benefit of €6.1 million related to the final assessments of our income tax liabilities for fiscal years 2005 through 2007, which were recorded during the first quarter of 2014.

(c) The loss of tax attributes was recognized in connection with a transaction that was completed by our ultimate parent entity during the second quarter of 2013.

(9) Related-party Transactions

Our related-party transactions consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	in millions			
OpEx	€ 3.5	€ 3.6	€ 7.2	€ 6.3
SG&A	0.9	0.1	1.0	1.2
Allocated share-based compensation expense	0.6	0.4	1.2	0.7
Fees and allocations	22.4	17.3	48.9	36.4
Included in EBIT	27.4	21.4	58.3	44.6
Interest expense	29.5	34.0	58.6	67.4
Interest income	(3.7)	(3.2)	(6.3)	(4.8)
Share of associate gain	(0.6)	(0.4)	(1.0)	(1.2)
Included in net loss	€ 52.6	€ 51.8	€ 109.6	€ 106.0
Property, equipment and intangible asset additions	€ 18.1	€ 10.2	€ 40.8	€ 17.6

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

OpEx. These amounts represent certain cash settled charges from other Liberty Global subsidiaries, including charges that originate with UPC Holding B.V. (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 software maintenance costs.

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

During the six months ended June 30, 2014, we recorded aggregate capital charges of €1.1 million in our condensed consolidated statement of shareholder's equity (deficit) in connection with the exercise of Liberty Global share appreciation rights and the vesting of Liberty Global restricted share awards held by certain employees of our subsidiaries. These capital charges, which generally are loan settled, are based on the fair value of the underlying Liberty Global shares on the exercise or vesting date, as applicable.

Fees and allocations. These amounts represent charges that originate with UPC Holding and other Liberty Global subsidiaries and include charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations, including the use of the UPC trademark. The quarterly amounts charged are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified, generally the first quarter of the following year. The annual revision to reflect actual costs for 2013 and 2012 amounted to increases of €3.7 million and €1.8 million, respectively, in our billings from Liberty Global and certain other Liberty Global subsidiaries during the six months ended June 30, 2014 and 2013, respectively. Charges that originate with UPC Holding may be cash or loan settled. With respect to the amounts settled during the six months ended June 30, 2014 and 2013, all amounts were loan settled with the exception of €8.1 million and €2.9 million that were cash settled during the first quarter of 2014 and 2013, respectively, and €8.1 million and €8.3 million that were cash settled during the second quarter of 2014 and 2013, respectively.

Interest expense. Related-party interest expense relates to (i) our 2010 Shareholder Loan, 2012 Shareholder Loan and 2013 Shareholder Capex Loan to UPC Germany and (ii) during the 2013 periods, our loan with Unitymedia International GmbH (UMI). For additional information, see note 7.

Interest income. These amounts relate to the UPC Germany Loan Receivable and, during the 2014 periods, the UMI Loan Receivable, each as defined and described below. Interest income is included in other income, net, in our condensed consolidated statements of operations.

Share of associate gain. These amounts relate to gains from our investment in UMI. Share of associate gain is included in other income, 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, and are generally cash settled.

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

	June 30, 2014	December 31, 2013
	in millions	
Other current assets (a)	€ 1.5	€ 4.2
Loan receivable – related-party (b)	747.4	413.2
Investment in associate (c)	62.1	61.1
Other noncurrent assets (d)	33.7	33.0
Total	€ 844.7	€ 511.5
Accounts payable and accrued liabilities (e)	€ 57.8	€ 45.5
Related-party debt (f)	1,305.8	1,219.5
Total	€ 1,363.6	€ 1,265.0

(a) Represents various related-party receivables that may be cash or loan settled.

(b) Represents (i) principal and accrued interest associated with our loan receivable from UPC Germany (the UPC Germany Loan Receivable) and (ii) accrued interest associated with the UMI Loan Receivable (as defined as described below). Pursuant to the UPC Germany Loan Receivable agreement, we can require the repayment of all or part of the amount outstanding within five days of providing notice to UPC Germany. Amounts loaned to UPC Germany pursuant to the UPC Germany Loan Receivable 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 2.31% as of June 30, 2014. The net increase in the loan

receivable – related-party during the six months ended June 30, 2014 includes (i) cash loaned of €1,073.4 million, (ii) cash received of €745.5 million and (iii) accrued interest of €6.3 million.

(c) Represents our investment in UMI. 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.

(d) Represents our loan receivable from UMI that was issued in August 2013 and has a final maturity of December 2016 (the UMI Loan Receivable). Amounts loaned to UMI 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 2.54% as of June 30, 2014. The net increase in the UMI Loan Receivable during the six months ended June 30, 2014 includes (i) cash loaned of €16.9 million, (ii) cash repayments of €16.4 million and (iii) the transfer of €0.2 million in non-cash accrued interest to the receivable balance.

(e) Represents various non-interest bearing related-party payables that may be cash or loan settled.

(f) For information regarding our (i) 2010 Shareholder Loan, (ii) 2012 Shareholder Loan and (iii) 2013 Shareholder Capex Loan, see note 7.

(10) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable operating leases, 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 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.

Guarantees and Other Credit Enhancements

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

Legal 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 Deutsche Telekom 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.

Regulatory Issues

Our existing and planned activities in the cable television, broadband internet, fixed-line telephony and mobile 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. Our acquisition of Kabel BW GmbH (KBW) 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 our acquisition of KBW. On August 14, 2013, the Düsseldorf Court of Appeal issued a ruling that set aside the FCO's clearance decision. Although the Düsseldorf Court of Appeal did not grant the right to appeal against its ruling to the Federal Supreme Court, on September 16, 2013, we filed a formal request to appeal to the Federal Court of Justice seeking permission to appeal the Düsseldorf Court of Appeal's decision and our reasoned submission was filed on December 16, 2013. During the first quarter of 2014, interested third parties commented on our submission. We currently expect that the Federal Court of Justice will rule on our request during the second half of 2014. The Düsseldorf Court of Appeal's ruling is not legally binding until all appeals have been rejected. If we are not granted the right to appeal, or if any appeal is unsuccessful and the Düsseldorf Court of Appeal's ruling to overturn the FCO clearance becomes final and binding, our acquisition of KBW would be remitted to the FCO for a new phase II review. The FCO would have the power to clear the deal subject to additional remedies or, although we do not expect either to be the outcome, to refuse clearance of the transaction or clear the transaction unconditionally. We will continue to pursue any available opportunity to appeal the Düsseldorf Court of Appeal's ruling. We do not expect that the continued proceedings relating to these appeals will have any impact on the integration and development of our operations in Germany or the day-to-day running of our business. We cannot predict the final outcome of this appeal process, however, any new decision by the FCO with respect to our acquisition of KBW as a result of the Düsseldorf Court of Appeal's ruling, including any decision that increases the existing conditions we are subject to in connection with the FCO's initial approval of our acquisition of KBW or imposes additional conditions, could have a material adverse impact on our results of operations, cash flows or financial position.

FCO Communication. The FCO had previously communicated to us that it was reviewing 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 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 was inclined to open a test case that could set a precedent for all (or almost all) market participants. On May 22, 2014, the FCO closed this review process without any remedies or conditions.

Financial Transactions Tax. Eleven countries in the EU, including Germany, are participating in an enhanced cooperation procedure to introduce a financial transactions tax (FTT). Under the draft language of the FTT proposal, a wide range of financial transactions could be taxed at rates of at least 0.01% for derivative transactions based on the notional amount and 0.1% for other covered financial transactions based on the underlying transaction price. Each of the individual countries would be permitted to determine an exact rate, which could be higher than the proposed rates of 0.01% and 0.1%. Any implementation of the FTT could have a global impact because it would apply to all financial transactions where a financial institution is involved (including unregulated entities that engage in certain types of covered activity) and either of the parties (whether the financial institution or its counterparty) is in one of the eleven participating countries. Although ongoing debate in the relevant countries demonstrates continued momentum around the FTT, uncertainty remains as to when the FTT would be implemented and the breadth of its application. Based on current information, the FTT will likely not be effective until 2016. Any imposition of the FTT could increase banking fees and introduce taxes on internal transactions that we currently perform. Due to the uncertainty regarding the FTT, we are currently unable to estimate the financial impact that the FTT could have on our results of operations, cash flows or financial position.

Other

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

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

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

- *Forward-Looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, 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 and six months ended June 30, 2014 and 2013.
- *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 and competitive and economic factors. 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 evaluating these statements, you should consider the risks and uncertainties in the following list of 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 cable television, broadband and telecommunications 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 and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital video, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to renew on equivalent terms existing contracts with housing associations and Professional Operators (as defined and described below), especially in light of the present and any future conditions imposed on us as a result of our acquisition of KBW;
- 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, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the 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 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 present and any future conditions imposed in connection with our acquisition of KBW 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 and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and realize anticipated efficiencies from the businesses we or Liberty Global 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 distribution services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

Overview

We are a subsidiary of Liberty Global and we provide digital and analog cable television, broadband internet and fixed-line 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, fixed-line 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 residential subscribers to access digital cable, broadband internet, fixed-line telephony and mobile services in addition to our analog video services as follows:

- *Video Services.* As of June 30, 2014, we provided our basic digital and analog cable services to 52.0% of the homes passed by our network. Our basic digital television channels are unencrypted and, as a result, 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 June 30, 2014, 23.2% of our video base subscribed to premium digital cable services. We provide video services via individual contracts with single dwelling units or bulk contracts with landlords or housing associations or with third parties that operate and administer the in-building networks 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 June 30, 2014, our ultra high-speed broadband internet services were available to 97% of our homes passed.

- *Fixed-Line Telephony Services.* We market our fixed-line 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.

In September 2013, we introduced a next generation set-top box platform, which we refer to as "Horizon TV," in our Unitymedia footprint. 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. On our Horizon TV platform, we also offer applications for various services (such as YouTube, Facebook and others). The Horizon TV platform includes an online television application that offers over 90 linear video channels and access to video-on-demand (Horizon Go). Horizon Go was also launched in our KabelBW footprint in January 2014, and we expect to introduce full Horizon TV triple-play bundles in that region in the second half of 2014.

As of June 30, 2014, we served 6,584,900 video revenue generating units (RGUs) (including 2,257,500 digital cable RGUs), 2,742,900 broadband internet RGUs and 2,621,400 fixed-line telephony RGUs over a broadband communications network that passed 12,658,700 homes. In addition, at June 30, 2014, we served 276,400 mobile subscribers.

We added 123,900 and 129,100 RGUs on an organic basis during the three months ended June 30, 2014 and 2013, respectively, and 250,700 and 298,000 RGUs during the six months ended June 30, 2014 and 2013, respectively. The organic RGU growth during the three and six months ended June 30, 2014 is attributable to the growth of our (i) broadband internet services, which added 81,700 and 163,300 RGUs, respectively, (ii) fixed-line telephony services, which added 42,100 and 103,900 RGUs,

respectively, and (iii) digital cable services, which added 10,400 and 22,600 RGUs, respectively. The growth of our broadband internet, fixed-line telephony and digital cable RGUs was partially offset by a decline in our analog cable RGUs of 10,300 and 39,100, respectively.

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 video 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 fixed-line 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.

Material Changes in Results of Operations

This section provides an analysis of our results of operations for the three and six months ended June 30, 2014 and 2013.

Revenue

Revenue includes revenue earned from (i) subscribers for broadband communications and mobile services and (ii) B2B services, interconnect fees, installation fees, channel carriage fees and late fees. Consistent with the presentation of our revenue categories in note 3 to our condensed consolidated financial statements, we use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees and late fees.

The details of our revenue are as follows:

	Three months ended June 30,		Increase (decrease)	
	2014	2013	€	%
	in millions			
Subscription revenue (a):				
Video	€ 242.4	€ 242.9	€ (0.5)	(0.2)
Broadband internet	109.0	88.9	20.1	22.6
Fixed-line telephony	104.3	98.8	5.5	5.6
Cable subscription revenue	455.7	430.6	25.1	5.8
Mobile subscription revenue (b)	4.6	3.6	1.0	27.8
Total subscription revenue	460.3	434.2	26.1	6.0
Non-subscription revenue (b) (c)	43.3	45.5	(2.2)	(4.8)
Total revenue	€ 503.6	€ 479.7	€ 23.9	5.0

	Six months ended June 30,		Increase (decrease)	
	2014	2013	€	%
	in millions			
Subscription revenue (a):				
Video	€ 483.9	€ 484.7	€ (0.8)	(0.2)
Broadband internet	214.2	170.6	43.6	25.6
Fixed-line telephony	205.4	195.3	10.1	5.2
Cable subscription revenue	903.5	850.6	52.9	6.2
Mobile subscription revenue (b)	9.0	6.9	2.1	30.4
Total subscription revenue	912.5	857.5	55.0	6.4
Non-subscription revenue (b) (c)	99.8	91.1	8.7	9.5
Total revenue	€ 1,012.3	€ 948.6	€ 63.7	6.7

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(b) Mobile subscription revenue excludes mobile interconnect revenue of €0.3 million during each of the three months ended June 30, 2014 and 2013, and €0.6 million and €0.5 million during the six months ended June 30, 2014 and 2013, respectively. Mobile interconnect revenue is included in non-subscription revenue.

(c) Non-subscription revenue includes carriage fee, installation and interconnect revenue. In addition, non-subscription revenue includes B2B revenue from business broadband internet, video, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain SOHO subscribers. SOHO subscribers pay a premium price to receive enhanced service levels along with video, broadband internet or fixed-line telephony services that are similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which aggregated €4.7 million and €2.6 million during the three months ended June 30, 2014 and 2013, respectively, and €8.9 million and €4.8 million during the six months ended June 30, 2014 and 2013, respectively, is included in cable subscription revenue.

The details of our revenue increases during the three and six months ended June 30, 2014, as compared to the corresponding periods in 2013, are as follows:

	Three-month period	Six-month period
	in millions	
Increase in cable subscription revenue due to change in (a):		
Average number of RGUs (b)	€ 20.0	€ 40.5
Average monthly subscription revenue per average RGU (ARPU) (c)	5.1	12.4
Total increase in cable subscription revenue	25.1	52.9
Increase in mobile subscription revenue (d)	1.0	2.1
Total increase in subscription revenue	26.1	55.0
Increase (decrease) in non-subscription revenue (e)	(2.2)	8.7
Total	€ 23.9	€ 63.7

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(a) Our subscription revenue includes revenue from multi-year bulk agreements with landlords or 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 subscribers. Our bulk agreements are, to a significant extent, medium- and long-term contracts. As of June 30, 2014, bulk agreements covering approximately 37% of the video subscribers that we serve through these agreements expire by the end of 2015 or are terminable on 30-days notice. During the three months ended June 30, 2014, our 20 largest bulk agreement accounts generated approximately 7% of our total revenue (including estimated amounts billed directly to the building occupants for premium cable, broadband internet and fixed-line telephony services). No assurance can be given that our bulk agreements will be renewed or extended on financially equivalent terms or at all, particularly in light of the commitments we made to the FCO in connection with the December 15, 2011 acquisition of KBW. 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 Remedy HA Agreements was approximately 340,000 as of December 15, 2011. At June 30, 2014, approximately 14% 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) as of June 30, 2014 accounted for less than 1% of our total revenue during the three months ended June 30, 2014. During the third quarter of 2013, the Düsseldorf Court of Appeal decided to overturn the FCO's decision to clear our acquisition of KBW. For additional information, see note 10 to our condensed consolidated financial statements.

(b) The increases in our cable subscription revenue related to changes in the average numbers of RGUs are attributable to increases in the average numbers of broadband internet, fixed-line telephony and digital cable RGUs that were only partially offset by declines in the average numbers of analog cable RGUs.

(c) The increases in our cable subscription revenue related to changes in ARPU are due to (i) improvements in RGU mix attributable to higher proportions of broadband internet and fixed-line telephony RGUs and (ii) net increases resulting primarily from the following factors: (a) higher ARPU from broadband internet and digital cable services, (b) lower ARPU from fixed-line telephony services due to the net impact of (1) decreases in ARPU associated with lower fixed-line telephony call volumes for customers on usage-based calling plans and (2) increases in ARPU associated with the migration of customers to fixed-rate calling plans and related value-added services and (c) lower ARPU from analog cable services primarily due to lower negotiated rates for certain bulk agreements and higher proportions of customers receiving discounted analog cable services through these agreements.

(d) The increases in our mobile subscription revenue are primarily due to the net effect of (i) increases in the average numbers of mobile subscribers and (ii) lower ARPU due to the impact of increases in the proportions of subscribers receiving lower-priced tiers of mobile services.

(e) The changes in our non-subscription revenue are primarily attributable to the net effect of (i) during the six-month period, an €8.7 million increase in network usage revenue related to the settlement of prior year amounts during the first quarter of 2014, (ii) decreases in interconnect revenue of €3.3 million and €6.6 million, respectively, substantially all of which is attributable to lower fixed-line termination rates, (iii) increases in carriage fee revenue of €2.6 million and €4.6 million, respectively, and (iv) an increase (decrease) in installation revenue of (€0.5 million) and €1.6 million, respectively. Non-subscription revenue includes fees received for the carriage of certain channels included in our analog and digital cable offerings. This carriage fee revenue is subject to contracts that expire or are otherwise terminable by either party on various dates ranging from 2014 through 2018. The aggregate amount of revenue related to these carriage contracts represented approximately 5% of our total revenue during the three months ended June 30, 2014. No assurance can be given that these contracts will be renewed or extended on financially equivalent terms, or at all. In 2012, public broadcasters sent us notices purporting to terminate their carriage fee arrangements effective December 31, 2012. We have rejected these termination notices and we are seeking to negotiate with the public broadcasters to reach an acceptable agreement. Accordingly, beginning in 2013, we ceased recognition of the impacted revenue and will not recognize any future related revenue until such time as we resolve these disputes. 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 acquisition of KBW.

OpEx

General. OpEx includes programming and copyright, network operations, interconnect, customer operations, customer care and other costs related to our operations. 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 and copyright costs, which represent the majority of our direct costs, are expected to rise in future periods as a result of (i) growth in the number of our digital video subscribers, (ii) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (iii) rate increases. In addition, we are subject to inflationary pressures with respect to our 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 June 30,		Increase (decrease)	
	2014	2013	€	%
	in millions			
Network operating costs	€ 44.3	€ 43.1	€ 1.2	2.8
Direct costs (programming and copyright, interconnect and other)	42.9	46.7	(3.8)	(8.1)
Staff-related costs (excluding restructuring charges)	21.3	22.3	(1.0)	(4.5)
Outsourced labor and professional services	13.1	14.3	(1.2)	(8.4)
Other indirect costs	11.3	12.5	(1.2)	(9.6)
Total	€ 132.9	€ 138.9	€ (6.0)	(4.3)

	Six months ended June 30,		Increase (decrease)	
	2014	2013	€	%
	in millions			
Network operating costs	€ 89.7	€ 86.2	€ 3.5	4.1
Direct costs (programming and copyright, interconnect and other)	86.9	94.8	(7.9)	(8.3)
Staff-related costs (excluding restructuring charges)	42.4	46.7	(4.3)	(9.2)
Outsourced labor and professional services	27.2	27.4	(0.2)	(0.7)
Other indirect costs	23.0	24.3	(1.3)	(5.3)
Total	€ 269.2	€ 279.4	€ (10.2)	(3.7)

Our total OpEx decreased €6.0 million or 4.3% and €10.2 million or 3.7% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013. These decreases include the following factors:

- Decreases in direct costs of €3.8 million or 8.1% and €7.9 million or 8.3%, respectively, primarily due to the net effect of (i) decreases in interconnect costs, primarily attributable to (a) lower call volumes and (b) lower rates, and (ii) increases in programming and copyright costs, primarily due to growth in digital video services;

- Decreases in staff-related costs of €1.0 million or 4.5% and €4.3 million or 9.2%, respectively, primarily due to the net effect of (i) decreased costs related to higher proportions of capitalizable activities and (ii) annual wage increases;

- Increases in network operating costs of €1.2 million or 2.8% and €3.5 million or 4.1%, respectively, primarily due to the net effect of (i) higher outsourced labor costs associated with customer-facing activities during the six-month period and (ii) increases resulting from the release of certain accruals during the second quarter of 2013 following the reassessment of our obligations related to the refurbishment of customer premises equipment; and

- Decreases in other indirect costs of €1.2 million or 9.6% and €1.3 million or 5.3%, respectively, primarily due to decreases in bad debt expense.

SG&A

General. SG&A includes human resources, information technology, general services, management, finance, legal and sales and marketing costs, share-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 June 30,		Increase (decrease)	
	2014	2013	€	%
	in millions			
Staff-related costs (excluding restructuring charges)	€ 18.0	€ 18.6	€ (0.6)	(3.2)
Sales and marketing costs	21.9	27.0	(5.1)	(18.9)
Outsourced labor and professional services	4.2	3.2	1.0	31.3
Other indirect costs	11.6	11.8	(0.2)	(1.7)
Total	€ 55.7	€ 60.6	€ (4.9)	(8.1)

	Six months ended June 30,		Increase (decrease)	
	2014	2013	€	%
	in millions			
Staff-related costs (excluding restructuring charges)	€ 35.7	€ 35.1	€ 0.6	1.7
Sales and marketing costs	48.9	49.7	(0.8)	(1.6)
Outsourced labor and professional services	8.2	6.4	1.8	28.1
Other indirect costs	23.3	23.2	0.1	0.4
Total	€ 116.1	€ 114.4	€ 1.7	1.5

Our total SG&A increased (decreased) (€4.9 million) or (8.1%) and €1.7 million or 1.5% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013. These increases (decreases) include the following factors:

- Increases in outsourced labor and professional services of €1.0 million or 31.3% and €1.8 million or 28.1%, respectively, primarily due to increases in consulting costs related to strategic initiatives; and

- Decreases in sales and marketing costs of €5.1 million or 18.9% and €0.8 million or 1.6%, respectively, primarily due to the net effect of (i) lower costs associated with advertising campaigns and (ii) during the three-month period, lower third-party sales commissions primarily due to higher proportions of capitalized third-party sales commissions.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of €1.0 million and €2.2 million during the three months ended June 30, 2014 and 2013, respectively, and €2.6 million and €3.7 million during the six months ended June 30, 2014 and 2013, respectively. The 2014 amounts include (i) restructuring charges of €1.0 million and €3.4 million, respectively, associated with employee severance and termination costs related to reorganization activities and (ii) gains on disposal of assets of €0.5 million and €1.4 million, respectively. The 2013 amounts include (a) restructuring charges of €2.4 million and €4.2 million, respectively, associated with employee severance and termination costs related to reorganization activities and (b) gains on disposal of assets of €0.2 million and €0.5 million, respectively.

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

Related-party Fees and Allocations

We recorded related-party fees and allocations related to corporate services performed by Liberty Global of €22.4 million and €17.3 million during the three months ended June 30, 2014 and 2013, respectively, and €48.9 million and €36.4 million during the six months ended June 30, 2014 and 2013, respectively. 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, including the use of the UPC trademark. For additional information, see note 9 to our condensed consolidated financial statements.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €10.3 million or 6.2% and €25.3 million or 7.7% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013. These increases are due primarily to the net effect of (i) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) decreases associated with certain assets becoming fully depreciated and (iii) increases in the amortization of subscriber acquisition costs.

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 modification and extinguishment. As further described below, we recorded net financial and other expense of €133.9 million and €155.8 million during the three months ended June 30, 2014 and 2013, respectively, and €267.2 million and €331.2 million during the six months ended June 30, 2014 and 2013, respectively.

Interest expense – third-party

Interest expense – third-party remained relatively unchanged during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013, as average outstanding third-party debt balances and weighted average interest rates remained relatively constant. For additional information, see note 7 to our condensed consolidated financial statements.

Interest expense – related-party

Interest expense – related-party decreased €4.5 million or 13.2% and €8.8 million or 13.1% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013, due primarily to lower average outstanding related-party debt balances and, to a lesser extent, lower 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, (b) the 2012 Shareholder Loan and (c) the 2013 Shareholder Capex Loan, and (ii) a loan payable to UMI, which was fully repaid during the second quarter of 2013. For additional information, see note 7 to our condensed consolidated financial statements.

Foreign currency transaction gains (losses), net

We recognized foreign currency transaction gains (losses), net, of (€6.5 million) and €16.1 million during the three months ended June 30, 2014 and 2013, respectively, and (€7.6 million) and (€16.7 million) during the six months ended June 30, 2014 and 2013, respectively. 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.

Our realized and unrealized gains (losses) on derivative instruments, net, were (€1.0 million) and (€40.8 million) during the three months ended June 30, 2014 and 2013, respectively, and (€8.3 million) and €0.1 million during the six months ended June 30, 2014 and 2013, respectively. The loss during the three months ended June 30, 2014 is primarily attributable to the net effect of (i) losses associated with decreases in market interest rates in the euro market, (ii) gains associated with decreases in market interest rates in the U.S. dollar market and (iii) gains associated with an increase in the value of the U.S. dollar relative to the euro. The loss during the six months ended June 30, 2014 is primarily attributable to the net effect of (i) losses associated with decreases in market interest rates in the euro market, (ii) gains associated with an increase in the value of the U.S. dollar relative to the euro and (iii) gains associated with decreases in market interest rates in the U.S. dollar market. In addition, the losses during the 2014 periods include net losses of €0.5 million and €0.8 million, respectively, resulting from changes in our credit risk valuation adjustments. The loss during the three months ended June 30, 2013 is primarily attributable to the net effect of (i) losses associated with increases in market interest rates in the U.S. dollar market, (ii) gains associated with increases in market interest rates in the euro market and (iii) losses associated with a decrease in the value of the U.S. dollar relative to the euro. The gain during the six months ended June 30, 2013 is primarily attributable to the net effect of (i) losses associated with increases in market interest rates in the U.S. dollar market, (ii) gains associated with increases in market interest rates in the euro market and (iii) gains associated with an increase in the value of the U.S. dollar relative to the euro. In addition, the changes during the 2013 periods include net gains of €4.6 million and €0.3 million, respectively, resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 4 and 5 to our condensed consolidated financial statements.

Losses on debt extinguishment

We recognized losses on debt extinguishment of nil and €52.6 million during the six months ended June 30, 2014 and 2013, respectively. The loss during the 2013 period relates to a debt extinguishment loss for the redemption of a portion of our then existing euro-denominated 8.125% senior secured notes, which included (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 expense

We recognized income tax expense of €10.3 million and €60.1 million during the three months ended June 30, 2014 and 2013, respectively.

The income tax expense during the three months ended June 30, 2014 differs from the expected income tax benefit of €6.4 million (based on the German group income tax rate of 32.59%), due primarily to the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax expense during the three months ended June 30, 2013 differs from the expected income tax benefit of €20.1 million (based on the German group income tax rate of 32.37%) due primarily to the negative impacts of (i) the loss of tax attributes in connection with a transaction that was completed by our ultimate parent entity, (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items and (iii) the nonrecognition of certain net operating losses and interest carryforwards.

We recognized income tax expense of €4.8 million and €49.0 million during the six months ended June 30, 2014 and 2013, respectively.

The income tax expense during the six months ended June 30, 2014 differs from the expected income tax benefit of €14.9 million (based on the German group income tax rate of 32.59%), due primarily to the negative impacts 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 negative impacts of these items were partially offset by the positive impact of the recognition of previously unrecognized tax benefits.

The income tax expense during the six months ended June 30, 2013 differs from the expected income tax benefit of €47.0 million (based on the German group income tax rate of 32.37%), due primarily to the negative impacts of (i) the loss of tax attributes in connection with a transaction that was completed by our ultimate parent entity, (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items and (iii) the nonrecognition of certain net operating losses and interest carryforwards.

For additional information regarding our income taxes, see note 8 to our condensed consolidated financial statements.

Net loss

We reported net losses of €29.9 million and €122.2 million during the three months ended June 30, 2014 and 2013, respectively, and €50.6 million and €194.3 million during the six months ended June 30, 2014 and 2013, 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) share-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 share-based compensation, impairment, restructuring and other operating items and related-party fees and allocations, net.

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 these subsidiaries. At June 30, 2014, €1.1 million of our consolidated cash and cash equivalents was held by our company and the remaining €18.9 million was held by our subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal 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 GmbH & Co. KG (Unitymedia Hessen), Unitymedia NRW GmbH (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 June 30, 2014, we had aggregate borrowing capacity of €337.5 million under the Unitymedia KabelBW Revolving Credit Facilities. For additional information, see note 7 to our condensed consolidated financial statements.

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 additional information regarding 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.

Capitalization

At June 30, 2014, our outstanding consolidated third-party debt and finance lease obligations aggregated €5,783.8 million, substantially all of which is not due until 2019 or thereafter.

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. Our ability to maintain or increase 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. 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.

With regard to our leverage covenants, the ratio of our June 30, 2014 Senior Debt to our annualized EBITDA (last two quarters annualized) was 3.52x for the quarter ended June 30, 2014. In addition, the ratio of our June 30, 2014 Total Debt to our annualized EBITDA (last two quarters annualized) for the quarter ended June 30, 2014 was 4.57x, with each ratio defined and calculated in accordance with our credit facilities and the indentures governing our existing bonds. We do not anticipate any instances of non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

We believe that our cash and cash equivalents, the UPC Germany Loan Receivable, 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. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

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 six months ended June 30, 2014 and 2013 are summarized as follows:

	Six months ended June 30, 2014	Six months ended June 30, 2013	Change
	in millions		
Net cash provided by operating activities	€ 489.9	€ 400.1	€ 89.8
Net cash used by investing activities	(545.3)	(386.0)	(159.3)
Net cash provided (used) by financing activities	61.8	(20.0)	81.8
Net increase (decrease) in cash and cash equivalents	€ 6.4	€ (5.9)	€ 12.3

Operating Activities. The increase in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase in the cash provided by our Adjusted EBITDA and related working capital changes and (ii) a decrease in cash provided due to higher cash payments for interest.

Investing Activities. The increase in net cash used by our investing activities is primarily attributable to (i) an increase in cash used to fund advances to UPC Germany of €133.9 million and (ii) higher capital expenditures of €24.3 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, equipment and intangible assets when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In the following discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude 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.

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

	Six months ended June 30, 2014	Six months ended June 30, 2013
	in millions	
Property, equipment and intangible asset additions	€ 241.0	€ 207.5
Assets acquired under capital-related vendor financing arrangements	(40.9)	(8.4)
Changes in liabilities related to capital expenditures (including related-party amounts)	17.3	(6.0)
Capital expenditures	€ 217.4	€ 193.1

The increase in our property, equipment and intangible asset additions is primarily due to (i) an increase in expenditures for general support purposes and systems, (ii) an increase in expenditures for the purchase and installation of customer premises equipment and (iii) an increase in expenditures for new build and upgrade projects to expand services. In terms of the composition of our property, equipment and intangible asset additions during the first six months of 2014, (a) 49% relates to the rebuild and upgrade of our distribution network, (b) 22% relates to the purchase and installation of customer premises equipment, (c) 14% relates to capitalized third-party commissions and (d) the remainder relates to expenditures for general support purposes and systems.

Financing activities. The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) an increase in cash of €357.8 million related to lower net repayments of related-party debt, (ii) a decrease in cash of €317.8 million related to lower net borrowings of third-party debt and (iii) an increase in cash of €42.0 million associated with lower payments of financing costs and debt premiums.

Off Balance Sheet Arrangements

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