



unitymedia
kabel bw

Condensed Consolidated Financial Statements
June 30, 2012

UNITYMEDIA KABELBW GMBH
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Germany

UNITYMEDIA KABELBW GMBH

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UNITYMEDIA KABELBW GMBH

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

| | June 30, | December 31, | |
|--|--------------------|---------------------|--|
| | 2012 | 2011 (a) | |
| | in millions | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | € 20.1 | € 48.1 | |
| Trade receivables and unbilled revenue, net..... | 98.2 | 74.5 | |
| Prepaid expenses..... | 10.7 | 7.1 | |
| Loan receivable - related-party (note 11)..... | 0.1 | 54.0 | |
| Other current assets (note 5)..... | 14.9 | 12.6 | |
| Total current assets..... | 144.0 | 196.3 | |
| Property and equipment, net (note 7)..... | 3,477.7 | 3,460.7 | |
| Goodwill (note 7)..... | 2,841.7 | 2,843.0 | |
| Intangible assets subject to amortization, net (note 7)..... | 1,173.6 | 1,254.3 | |
| Investment in associate (note 11)..... | 62.5 | 61.0 | |
| Other noncurrent assets (note 5)..... | 155.7 | 122.7 | |
| Total noncurrent assets..... | 7,711.2 | 7,741.7 | |
| Total assets..... | € 7,855.2 | € 7,938.0 | |

(a) As retrospectively revised - see note 4.

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

UNITYMEDIA KABELBW GMBH

CONDENSED CONSOLIDATED BALANCE SHEETS - (Continued)
(unaudited)

| | June 30, | December 31, | |
|---|--------------------|---------------------|--|
| | 2012 | 2011 (a) | |
| | in millions | | |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable..... | € 58.6 | € 67.1 | |
| Accrued liabilities..... | 186.5 | 140.7 | |
| Accounts payable and accrued liabilities – related-party (note 11)..... | 28.2 | 13.7 | |
| Corporate income taxes payable..... | 20.0 | 26.6 | |
| Current provisions | 23.4 | 23.0 | |
| Deferred revenue and advance payments from subscribers and others..... | 184.3 | 100.7 | |
| Current portion of debt and finance lease obligations (note 8): | | | |
| Third-party | 64.4 | 69.1 | |
| Related-party | 0.2 | — | |
| Other current liabilities (note 5) | 18.0 | 21.3 | |
| Total current liabilities..... | 583.6 | 462.2 | |
| Noncurrent debt and finance lease obligations (note 8): | | | |
| Third-party | 4,777.1 | 5,017.7 | |
| Related-party | 1,517.7 | 193.1 | |
| Deferred tax liabilities..... | 520.1 | 536.8 | |
| Noncurrent provisions | 18.6 | 17.8 | |
| Other noncurrent liabilities (note 5) | 15.1 | 15.1 | |
| Total noncurrent liabilities..... | 6,848.6 | 5,780.5 | |
| Total liabilities..... | 7,432.2 | 6,242.7 | |
| Commitments and contingencies (note 12) | | | |
| Shareholder's equity (note 10): | | | |
| Share capital | — | — | |
| Additional paid-in capital..... | 841.5 | 2,071.0 | |
| Accumulated deficit | (418.5) | (375.7) | |
| Total shareholder's equity..... | 423.0 | 1,695.3 | |
| Total liabilities and shareholder's equity..... | € 7,855.2 | € 7,938.0 | |

(a) As retrospectively revised - see note 4.

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

UNITYMEDIA KABELBW GMBH
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | in millions | | | |
| Revenue (note 3) | € 443.0 | € 252.4 | € 873.6 | € 498.2 |
| Operating costs and expenses: | | | | |
| Operating (other than depreciation and amortization) (OpEx) (note 11) | 125.0 | 64.1 | 249.7 | 132.2 |
| Selling, general and administrative expenses (other than depreciation and amortization) (including stock-based compensation) (SG&A) (note 11) | 56.6 | 34.1 | 113.5 | 66.0 |
| Impairment, restructuring and other operating items, net | 2.9 | 0.5 | 2.5 | 0.5 |
| Related-party fees and allocations (note 11) | 14.3 | 5.5 | 27.6 | 13.0 |
| Total operating costs and expenses | 198.8 | 104.2 | 393.3 | 211.7 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | 244.2 | 148.2 | 480.3 | 286.5 |
| Depreciation and amortization | 158.0 | 92.0 | 311.9 | 185.1 |
| Earnings before interest and taxes (EBIT) | 86.2 | 56.2 | 168.4 | 101.4 |
| Financial and other expense: | | | | |
| Interest expense: | | | | |
| Third-party | (104.1) | (60.8) | (210.8) | (122.4) |
| Related-party (note 11) | (23.6) | (25.3) | (27.4) | (50.6) |
| Foreign currency transaction gains (losses), net | (55.7) | 13.4 | (26.3) | 50.6 |
| Realized and unrealized gains (losses) on derivative instruments, net (note 5) | 68.0 | (11.5) | 33.8 | (40.6) |
| Other income (expense), net (note 11) | 1.0 | (0.3) | (0.2) | (1.3) |
| Net financial and other expense | (114.4) | (84.5) | (230.9) | (164.3) |
| Loss before income taxes | (28.2) | (28.3) | (62.5) | (62.9) |
| Income tax benefit (expense) (note 9) | 3.7 | (5.7) | 19.7 | (10.4) |
| Net loss / comprehensive loss (a) | € (24.5) | € (34.0) | € (42.8) | € (73.3) |
| Further details of OpEx and SG&A: | | | | |
| Direct costs (programming and copyright, interconnect, and other) | € 44.6 | € 20.9 | € 87.8 | € 42.7 |
| Staff-related costs (excluding restructuring charges) | 37.4 | 23.5 | 75.5 | 46.4 |
| Network operating costs | 36.9 | 20.3 | 73.5 | 42.6 |
| Sales and marketing costs | 24.9 | 16.7 | 48.7 | 32.4 |
| Other indirect costs | 37.8 | 16.8 | 77.7 | 34.1 |
| | € 181.6 | € 98.2 | € 363.2 | € 198.2 |
| Further details of impairment, restructuring and other operating items: | | | | |
| Asset impairments | € — | € 0.5 | € — | € 0.5 |
| Staff-related costs | 3.1 | (0.1) | 4.3 | (0.1) |
| Gain on disposal of assets | (0.2) | — | (1.8) | — |
| Other | — | 0.1 | — | 0.1 |
| | € 2.9 | € 0.5 | € 2.5 | € 0.5 |

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

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

UNITYMEDIA KABELBW GMBH

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

| | <u>Additional paid-in capital</u> | <u>Accumulated deficit</u> | <u>Total shareholder's equity (deficit)</u> |
|---|---------------------------------------|--------------------------------|---|
| | in millions | | |
| Balance at January 1, 2011..... | € 17.0 | € (234.4) | € (217.4) |
| Net loss..... | — | (73.3) | (73.3) |
| Balance at June 30, 2011..... | <u>€ 17.0</u> | <u>€ (307.7)</u> | <u>€ (290.7)</u> |
| | | | |
| Balance at January 1, 2012, as retrospectively revised (note 4) | € 2,071.0 | € (375.7) | € 1,695.3 |
| Net loss..... | — | (42.8) | (42.8) |
| Consideration issued in connection with the KBW Fold-in (note 4)..... | (1,230.0) | — | (1,230.0) |
| Stock-based compensation (note 11)..... | 0.5 | — | 0.5 |
| Balance at June 30, 2012..... | <u>€ 841.5</u> | <u>€ (418.5)</u> | <u>€ 423.0</u> |

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

UNITYMEDIA KABELBW GMBH

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | Six months ended June 30, | |
|--|----------------------------------|----------------|
| | 2012 | 2011 |
| | in millions | |
| Cash flows from operating activities: | | |
| Net loss | € (42.8) | € (73.3) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Stock-based compensation expense | 0.5 | — |
| Impairment, restructuring and other operating items, net | 2.5 | 0.5 |
| Related-party fees and allocations..... | 27.6 | 13.0 |
| Depreciation and amortization | 311.9 | 185.1 |
| Amortization of deferred financing costs and non-cash interest accretion | 6.1 | 6.0 |
| Non-cash related-party interest expense | 27.4 | 50.6 |
| Foreign currency transaction losses (gains), net | 26.3 | (50.6) |
| Realized and unrealized losses (gains) on derivative instruments, net | (33.8) | 40.6 |
| Deferred tax benefit..... | (16.2) | (0.6) |
| Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions | 48.4 | 1.1 |
| Net cash provided by operating activities | <u>357.9</u> | <u>172.4</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (237.2) | (131.5) |
| Advances to a Liberty Global subsidiary..... | (7.0) | — |
| Other investing activities | 1.2 | 0.9 |
| Net cash used by investing activities | <u>(243.0)</u> | <u>(130.6)</u> |
| Cash flows from financing activities: | | |
| Repayments of third-party debt and finance lease obligations..... | (490.4) | (80.5) |
| Borrowings of third-party debt | 228.0 | 80.0 |
| Net related-party borrowings..... | 123.6 | — |
| Other financing activities..... | (4.1) | — |
| Net cash used by financing activities | <u>(142.9)</u> | <u>(0.5)</u> |
| Net increase (decrease) in cash and cash equivalents | (28.0) | 41.3 |
| Cash and cash equivalents: | | |
| Beginning of period (a) | 48.1 | 58.7 |
| End of period..... | <u>€ 20.1</u> | <u>€ 100.0</u> |
| The following amounts are included in net cash provided by operating activities: | | |
| Cash paid for interest (excluding payments related to derivative instruments)..... | <u>€ 209.7</u> | <u>€ 115.0</u> |
| Net cash paid for taxes..... | <u>€ 3.3</u> | <u>€ —</u> |

(a) The January 1, 2012 balance has been retrospectively revised - see note 4.

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

UNITYMEDIA KABELBW GMBH
Notes to Condensed Consolidated Financial Statements
June 30, 2012
(unaudited)

(1) Basis of Presentation

Unitymedia KabelBW GmbH (formerly known as Unitymedia GmbH until August 8, 2012) (Unitymedia KabelBW) is a wholly-owned subsidiary of UPC Germany Holding B.V. (UPC Germany), which in turn is an indirect subsidiary of Liberty Global, Inc. (Liberty Global). Unitymedia KabelBW was formed by Liberty Global on October 15, 2009 and registered with the commercial register on October 23, 2009 in contemplation of the issuance of debt financing in connection with Unitymedia KabelBW's then potential acquisition of the entity (Old Unitymedia) that owned the largest cable operator in the German federal states of North Rhine-Westphalia and Hesse. In the following text, the terms "Unitymedia KabelBW," "we," "our," "our company," and "us" may refer, as the context requires, to Unitymedia KabelBW, or collectively to Unitymedia KabelBW and its subsidiaries.

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

Through a series of transactions that were completed during the second quarter of 2012 in conjunction with the Unitymedia Exchange, as defined and described in note 8, UPC Germany, our immediate parent company, transferred UPC Germany Holdings GmbH (UPC Germany Holdings), an indirect parent company of Kabel BW GmbH (KBW), then the largest cable operator in the German federal state of Baden-Wuerttemberg, to Unitymedia Hessen GmbH & Co. KG, one of our wholly-owned subsidiaries (the KBW Fold-in). We have accounted for the KBW Fold-in as a reorganization of entities under common control. Accordingly, we have recorded the transfer of UPC Germany Holdings and its subsidiaries (collectively, the Kabel BW Group) at carryover basis and the applicable prior period information has been retrospectively revised to give effect to the resulting change in reporting entities for all periods in which we and the Kabel BW Group were under the common control of Liberty Global (namely all periods beginning on or after the December 15, 2011 acquisition of an indirect parent of KBW by an indirect subsidiary of UPC Germany Holdings). For additional information, see note 4.

The following subsidiaries of Unitymedia KabelBW are included in our condensed consolidated financial statements at June 30, 2012:

| <u>Name of subsidiary (a)</u> | <u>Headquarters location</u> | <u>Share of equity %</u> |
|--|------------------------------|--------------------------|
| Unitymedia Management GmbH (b)..... | Cologne, Germany | 100.0 |
| Unitymedia Hessen Verwaltung GmbH | Cologne, Germany | 100.0 |
| Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen) (c)..... | Cologne, Germany | 100.0 |
| Unitymedia NRW GmbH (Unitymedia NRW) (b)..... | Cologne, Germany | 100.0 |
| Unitymedia Services GmbH (b)..... | Cologne, Germany | 100.0 |
| iesy Hessen Verwaltungs-GmbH..... | Cologne, Germany | 100.0 |
| Arena Sport Rechte und Marketing GmbH..... | Cologne, Germany | 100.0 |
| UPC Germany NewCo GmbH | Hamburg, Germany | 100.0 |
| UPC Germany Holdings..... | Heidelberg, Germany | 100.0 |
| UPC Germany HoldCo 1 GmbH (UPC Germany HC1) | Heidelberg, Germany | 100.0 |
| KBW..... | Heidelberg, Germany | 100.0 |
| Kabel Baden-Württemberg Verwaltungs-GmbH (Kabel GP) | Heidelberg, Germany | 100.0 |

(a) Unitymedia International GmbH (UMI), an entity in which Unitymedia KabelBW owns a 100% equity interest, is excluded from our list of subsidiaries as UMI is a special purpose entity which is controlled and consolidated by UPC Holding B.V. (UPC Holding), another Liberty Global subsidiary. For additional information regarding our accounting for UMI, see note 11. We will publish statutory accounts for UMI.

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

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

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

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-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 2011 annual report, which include a description of the significant accounting policies followed in these financial statements.

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

The 2009 UM Senior Secured Notes, the Unitymedia Senior Secured Exchange Notes, the 2009 UM Senior Notes and the Unitymedia Senior Exchange Notes, each as defined in note 8, are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market, which is not a regulated market (as defined by Article 1(13) of Directive 93/22/EEC).

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of June 30, 2012.

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

These condensed consolidated financial statements were approved for publication by the Managing Directors on August 17, 2012.

(2) Accounting Changes and Recent Pronouncements

First-time Application of Accounting Standards

The application of the following accounting standard 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 7 (amendments) | Amendments to IFRS 7 financial instruments: Disclosures - Transfers of Financial Assets | July 1, 2011 | November 22, 2011 |

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Notes to Condensed Consolidated Financial Statements - (Continued)
June 30, 2012
(unaudited)

New Accounting Standards, Not Yet Effective

The following accounting standards were either issued by the International Accounting Standards Board or endorsed by the European Union during the six months ended June 30, 2012 but are not yet effective for the reporting period. We have not early adopted these accounting standards.

| Standard/ Interpretation | Title | Applicable for reporting periods beginning on or after | Date of endorsement by the EU |
|--|---|--|-------------------------------------|
| IFRS 9 / IFRS 7 (amendments) | Mandatory Effective Date and Transition Disclosures | January 1, 2015 | Not yet endorsed |
| Improvements to IFRSs | Collection of amendments to several standards made in response to six issues addressed during the 2009 - 2011 project cycle | January 1, 2013 | Not yet endorsed |
| IFRS 10/ IFRS 11/ IFRS 12 (amendments) | Transition guidance | January 1, 2013 | Not yet endorsed |
| IAS 1 (amendments) | Presentation of items of other comprehensive income | July 1, 2012 | June 5, 2012 |
| IAS 19 (amendments) | Amendments to IAS 19 employee benefits | January 1, 2013 | June 5, 2012 |

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

(3) Segment Reporting

We operate in the cable segment, providing digital and analog video, broadband internet, telephony and mobile services to residential and/or business customers over an integrated broadband communications network.

We operate in one geographical area, the country of Germany.

Our revenue by major product category is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|-----------------------------|----------------|---------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | in millions | | | |
| Subscription revenue (a): | | | | |
| Video..... | € 235.3 | € 156.8 | € 468.1 | € 311.2 |
| Broadband internet | 68.0 | 30.0 | 134.6 | 57.1 |
| Telephony | 85.4 | 35.5 | 166.6 | 69.1 |
| Total subscription revenue | <u>388.7</u> | <u>222.3</u> | <u>769.3</u> | <u>437.4</u> |
| Non-subscription revenue (b)..... | 54.3 | 30.1 | 104.3 | 60.8 |
| Total revenue | <u>€ 443.0</u> | <u>€ 252.4</u> | <u>€ 873.6</u> | <u>€ 498.2</u> |

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile services revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service.

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

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Notes to Condensed Consolidated Financial Statements - (Continued)
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(4) Common Control Transfer and Acquisition

In May 2012, in conjunction with the Unitymedia Exchange, as defined and described in note 8, UPC Germany completed the KBW Fold-in by transferring its 100% ownership interest in UPC Germany Holdings to Unitymedia Hessen. We have accounted for this common control transfer at carryover basis and the applicable prior period information has been retrospectively revised to give effect to the change in reporting entities for all periods during which we and the Kabel BW Group were under the common control of Liberty Global (namely all periods beginning on or after the December 15, 2011 acquisition of an indirect parent of KBW by an indirect subsidiary of UPC Germany Holdings). Prior to December 15, 2011, UPC Germany Holdings had no operating results, cash flows or capital transactions.

Consideration for the transfer of all outstanding shares of UPC Germany Holdings to Unitymedia Hessen in the amount of €1,230.0 million was based upon a preliminary valuation of UPC Germany Holdings as of the date of transfer and is subject to retroactive adjustment upon completion of the final valuation. This amount, which was settled in the form of the 2012 shareholder loan payable to UPC Germany, was recorded as a capital transaction during the second quarter of 2012. For additional information regarding this 2012 shareholder loan payable, see note 8.

The following table sets forth the effects of this common control transfer retrospectively consolidated into our December 31, 2011 condensed consolidated balance sheet:

| | <u>As previously reported</u> | <u>Common control adjustments</u> in millions | <u>As retrospectively revised</u> |
|--|-----------------------------------|--|---|
| Current assets | € 132.6 | € 63.7 | € 196.3 |
| Property and equipment, net | € 2,041.2 | € 1,419.5 | € 3,460.7 |
| Goodwill | € 1,436.1 | € 1,406.9 | € 2,843.0 |
| Intangible assets subject to amortization, net | € 562.3 | € 692.0 | € 1,254.3 |
| Total assets | € 4,329.5 | € 3,608.5 | € 7,938.0 |
| Current liabilities | € 279.6 | € 182.6 | € 462.2 |
| Noncurrent debt and finance lease obligations | € 2,915.5 | € 2,295.3 | € 5,210.8 |
| Total liabilities | € 3,519.1 | € 2,723.6 | € 6,242.7 |
| Additional paid-in capital | € 1,178.5 | € 892.5 | € 2,071.0 |
| Accumulated deficit | € (368.1) | € (7.6) | € (375.7) |
| Shareholder's equity | € 810.4 | € 884.9 | € 1,695.3 |
| Total liabilities and shareholder's equity | € 4,329.5 | € 3,608.5 | € 7,938.0 |

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June 30, 2012
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The following table sets forth the retrospective effects of this common control transfer on our operating results for the three months ended March 31, 2012, which are included in the amounts reported in our condensed consolidated statement of operations for the six months ended June 30, 2012:

| | <u>As previously reported</u> | <u>Common control adjustments</u> | <u>As retrospectively revised</u> |
|------------------------------------|-----------------------------------|---|---|
| | <u>in millions</u> | | |
| Revenue..... | € 270.9 | € 159.7 | € 430.6 |
| OpEx | € (76.0) | € (48.7) | € (124.7) |
| SG&A..... | € (39.5) | € (17.4) | € (56.9) |
| Depreciation and amortization..... | € (98.7) | € (55.2) | € (153.9) |
| Net financial expense..... | € (67.3) | € (49.2) | € (116.5) |
| Income tax benefit..... | € 13.7 | € 2.3 | € 16.0 |
| Net loss..... | € (5.7) | € (12.6) | € (18.3) |

Acquisition of KBW

On December 15, 2011, UPC Germany HoldCo 2 GmbH (UPC Germany HC2), a wholly-owned subsidiary of UPC Germany Holdings, acquired all of the outstanding shares of Kabel BW Musketeer GmbH (KBW Musketeer) pursuant to a sale and purchase agreement dated March 21, 2011 with Oskar Rakso S.à.r.l (Oskar Rakso) as the seller (the LGI/KBW Transaction). KBW Musketeer was the indirect parent company of KBW. UPC Germany HC2's cost to acquire KBW Musketeer has been reflected in these condensed consolidated financial statements as of the December 15, 2011 acquisition date. At closing, Oskar Rakso transferred its KBW Musketeer shares and assigned the balance of a loan receivable from KBW Musketeer to UPC Germany HC2 in consideration of UPC Germany HC2's payment of €1,062.4 million in cash (the KBW Purchase Price). UPC Germany provided an €892.4 million capital contribution and a €170.0 million intercompany loan to UPC Germany HC2 to fund the KBW Purchase Price. The KBW Purchase Price, together with KBW's consolidated net debt at December 15, 2011 (aggregate fair value of debt and finance lease obligations outstanding less cash and cash equivalents) of €2,153.4 million, resulted in total consideration of €3,215.8 million. The acquisition was completed in order to achieve certain financial, operational and strategic benefits through the integration of KBW with our company, and, to a lesser extent, with Liberty Global's other broadband communications operations in Europe.

As part of the acquisition accounting for the LGI/KBW Transaction, property and equipment and intangible assets were measured at their estimated fair values. In addition, the estimated remaining useful lives of these assets will be reassessed based on the outcome of the valuation exercise and Liberty Global's planned use and disposition of KBW's long-lived assets. We are also evaluating the need to change certain of KBW's policies and accounting estimates to conform to Liberty Global's policies and accounting estimates. We are not yet in a position to conclude whether this process will result in any material changes to our policies or accounting estimates.

As part of a reorganization that was effected through a series of mergers and consolidations, KBW Musketeer and its immediate subsidiary, Kabel BW Erste Beteiligungs GmbH, were merged into UPC Germany HC2 and UPC Germany HC2 was subsequently merged into KBW. As a result of these transactions, which were effective upon registration in March 2012, UPC Germany HC1 became the immediate parent company of KBW and the issuer of the KBW Senior Notes (as defined and described in note 8). As a result of the May 2012 completion of the KBW Fold-in, as described in note 1, the immediate parent of UPC Germany HC1 became part of our consolidated borrowing group. For additional information, see note 8.

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The LGI/KBW Transaction was subject to approval by the Federal Cartel Office (FCO) in Germany, which approval was received in December 2011 upon final agreement of certain commitments we made to address the competition concerns of the FCO, as outlined below:

- (a) The digital free-to-air television channels (as opposed to channels marketed in premium subscription packages) distributed on our networks will be distributed in unencrypted form commencing January 1, 2013. This commitment is consistent with KBW's current practice and generally covers free-to-air television channels in standard definition and high definition (HD). If, however, free-to-air television broadcasters request their HD content to be distributed in an encrypted HD package, the encryption of free-to-air HD channels is still possible. In addition, we made a commitment that, through December 31, 2016, the annual carriage fees we receive for each such free-to-air television channel distributed in digital or simulcast in digital and analog would not exceed a specified annual amount, determined by applying our rate card system as of January 1, 2012;
- (b) Effective January 1, 2012, we waived exclusivity rights in access agreements with housing associations with respect to the usage of infrastructures other than our in-building distribution networks to provide television, broadband internet or telephony services within the building;
- (c) Effective January 1, 2012, upon expiration of the minimum term of an access agreement with a housing association, we will transfer the ownership rights to the in-building distribution network to the building owner or other party granting access. In addition, we waived the rights to remove in-building distribution networks; and
- (d) A special early termination right was granted with respect to certain of our existing access agreements with the largest housing associations that cover more than 800 dwelling units and which had a remaining term of more than three years as of December 15, 2011. The total number of dwelling units covered by the affected agreements was approximately 340,000 as of December 15, 2011. The special termination right may be exercised on or before September 30 of each calendar year up to the expiration of the current contract term, with termination effective as of January 1 or July 1 of the following year. If the special termination right is exercised, compensation will be paid to partially reimburse our company for unamortized investments in modernizing the in-building network based on an agreed formula.

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

The FCO has communicated to us that it is reviewing customary practices in the negotiation of length of term in contracts with multiple dwelling units for analogue television services. The FCO had previously identified one such contract between our company and a landlord as potentially being subject to amendment by order. If the FCO does issue an order requiring amendment, it could have application beyond one contract or could have broader application in the industry, or it could be limited to the single contract.

We have accounted for the LGI/KBW Transaction using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. This allocation is preliminary and subject to adjustment based on our final assessment of the fair values of the acquired identifiable assets and liabilities. Although most items in the valuation process remain open, the items with the highest likelihood of changing upon finalization of the valuation process include long-lived assets, goodwill and income taxes.

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A summary of the KBW Purchase Price and the opening balance sheet of KBW Musketeer as of the December 15, 2011 acquisition date is presented in the following table (in millions). As noted above, the opening balance sheet presented below is based on a preliminary purchase price allocation and is therefore subject to adjustment.

| | | |
|--|---|----------------|
| Cash and cash equivalents..... | € | 179.7 |
| Other current assets (a)..... | | 46.3 |
| Property and equipment, net..... | | 1,421.9 |
| Goodwill (b)..... | | 1,405.6 |
| Intangible assets subject to amortization (c)..... | | 694.5 |
| Other noncurrent assets..... | | 27.0 |
| Current portion of debt and finance lease obligations..... | | (39.3) |
| Other current liabilities..... | | (131.8) |
| Noncurrent debt and finance lease obligations..... | | (2,293.8) |
| Other noncurrent liabilities..... | | (247.7) |
| KBW Purchase Price..... | € | <u>1,062.4</u> |

- (a) Includes trade accounts receivables of €18.9 million, net of an allowance for impairment of €4.9 million and other current receivables of €2.4 million.
- (b) The goodwill recognized is primarily attributable to (i) the ability to take advantage of the existing advanced broadband communications networks of KBW to gain immediate access to potential customers and (ii) substantial synergies that are expected to be achieved through the integration of KBW with our other broadband communications operations in Germany. We expect that €294.2 million of the goodwill recognized as of December 15, 2011 will be deductible for tax purposes.
- (c) Amounts primarily include intangible assets related to customer relationships. At December 15, 2011, the weighted average useful life of KBW's intangible assets was approximately ten years.

(5) Derivative Instruments

We have entered into certain derivative instruments to manage interest rate exposure and foreign currency exposure with respect to the United States (U.S.) dollar. Portions of the notional amounts of the derivative instruments that were originally entered into by the Kabel BW Group in March 2011 in order to manage the U.S. dollar currency risks and the variable interest rate risks associated with the KBW Notes (as defined in note 8) were transferred to Unitymedia Hessen in connection with the KBW Fold-in and the remaining notional amounts were canceled. For additional information regarding the KBW Fold-in, see notes 4 and 8. Hedge accounting is not applied to our interest rate and cross-currency swaps.

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

| | <u>June 30, 2012</u> | | | <u>December 31, 2011 (a)</u> | | |
|--|----------------------|-----------------------|--------------|------------------------------|-----------------------|--------------|
| | <u>Current (b)</u> | <u>Noncurrent (b)</u> | <u>Total</u> | <u>Current (b)</u> | <u>Noncurrent (b)</u> | <u>Total</u> |
| | in millions | | | | | |
| Assets: | | | | | | |
| Cross-currency derivative contracts (c)..... | € 6.8 | € 124.3 | € 131.1 | € 4.9 | € 93.7 | € 98.6 |
| Liabilities: | | | | | | |
| Interest rate derivative contracts (c)..... | € 7.9 | € 6.5 | € 14.4 | € 6.3 | € 7.3 | € 13.6 |

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- (a) As retrospectively revised - see note 4.
- (b) 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.
- (c) We consider credit risk in our fair value assessments. As of June 30, 2012 and December 31, 2011, (i) the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €12.2 million and €10.0 million, respectively, and (ii) the fair values of our interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating €0.2 million and €0.5 million, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and adjustments to our derivative liabilities related to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market. The changes in the credit risk valuation adjustments associated with our derivative instruments resulted in net losses of €7.0 million and €2.5 million during the three and six months ended June 30, 2012, respectively, and gains of €0.5 million and €2.2 million during the three and six months ended June 30, 2011, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information concerning our fair value measurements, see note 6.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | in millions | | | |
| Cross-currency derivative contracts | € 69.9 | € (11.5) | € 37.6 | € (40.5) |
| Interest rate derivative contracts | (1.9) | — | (3.8) | (0.1) |
| Total | € 68.0 | € (11.5) | € 33.8 | € (40.6) |

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

| | Six months ended June 30, | |
|----------------------------|---------------------------|---------|
| | 2012 | 2011 |
| | in millions | |
| Operating activities | € 0.6 | € (9.5) |
| Financing activities | 1.4 | — |
| Total | € 2.0 | € (9.5) |

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Cross-currency and Interest Rate Derivative Contracts

Cross-currency Swaps:

The terms of our outstanding cross-currency swap contracts at June 30, 2012 are as follows:

| <u>Final maturity date (a)</u> | <u>Notional amount due from counterparty</u> | <u>Notional amount due to counterparty</u> | <u>Interest rate due from counterparty</u> | <u>Interest rate due to counterparty</u> |
|--------------------------------|--|--|--|--|
| | in millions | | | |
| December 2017 | \$ 845.0 | € 569.4 | 8.13% | 8.49% |
| 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.

Interest Rate Swaps:

The terms of our outstanding interest rate swap contracts at June 30, 2012 are as follows:

| <u>Final maturity date</u> | <u>Notional amount</u> | <u>Interest rate due from counterparty</u> | <u>Interest rate due to counterparty</u> |
|----------------------------|------------------------|--|--|
| | in millions | | |
| March 2013 | € 140.0 | 3 mo. EURIBOR | 2.60% |
| March 2014 | € 140.0 | 3 mo. EURIBOR | 2.60% |
| March 2015 | € 140.0 | 3 mo. EURIBOR | 2.60% |

(6) Fair Value Measurements

Our derivative instruments are the only financial instruments that were accounted for at fair value as of June 30, 2012. The reported fair values of our derivative instruments as of June 30, 2012 likely will not represent the value that will be realized upon the ultimate settlement or disposition of these assets and liabilities. 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, 2012, no such transfers were made.

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

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

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

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 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, 2012 and 2011. As further described in note 4, nonrecurring fair value measurements were performed in connection with the December 15, 2011 LGI/KBW Transaction.

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

| Category (b) | June 30, 2012 | | December 31, 2011 (a) | | |
|---|-----------------|------------|-----------------------|------------|-----------|
| | Carrying amount | Fair value | Carrying amount | Fair value | |
| in millions | | | | | |
| Assets carried at fair value - derivative financial instruments | I | € 131.1 | € 131.1 | € 98.6 | € 98.6 |
| Assets carried at cost or amortized cost: | | | | | |
| Trade receivables and unbilled revenue | II | € 101.1 | € 101.1 | € 76.4 | € 76.4 |
| Restricted cash | II | 1.8 | 1.8 | 1.9 | 1.9 |
| Loan receivable – related-party | II | 0.1 | (c) | 54.0 | (c) |
| Other current and noncurrent financial assets | II | 8.6 | € 8.6 | 10.2 | € 10.2 |
| Cash and cash equivalents | II | 20.1 | € 20.1 | 48.1 | € 48.1 |
| Total assets carried at cost or amortized cost | | € 131.7 | | € 190.6 | |
| Liabilities carried at fair value: | | | | | |
| Derivative financial instruments | I | € 14.4 | € 14.4 | € 13.6 | € 13.6 |
| Liabilities carried at cost or amortized cost: | | | | | |
| Debt obligations | III | € 4,832.5 | € 5,269.1 | € 5,080.5 | € 5,325.0 |
| Loans payable – related-party | III | 1,517.9 | (c) | 193.1 | (c) |
| Accrued liabilities (including related-party accrued liabilities) | III | 199.2 | € 199.2 | 147.9 | € 147.9 |
| Accounts payable and other (including related-party accounts payable) | III | 76.0 | € 76.0 | 74.7 | € 74.7 |
| Finance lease obligations | V | 5.0 | € 5.0 | 6.3 | € 6.3 |
| Total liabilities carried at cost or amortized cost | | € 6,630.6 | | € 5,502.5 | |

(a) As retrospectively revised - see note 4.

(b) 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.

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

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Pre-tax amounts recognized in our condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 related to our financial instruments are as follows:

| | <u>Interest income</u> | <u>Interest expense</u> | <u>Other statement of operations effects (a)</u> | <u>Impact on earnings before income taxes</u> |
|--|----------------------------|-----------------------------|--|---|
| | in millions | | | |
| Three months ended June 30, 2012: | | | | |
| Derivative assets carried at fair value through our condensed consolidated statement of operations..... | € — | € — | € 69.7 | € 69.7 |
| Assets carried at cost or amortized cost - Trade receivables (b)..... | 0.7 | — | (0.8) | (0.1) |
| Derivative liabilities carried at fair value through our condensed consolidated statement of operations..... | — | — | (1.7) | (1.7) |
| Liabilities carried at cost or amortized cost | — | (127.7) | (55.7) | (183.4) |
| | <u>€ 0.7</u> | <u>€ (127.7)</u> | <u>€ 11.5</u> | <u>€ (115.5)</u> |
| Three months ended June 30, 2011: | | | | |
| Derivative assets carried at fair value through our condensed consolidated statement of operations..... | € — | € — | € (10.8) | € (10.8) |
| Assets carried at cost or amortized cost - Trade receivables (b)..... | 0.3 | — | (1.3) | (1.0) |
| Derivative liabilities carried at fair value through our condensed consolidated statement of operations..... | — | — | (0.7) | (0.7) |
| Liabilities carried at cost or amortized cost | — | (86.1) | 13.4 | (72.7) |
| | <u>€ 0.3</u> | <u>€ (86.1)</u> | <u>€ 0.6</u> | <u>€ (85.2)</u> |
| Six months ended June 30, 2012: | | | | |
| Derivative assets carried at fair value through our condensed consolidated statement of operations..... | € — | € — | € 37.4 | € 37.4 |
| Assets carried at cost or amortized cost - Trade receivables (b)..... | 1.0 | — | (4.4) | (3.4) |
| Derivative liabilities carried at fair value through our condensed consolidated statement of operations..... | — | — | (3.6) | (3.6) |
| Liabilities carried at cost or amortized cost | — | (238.2) | (26.3) | (264.5) |
| | <u>€ 1.0</u> | <u>€ (238.2)</u> | <u>€ 3.1</u> | <u>€ (234.1)</u> |
| Six months ended June 30, 2011: | | | | |
| Derivative assets carried at fair value through our condensed consolidated statement of operations..... | € — | € — | € (39.9) | € (39.9) |
| Assets carried at cost or amortized cost - Trade receivables (b)..... | 0.4 | — | (2.5) | (2.1) |
| Derivative liabilities carried at fair value through our condensed consolidated statement of operations..... | — | — | (0.7) | (0.7) |
| Liabilities carried at cost or amortized cost | — | (173.0) | 50.6 | (122.4) |
| | <u>€ 0.4</u> | <u>€ (173.0)</u> | <u>€ 7.5</u> | <u>€ (165.1)</u> |

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

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

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(7) **Long-lived Assets**

Property and Equipment, Net

Changes during the six months ended June 30, 2012 in the carrying amounts of our property and equipment, net, are set forth below:

| | <u>Cable distribution systems</u> | <u>Customer premises equipment</u> | <u>Support equipment, buildings and land</u> | <u>Total</u> |
|---|---|--|--|------------------|
| | in millions | | | |
| Cost: | | | | |
| January 1, 2012, as retrospectively revised (note 4)..... | € 3,514.4 | € 236.1 | € 150.4 | € 3,900.9 |
| Additions..... | 141.8 | 53.1 | 16.6 | 211.5 |
| Retirements and disposals..... | (1.9) | (3.4) | (2.0) | (7.3) |
| June 30, 2012 | <u>€ 3,654.3</u> | <u>€ 285.8</u> | <u>€ 165.0</u> | <u>€ 4,105.1</u> |
| Accumulated depreciation: | | | | |
| January 1, 2012, as retrospectively revised (note 4)..... | € 340.6 | € 71.5 | € 28.1 | € 440.2 |
| Depreciation..... | 153.5 | 31.1 | 9.7 | 194.3 |
| Retirements and disposals..... | (1.3) | (3.4) | (2.4) | (7.1) |
| June 30, 2012 | <u>€ 492.8</u> | <u>€ 99.2</u> | <u>€ 35.4</u> | <u>€ 627.4</u> |
| Property and equipment, net: | | | | |
| June 30, 2012 | <u>€ 3,161.5</u> | <u>€ 186.6</u> | <u>€ 129.6</u> | <u>€ 3,477.7</u> |

During the six months ended June 30, 2012, no borrowing costs were capitalized.

For information concerning purchase obligations for property and equipment, see note 12. For information concerning pledged assets, see note 8.

Goodwill

Changes during the six months ended June 30, 2012 in the carrying amount of our goodwill are set forth below (in millions):

| | |
|--|------------------|
| January 1, 2012, as retrospectively revised (note 4) | € 2,843.0 |
| Adjustments (a)..... | (1.3) |
| June 30, 2012..... | <u>€ 2,841.7</u> |

- (a) Represents the net effect of initial adjustments recorded to the preliminary acquisition accounting with respect to the LGI/KBW Transaction. For additional information, see note 4.

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Intangible Assets Subject to Amortization, net

Changes during the six months ended June 30, 2012 in the carrying amounts of our finite-lived intangible assets are set forth below:

| | <u>Customer relationships</u> | <u>Subscriber acquisition costs</u> | <u>Other (a)</u> | <u>Total</u> |
|---|-----------------------------------|---|------------------|------------------|
| | in millions | | | |
| Cost: | | | | |
| January 1, 2012, as retrospectively revised (note 4)..... | € 1,358.6 | € 53.7 | € 81.1 | € 1,493.4 |
| Additions | — | 36.0 | 1.1 | 37.1 |
| Retirements and disposals | — | (22.6) | (1.1) | (23.7) |
| June 30, 2012 | <u>€ 1,358.6</u> | <u>€ 67.1</u> | <u>€ 81.1</u> | <u>€ 1,506.8</u> |
| Accumulated amortization: | | | | |
| January 1, 2012, as retrospectively revised (note 4)..... | € 189.0 | € 26.6 | € 23.5 | € 239.1 |
| Amortization | 79.9 | 27.1 | 10.6 | 117.6 |
| Retirements and disposals | — | (22.5) | (1.0) | (23.5) |
| June 30, 2012 | <u>€ 268.9</u> | <u>€ 31.2</u> | <u>€ 33.1</u> | <u>€ 333.2</u> |
| Intangible assets subject to amortization, net: | | | | |
| June 30, 2012 | <u>€ 1,089.7</u> | <u>€ 35.9</u> | <u>€ 48.0</u> | <u>€ 1,173.6</u> |

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

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(8) Debt and Finance Lease Obligations

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

| | June 30, 2012 | | | Estimated fair value (a) | | Carrying value (b) | |
|--|-------------------|--------------------|------------------|--------------------------|-----------------------|--------------------|-----------------------|
| | Interest rate (c) | Borrowing currency | Euro equivalent | June 30, 2012 | December 31, 2011 (d) | June 30, 2012 | December 31, 2011 (d) |
| in millions | | | | | | | |
| Parent: | | | | | | | |
| Shareholder loans payable (e) | 8.580% | € 246.6 | € 246.6 | (e) | (e) | € 246.6 | € 179.2 |
| 2012 shareholder loan payable (f) | 9.625% | € 1,230.0 | 1,230.0 | (f) | (f) | 1,230.0 | — |
| 2009 UM Senior Notes (g) ... | 9.625% | € 665.0 | 665.0 | € 726.0 | € 686.6 | 652.1 | 651.5 |
| Unitymedia Senior Exchange Notes..... | 9.500% | € 618.0 | 618.0 | € 671.8 | € — | 616.4 | — |
| Subsidiaries: | | | | | | | |
| UMI Loan Payable (h) | 10.000% | € 14.5 | 14.5 | (h) | (h) | 14.5 | — |
| 2009 UM Euro Senior Secured Notes (g)..... | 8.125% | € 1,430.0 | 1,430.0 | € 1,534.2 | € 1,485.2 | 1,407.0 | 1,405.4 |
| 2009 UM Dollar Senior Secured Notes (g)..... | 8.125% | \$ 845.0 | 667.9 | € 715.6 | € 686.2 | 657.9 | 641.3 |
| Unitymedia Revolving Credit Facility (i)..... | 2.873% | € 80.0 | 80.0 | € — | € 77.2 | — | 80.0 |
| UM Euro Senior Secured Exchange Notes..... | 7.500% | € 735.1 | 735.1 | € 773.7 | € — | 741.7 | — |
| UM Dollar Senior Secured Exchange Notes..... | 7.500% | \$ 459.3 | 363.1 | € 385.8 | € — | 369.5 | — |
| UM Senior Secured Floating Rate Exchange Notes | 4.912% | € 395.9 | 395.9 | € 398.3 | € — | 391.8 | — |
| New Unitymedia Revolving Credit Facility (i)..... | 3.623% | € 312.5 | 312.5 | € — | € — | — | — |
| KBW Notes (j)..... | — | — | — | € — | € 2,323.0 | — | 2,294.4 |
| Total debt before transaction costs and accrued interest (k) | <u>8.419%</u> | | <u>€ 6,758.6</u> | | | 6,327.5 | 5,251.8 |
| Transaction costs | | | | | | (63.6) | (58.9) |
| Accrued interest: | | | | | | | |
| Related-party | | | | | | 26.8 | 13.9 |
| Third-party | | | | | | 63.7 | 66.8 |
| Finance lease obligations | | | | | | 5.0 | 6.3 |
| Total debt and finance lease obligations..... | | | | | | 6,359.4 | 5,279.9 |
| Current portion | | | | | | (64.6) | (69.1) |
| Noncurrent portion | | | | | | <u>€ 6,294.8</u> | <u>€ 5,210.8</u> |

(a) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on the market interest rates, estimated credit spreads, to the extent available, and other relevant factors. For additional information concerning the fair value hierarchies, see note 6.

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- (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, 2012 and does not include the impact of our interest rate derivative agreements, deferred financing costs, premiums or discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party indebtedness was approximately 8.6% at June 30, 2012. For information concerning our derivative instruments, see note 5.
- (d) As retrospectively revised - see note 4.
- (e) Represents loans payable to our shareholder, UPC Germany. All principal and accrued interest (collectively €254.1 million at June 30, 2012) outstanding under these loans is due and payable on January 1, 2030. The principal amounts outstanding under these loans bear interest at 8.580% per annum. Accrued interest is transferred to the loan balance annually on January 1. The net increase in the principal amount of the loans payable during the six months ended June 30, 2012 includes (i) cash borrowings of €317.9 million, (ii) cash payments of €208.8 million, (iii) a €60.1 million non-cash decrease related to settlements of amounts outstanding pursuant to the UPC Germany Loan Receivable (as defined and described in note 11), (iv) the transfer of €13.9 million in non-cash accrued interest to the loan balance and (v) a non-cash increase of €4.5 million related to the settlement of an intercompany payable. The fair value of these loans is not subject to reasonable estimation due to the related-party nature of the loans.
- (f) Represents loan payable to our shareholder, UPC Germany issued in May 2012 as consideration for all outstanding shares of UPC Germany Holdings transferred in connection with the KBW Fold-in. The principal amount of €1,230.0 million was based upon a preliminary valuation of UPC Germany Holdings as of the date of transfer and is subject to retroactive adjustment upon completion of the final valuation. All principal and accrued interest (collectively €1,249.1 million at June 30, 2012) outstanding under this loan is due and payable on March 15, 2022. Interest accrues on the principal balance at 9.625% per annum, is subject to adjustment annually and will be transferred to the loan balance on January 1 of each year. Amounts outstanding may be converted to equity at the option of UPC Germany. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (g) The 2009 UM Dollar Senior Secured Notes together with the 2009 UM Euro Senior Secured Notes are referred to as the 2009 UM Senior Secured Notes. The 2009 UM Senior Notes together with the 2009 UM Senior Secured Notes are referred to as the 2009 Unitymedia Notes. Interest payments for the 2009 Unitymedia Notes are made semi-annually on June 1 and December 1.
- (h) Represents loan payable to UMI, an entity that is controlled and consolidated by UPC Holding, as further described in note 11. All principal (€14.5 million at June 30, 2012) outstanding under this loan is due and payable on January 1, 2020. The principal amount outstanding under this loan bears interest at an agreed upon rate that is subject to adjustment (10.000% per annum at June 30, 2012). Accrued interest (€0.2 million at June 30, 2012) may be, at the option of UMI, (i) transferred to the loan balance annually on January 1 or (ii) repaid on the last day of each month and on the date of principal repayments. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (i) Unused borrowing capacity represents the maximum availability under the applicable facility at June 30, 2012 without regard to covenant compliance calculations. At June 30, 2012, the full amounts of the €80.0 million borrowing capacity under the Unitymedia Revolving Credit Facility (as defined below) and the €312.5 million borrowing capacity under the New Unitymedia Revolving Credit Facility (as defined below) were available to be borrowed.

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- (j) As further described below, during the second quarter of 2012, (i) all of the KBW Notes (as defined below) were exchanged or redeemed and (ii) the €100.0 million secured revolving credit facility agreement for KBW (the KBW Revolving Credit Facility) was canceled. The KBW Senior Notes, as defined below, were scheduled to mature on March 15, 2021 and interest was payable semi-annually on March 15 and September 15. The KBW Senior Secured Fixed Rate Notes, as defined below, were scheduled to mature on March 15, 2019 and interest was payable semi-annually on March 15 and September 15. The KBW Senior Secured Floating Rate Notes, as defined below, were scheduled to mature on March 15, 2018 and interest accrued at the rate of 3 month EURIBOR plus a margin of 4.25% per annum, which was payable quarterly on March 15, June 15, September 15 and December 15. The weighted average interest rate on the KBW Notes as of December 31, 2011 was 7.76%.
- (k) The interest rate shown in this line item represents the weighted average stated interest rate of all of our outstanding debt instruments as of June 30, 2012.

Unitymedia Exchange, Special Optional Redemptions and KBW Fold-in

In March 2011, certain members of the Kabel BW Group issued the KBW Notes, the net proceeds from which were primarily used to repay the Kabel BW Group's then existing debt and to settle the interest rate swap contracts associated with the bank loans (the March 2011 Kabel BW Refinancing). The KBW Notes consisted of (i) UPC Germany HC1's €680.0 million principal amount of 9.5% Senior Notes (the KBW Senior Notes) and (ii) KBW's (a) €800.0 million principal amount of 7.5% Senior Secured Notes (the KBW Euro Senior Secured Notes), (b) \$500.0 million (€395.3 million) principal amount of 7.5% Senior Secured Notes (the KBW Dollar Senior Secured Notes and together with the KBW Euro Senior Secured Notes, the KBW Senior Secured Fixed Rate Notes) and (c) €420.0 million principal amount of Senior Secured Floating Rate Notes (the KBW Senior Secured Floating Rate Notes and together with the KBW Senior Secured Fixed Rate Notes, the KBW Senior Secured Notes).

In May 2012, we completed (i) the exchange (the Unitymedia Exchange) of (a) 90.9% of the outstanding principal amount of the KBW Senior Notes for an equal amount of Unitymedia Senior Exchange Notes (as defined below) and (b) 92.5% of the outstanding principal amount of the KBW Senior Secured Notes for an equal amount of Unitymedia Senior Secured Exchange Notes (as defined below), (ii) the redemption (the Special Optional Redemptions) of the remaining KBW Notes that were not exchanged pursuant to the Unitymedia Exchange and (iii) the KBW Fold-in. The redemption price with respect to the Special Optional Redemptions was 101% of the applicable principal amount thereof, and such redemptions were funded with borrowings under the Unitymedia Revolving Credit Facility and the New Unitymedia Revolving Credit Facility, each as defined and described below. Additionally, in connection with the transactions described above, (i) the KBW Revolving Credit Facility was canceled, (ii) we recognized a loss of €1.1 million during the second quarter of 2012 representing the difference between the carrying value and redemption price of the debt redeemed pursuant to the Special Optional Redemptions and (iii) portions of the notional amounts of the derivative instruments that were originally entered into by the Kabel BW Group in connection with the March 2011 Kabel BW Refinancing were transferred to Unitymedia Hessen and the remaining notional amounts were canceled.

The details of (i) the Unitymedia Exchange and (ii) the Special Optional Redemptions are as follows:

| KBW Notes | Outstanding principal amount prior to the Unitymedia Exchange | | Principal amount exchanged pursuant to the Unitymedia Exchange | | Principal amount redeemed pursuant to the Special Optional Redemptions | |
|--|---|---------------------|--|---------------------|--|---------------------|
| | Borrowing currency | Euro equivalent (a) | Borrowing currency | Euro equivalent (a) | Borrowing currency | Euro equivalent (a) |
| | in millions | | | | | |
| KBW Senior Notes (b) | € 680.0 | € 680.0 | € 618.0 | € 618.0 | € 62.0 | € 62.0 |
| KBW Euro Senior Secured Notes (c) | € 800.0 | 800.0 | € 735.1 | 735.1 | € 64.9 | 64.9 |
| KBW Dollar Senior Secured Notes (d) ... | \$ 500.0 | 382.0 | \$ 459.3 | 350.9 | \$ 40.7 | 31.1 |
| KBW Senior Secured Floating Rate Notes (e) | € 420.0 | 420.0 | € 395.9 | 395.9 | € 24.1 | 24.1 |
| | | <u>€ 2,282.0</u> | | <u>€ 2,099.9</u> | | <u>€ 182.1</u> |

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- (a) Translations are calculated as of the May 4, 2012 transaction date.
 - (b) The KBW Senior Notes tendered for exchange were exchanged for an equal principal amount of 9.5% senior notes issued by Unitymedia KabelBW due March 15, 2021 (the Unitymedia Senior Exchange Notes). Interest is payable semi-annually on March 15 and September 15.
 - (c) The KBW Euro Senior Secured Notes tendered for exchange were exchanged for an equal principal amount of 7.5% senior secured notes issued by Unitymedia Hessen and Unitymedia NRW (together, the Unitymedia Senior Secured Notes Issuers) due March 15, 2019 (the UM Euro Senior Secured Exchange Notes). Interest is payable semi-annually on March 15 and September 15.
 - (d) The KBW Dollar Senior Secured Notes tendered for exchange were exchanged for an equal principal amount of 7.5% senior secured notes issued by the Unitymedia Senior Secured Notes Issuers due March 15, 2019 (the UM Dollar Senior Secured Exchange Notes and, together with the UM Euro Senior Secured Exchange Notes, the UM Senior Secured Fixed Rate Exchange Notes). Interest is payable semi-annually on March 15 and September 15.
 - (e) The KBW Senior Secured Floating Rate Notes tendered for exchange were exchanged for an equal principal amount of senior secured floating rate notes issued by the Unitymedia Senior Secured Notes Issuers due March 15, 2018 (the UM Senior Secured Floating Rate Exchange Notes and, together with the UM Senior Secured Fixed Rate Exchange Notes, the Unitymedia Senior Secured Exchange Notes). The UM Senior Secured Floating Rate Exchange Notes bear interest at a rate of EURIBOR plus 4.25% and interest is payable quarterly on March 15, June 15, September 15 and December 15. We refer to the Unitymedia Senior Exchange Notes and the Unitymedia Senior Secured Exchanges Notes collectively as the "Unitymedia Exchange Notes."

The Unitymedia Senior Exchange Notes are senior obligations of Unitymedia KabelBW that rank equally with all of the existing and future senior debt of Unitymedia KabelBW and are senior to all existing and future subordinated debt of Unitymedia KabelBW. The Unitymedia Senior Secured Exchange Notes are senior obligations of the Unitymedia Senior Secured Notes Issuers that rank equally with all of the existing and future senior debt of each Unitymedia Senior Secured Notes Issuer and are senior to all existing and future subordinated debt of each of the Unitymedia Senior Secured Notes Issuers.

The Unitymedia Senior Exchange Notes (i) are secured by the same collateral that secures the 2009 UM Senior Notes, (ii) are guaranteed on a senior subordinated basis by the same guarantors of the 2009 UM Senior Notes, (iii) include substantially similar covenants and events of default as the 2009 UM Senior Notes and (iv) include substantially similar redemption and mandatory offer provisions as the 2009 UM Senior Notes except with respect to the redemption price and date on which the Unitymedia Senior Exchange Notes become callable, as specified below.

The Unitymedia Senior Secured Exchange Notes (i) are secured by the same collateral that secures the 2009 UM Senior Secured Notes, (ii) are guaranteed on a senior basis by the same guarantors of the 2009 UM Senior Secured Notes, (iii) include substantially similar covenants and events of default as the 2009 UM Senior Secured Notes and (iv) include substantially similar redemption and mandatory offer provisions as the 2009 UM Senior Secured Notes except with respect to the redemption price and date on which the Unitymedia Senior Secured Exchange Notes become callable, as specified below.

The Unitymedia Senior Exchange Notes are non-callable until March 15, 2016 and the UM Senior Secured Fixed Rate Exchange Notes are non-callable until March 15, 2015. At any time prior to March 15, 2016, in the case of the Unitymedia Senior Exchange Notes and March 15, 2015, in the case of the UM Senior Secured Fixed Rate Exchange Notes, Unitymedia KabelBW and the Unitymedia Senior Secured Notes Issuers (as applicable) may redeem some or all of the Unitymedia Senior Exchange Notes or the UM Senior Secured Fixed Rate Exchange Notes (as applicable) by paying a "make-whole" premium, which is the present value of all remaining scheduled interest payments using the discount rate (as specified in the applicable indenture) as of the redemption date plus 50 basis points.

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Unitymedia KabelBW and the Unitymedia Senior Secured Notes Issuers (as applicable) may redeem some or all of the Unitymedia Senior Exchange Notes or the UM Senior Secured Fixed Rate Exchange Notes at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on March 15 of the years set out below. In addition, the Unitymedia Senior Secured Notes Issuers may redeem some or all of the UM Senior Secured Floating Rate Exchange Notes at a redemption price of (i) 101% if such redemption occurs on or prior to March 14, 2013 or (ii) 100% if such redemption occurs on March 15, 2013 or thereafter.

| <u>Year</u> | <u>Redemption price</u> | |
|---------------------------|---|--|
| | <u>Unitymedia Senior Exchange Notes</u> | <u>UM Senior Secured Fixed Rate Exchange Notes</u> |
| 2015 | N.A. | 103.750% |
| 2016 | 104.750% | 101.875% |
| 2017 | 103.167% | 100.000% |
| 2018 | 101.583% | 100.000% |
| 2019 and thereafter | 100.000% | 100.000% |

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

In addition, on May 4, 2012, KBW and certain of its subsidiary and parent companies (collectively, the New UM Guarantors) granted, in addition to the existing guarantees provided by us and certain of our subsidiaries, as applicable, of the 2009 UM Senior Notes and the 2009 UM Senior Secured Notes, a senior guarantee of the 2009 UM Senior Secured Notes and a senior subordinated guarantee of the 2009 UM Senior Notes. The New UM Guarantors also granted a senior subordinated guarantee of the Unitymedia Senior Exchange Notes and a senior guarantee of the Unitymedia Senior Secured Exchange Notes. In addition, the New UM Guarantors will, within 180 days of the closing of the KBW Fold-in, provide certain share and asset security in favor of the UM Senior Secured Notes and the Unitymedia Senior Secured Exchange Notes.

Unitymedia Revolving Credit Facilities

On May 1, 2012, Unitymedia Hessen entered into a €312.5 million secured revolving credit facility agreement with certain lenders (the New Unitymedia Revolving Credit Facility). The interest rate for the New Unitymedia Revolving Credit Facility is EURIBOR plus a margin of 3.25%. Borrowings under the New Unitymedia Revolving Credit Facility, which mature on June 30, 2017, may be used for general corporate and working capital purposes. In addition to customary restrictive covenants and events of default, the New Unitymedia Revolving Credit Facility requires compliance with a Consolidated Leverage Ratio, as defined in the New Unitymedia Revolving Credit Facility. The New Unitymedia Revolving Credit Facility is secured by a pledge over the shares of Unitymedia KabelBW and certain other asset security of certain subsidiaries of Unitymedia KabelBW. Also on May 1, 2012, Unitymedia KabelBW's existing €80.0 million secured revolving credit facility agreement (the Unitymedia Revolving Credit Facility, together with the New Unitymedia Revolving Credit Facility, the Unitymedia Revolving Credit Facilities) was amended whereby the maturity date was extended to June 30, 2017 and the interest rate was reduced to EURIBOR plus a margin of 2.50%. The Unitymedia Revolving Credit Facility is senior to (i) the 2009 Unitymedia Senior Notes, (ii) the Unitymedia Exchange Notes and (iii) the New Unitymedia Revolving Credit Facility. The Unitymedia Revolving Credit Facility provides for an annual

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commitment fee of 1.00% on the unused portion. In connection with the Special Optional Redemptions, (i) the Unitymedia Revolving Credit Facility was drawn in full and (ii) borrowings of €105.0 million were drawn against the New Unitymedia Revolving Credit Facility. Such amounts have been repaid as of June 30, 2012.

Maturities of Debt

Maturities of our debt as of June 30, 2012 are presented below. The principal amounts presented below represent euro equivalents based on June 30, 2012 exchange rates:

| | <u>Third-party debt</u> | <u>Related- party loans payables</u> | <u>Total</u> |
|--|-----------------------------|--|------------------|
| | <u>in millions</u> | | |
| Year ended December 31: | | | |
| 2012 (remainder of year) | € — | € — | € — |
| 2013 | — | — | — |
| 2014 | — | — | — |
| 2015 | — | — | — |
| 2016 | — | — | — |
| 2017 | 2,097.9 | — | 2,097.9 |
| Thereafter | 2,777.0 | 1,491.1 | 4,268.1 |
| Total maturities | <u>4,874.9</u> | <u>1,491.1</u> | <u>6,366.0</u> |
| Unamortized premium (discount) | (38.5) | — | (38.5) |
| Total debt before transaction costs and accrued interest | 4,836.4 | 1,491.1 | 6,327.5 |
| Accrued interest, transaction costs and finance lease obligations, net | 5.1 | 26.8 | 31.9 |
| Total debt and finance lease obligations | <u>€ 4,841.5</u> | <u>€ 1,517.9</u> | <u>€ 6,359.4</u> |

Non-cash Refinancing Transactions

During the six months ended June 30, 2012 and 2011, certain of our refinancing transactions included non-cash borrowings and repayments of debt aggregating €2,099.9 million and nil, respectively.

(9) Income Taxes

The income tax benefit (expense) attributable to our loss before income taxes differs from the income tax benefit computed by applying the German income tax rate of 31.88% for the 2012 period and 31.58% for the 2011 period as a result of the following:

| | <u>Three months ended June 30,</u> | | <u>Six months ended June 30,</u> | |
|--|------------------------------------|----------------|----------------------------------|-----------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| | <u>in millions</u> | | | |
| Computed expected income tax benefit | € 9.0 | € 8.9 | € 19.9 | € 19.9 |
| Recognized (unrecognized) net operating losses and interest carryforwards, net (a) | 0.1 | (12.1) | 11.1 | (22.0) |
| Non-deductible or non-taxable interest and other items (b) | (6.2) | (3.8) | (11.1) | (7.5) |
| Other, net | 0.8 | 1.3 | (0.2) | (0.8) |
| Total | <u>€ 3.7</u> | <u>€ (5.7)</u> | <u>€ 19.7</u> | <u>€ (10.4)</u> |

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- (a) The amount for the six months ended June 30, 2012 includes a net deferred tax benefit of €14.9 million related to the reallocation of prior year interest expense within different fiscal entities.
- (b) The amount for the six months ended June 30, 2012 includes a current tax benefit of €3.4 million and a net deferred tax expense of €3.2 million related to the reallocation of prior year interest expense within different fiscal entities.

(10) Shareholder's Equity (Deficit)

One of our indirect parent companies, Liberty Global Europe Holding B.V. (Liberty Global Europe), granted a financing commitment dated September 30, 2010 to our company in the amount of €75.0 million, all of which was used at June 30, 2012. During the year ended December 31, 2010, €17.0 million was received through an equity contribution and, during the second quarter of 2012, the remaining €58.0 million was funded through an increase to our shareholder loans payable.

(11) Related-Party Transactions

Our related-party transactions consist of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|--------|---------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| | in millions | | | |
| OpEx..... | € 2.0 | € 0.5 | € 3.8 | € 2.3 |
| Allocated stock-based compensation expense..... | 0.2 | — | 0.5 | — |
| Fees and allocations..... | 14.3 | 5.5 | 27.6 | 13.0 |
| Included in EBIT..... | 16.5 | 6.0 | 31.9 | 15.3 |
| Interest expense..... | 23.6 | 25.3 | 27.4 | 50.6 |
| Interest income..... | (0.3) | — | (0.4) | — |
| Share of affiliate gain..... | (0.8) | — | (1.5) | — |
| Included in net loss..... | € 39.0 | € 31.3 | € 57.4 | € 65.9 |
| Capital expenditures..... | € 2.8 | € — | € 4.3 | € 0.1 |

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

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

Fees and allocations. These amounts represent charges that originate with UPC Holding and include charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations. The amounts charged generally are based on our company's estimated share of the applicable costs (including personnel-related and other costs associated with the services provided) incurred by the other Liberty Global subsidiaries, plus a mark-up. The monthly amounts charged are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified. Charges that originate with UPC Holding may be cash or loan settled. With respect to the amounts settled during the six months ended June 30, 2012 and 2011, all amounts were loan settled.

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with the exception of €4.8 million that was cash settled during the first quarter of 2012 and €8.4 million that was cash settled during the second quarter of 2012.

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

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

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

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

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

UPC Germany Loan Receivable. Pursuant to our loan agreement with UPC Germany, we can require the repayment of all or part of the amount outstanding pursuant to this loan agreement (€0.1 million at June 30, 2012) within five-days of providing notice to UPC Germany. Amounts loaned to UPC Germany pursuant to this agreement are subject to certain restrictions contained in the instruments governing Unitymedia KabelBW's indebtedness. The interest rate on this loan, which is subject to adjustment, was 2.56% as of June 30, 2012. The net decrease in the loan receivable - related-party during the six months ended June 30, 2012 includes (i) cash loaned of €233.8 million, (ii) cash received of €226.8 million, (iii) a €60.1 million non-cash decrease related to amounts settled through our shareholder loans payable and (iv) individually insignificant net decreases of €0.8 million.

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

Accounts payable and accrued liabilities - related-party. At June 30, 2012 and 2011, our accounts payable and accrued liabilities - related-party balances represented amounts owed to UPC Holding and other Liberty Global subsidiaries outside of Unitymedia KabelBW for various intercompany charges and fees and allocations, as further described above. These amounts may be cash or loan settled.

Shareholder loans. For information regarding our shareholder loans payable and 2012 shareholder loan payable to UPC Germany, see note 8.

(12) Commitments and Contingencies

Commitments

In the ordinary course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable operating leases, programming contracts, purchases of customer premises equipment and other items. These include several long-term term agreements with Deutsche Telekom AG (Deutsche Telekom) and its affiliates

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with respect to usage and access for underground cable duct space, the use of fiber optic transmission systems, tower and facility space. In general, these agreements primarily impose fixed prices for a limited period of time, which may then be raised to reflect services requested additionally and increased costs, subject to index-linked limitations. Some agreements impose prices based on the cost to Deutsche Telekom of services that are passed through to us. In accordance with EU-IFRS, we treat these agreements as operating rather than finance leases or as other commitments, as applicable. We expect that in the ordinary course of business, operating leases that expire generally will be renewed or replaced by similar leases.

Expenses for operating leases included in our condensed consolidated statements of operations were €29.4 million and €20.0 million during the three months ended June 30, 2012 and 2011, respectively, and €54.6 million and €40.2 million during the six months ended June 30, 2012 and 2011, respectively. Details of our operating lease contracts and the respective significant leasing arrangements are as follows:

| <u>Lease</u> | <u>Terms</u> | <u>Terms of renewal</u> | <u>Purchase options</u> | <u>Contingent rent</u> |
|----------------------|--------------|-------------------------|-------------------------|------------------------|
| Building | 1-20 years | 1-5 years | No | No |
| Dark fiber..... | 1-19 years | 1-5 years | No | No |
| Colocation area..... | 1-14 years | 1 month - 1 year | No | No |
| Cable ducts | 1-30 years | 1-5 years | No | No |

| | <u>Payments due during:</u> | | | | | | | <u>Total</u> |
|-------------------------------|----------------------------------|----------------|----------------|----------------|---------------|---------------|-------------------|------------------|
| | <u>Remainder of 2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>Thereafter</u> | |
| | in millions | | | | | | | |
| Operating leases | € 52.7 | € 102.8 | € 99.5 | € 96.8 | € 94.1 | € 92.4 | € 1,039.3 | € 1,577.6 |
| Programming commitments | 2.1 | 1.8 | 1.2 | 1.1 | — | — | — | 6.2 |
| Other commitments | 33.3 | 12.0 | 5.8 | 3.3 | — | — | — | 54.4 |
| | <u>€ 88.1</u> | <u>€ 116.6</u> | <u>€ 106.5</u> | <u>€ 101.2</u> | <u>€ 94.1</u> | <u>€ 92.4</u> | <u>€ 1,039.3</u> | <u>€ 1,638.2</u> |

Operating leases include indefinite-lived lease agreements with Deutsche Telekom for cable ducts. The lease payments for these leases are €75.7 million annually. We have the legal right to cancel these agreements with a notice period of 24 months, however the technological requirements to replace leased capacity represent economic penalties that would result in the reasonably assured continuance of the leases for a longer period of time. Due to German law governing the statute of limitations, the agreements in effect represent a maximum lease term of 30 years, after which time Deutsche Telekom has certain additional rights under the lease. Accordingly, the operating lease amounts included in the above table reflect payments under the Deutsche Telekom lease agreements through the applicable statutory termination dates.

Programming commitments consist of obligations associated with certain of our programming contracts, that are enforceable and legally binding on us in that we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems or (iii) whether we discontinue our premium movie and sports services. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs.

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

UNITYMEDIA KABELBW GMBH
Notes to Condensed Consolidated Financial Statements - (Continued)
June 30, 2012
(unaudited)

Guarantees and Other Credit Enhancements

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

Regulatory Issues

Our existing and planned activities in the cable television, broadband internet and telephony industries are subject to significant regulation and supervision by various regulatory bodies, including state authorities in the jurisdictions in which we operate, and German and European Union (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.

Other

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

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 2011 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our historical results of operations for the three and six months ended June 30, 2012 and our pro forma results from operations for the three and six months ended June 30, 2011.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed consolidated cash flow statements.

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 business, product and finance strategies, our capital expenditures, subscriber growth and retention rates, competitive and economic factors and liquidity. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In addition to the risk factors described in our 2011 annual report, the following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

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

- our ability to renew on equivalent terms existing contracts with housing associations and Professional Operators (as defined below), especially in light of the conditions imposed on us as a result of the LGI/KBW Transaction;
- our ability to maintain or increase the number of subscriptions to our digital video, broadband internet, telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the markets in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would impact our contractual relationships with housing associations and Professional Operators (as defined below) or would open our broadband distribution networks to competitors;
- the ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions, including the impact of the conditions imposed in connection with the LGI/KBW Transaction, on our operations;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the markets in which we operate;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver products, equipment, software and services;
- the availability of attractive programming for our digital video services at reasonable costs;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and realize anticipated efficiencies from the businesses we or Liberty Global acquire, including the Kabel BW Group;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- our availability to maintain or increase our revenue from channel carriage arrangements;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in the nature of key relationships with Deutsche Telekom and certain of its affiliates for the access and operation of a significant portion of our network;
- our ability to successfully interact with labor councils and unions; and

- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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

Overview

We are the largest cable operator in the German federal states of North Rhine-Westphalia, Hesse and Baden-Wuerttemberg, and a subsidiary of Liberty Global. We provide digital and analog cable television and broadband internet and telephony services to our customers over our broadband communications network in the German states of North Rhine-Westphalia, Hesse and Baden-Wuerttemberg. As of June 30, 2012, we served 6,739,600 video revenue generating units (RGUs) (including 2,124,500 digital cable RGUs), 2,016,900 broadband internet RGUs and 2,045,200 telephony RGUs over a broadband communications network that passed 12,551,900 homes. Effective January 1, 2012, we began including certain small office and home office (SOHO) RGUs in our externally-reported subscriber statistics. As a result of this change, we recorded a non-organic adjustment to increase the number of our RGUs at January 1, 2012 by 4,500. We also offer mobile services using third-party networks, but do not currently include subscriptions to mobile services in our reported RGU statistics.

We focus on achieving organic revenue and customer growth in our broadband communications operations by developing and marketing bundled entertainment and communications services, and extending and upgrading the quality of our networks where appropriate. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of advanced services, comprised of digital cable, broadband internet, telephony and mobile services, with existing customers through product bundling and upselling, or by migrating analog cable customers to digital cable services that include various incremental service offerings, such as premium subscription channels, 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 our customers access to broadband internet, telephony and digital cable services in addition to our analog video services as follows:

- Video Services. As of June 30, 2012, we provided our digital and analog cable services 53.7% of homes passed by our network. Our digital cable service offerings include basic and premium digital services, including premium subscription channels, HD and DVR services. As of June 30, 2012, 31.5% of our video base subscribed to digital cable services. We provide video services via individual contracts with single dwelling units or bulk contracts with landlords or housing associations or with third parties that operate and administer the in-building network on behalf of housing associations (Professional Operators). In addition, we receive carriage fees from both public and commercial broadcasters.
- 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, 2012, we had expanded the availability of our ultra high-speed broadband internet services through the deployment of Euro DOCSIS 3.0 capable equipment to 96% of our homes passed.
- Telephony Services. We market our telephony services principally as a component of our triple-play and double-play product bundles but also on a standalone basis.

We added a total of 189,300 and 408,400 RGUs (including 4,400 and 8,500 SOHO RGUs) on an organic basis during the three and six months ended June 30, 2012, respectively. The organic RGU growth during three and six months ended June 30, 2012 is attributable to the growth of our (i) broadband internet services, which added 98,900 and 212,400 RGUs, respectively, (ii) telephony services, which added 95,600 and 208,800 RGUs, respectively, and (iii) digital cable services, which added 57,000 and 140,700 RGUs, respectively. The growth of our broadband internet, telephony and digital cable RGUs was partially offset by declines in our analog cable RGUs of 62,200 and 153,500, respectively.

Although we continued to increase revenue and RGUs during the second quarter of 2012 by increasing the penetration of our advanced services, we are experiencing significant competition. Key competitors of our cable business include:

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

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

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

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies or adverse regulatory developments could cause us to decide to undertake previously unplanned upgrades of our broadband communications networks. In addition, no assurance can be given that any future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be harmed.

In connection with the LGI/KBW Transaction, we made certain commitments to address the competition concerns of the FCO that could have an adverse impact on our future operating results and cash flows. For additional information, see note 4 to our condensed consolidated financial statements.

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, 2012 and 2011. As further explained in note 1 to our condensed consolidated financial statements, the operating results of the Kabel BW Group are not included in our historical condensed consolidated statements of operations prior to December 15, 2011. In order to provide meaningful comparisons, the following discussion and analysis of our results of operations for the three and six months ended June 30, 2011 is based on pro forma statements of operations and statistical data that give effect to (i) the LGI/KBW Transaction and (ii) the March 2011 Kabel BW Refinancing, as if such transactions had been completed as of January 1, 2011. As a result, the pro forma statements of operations for 2011 presented below include (i) the historical operating results of the Kabel BW Group for all periods in 2011 and (ii) adjustments to (a) reflect the new basis of accounting resulting from the LGI/KBW Transaction and (b) eliminate the impacts of the old debt refinanced by the Kabel BW Group in March 2011. In connection with the KBW Fold-in, we issued a subordinated note payable in the principal amount of €1,230.0 million to our parent as consideration for all of the outstanding shares of UPC Germany Holdings that were transferred to our company. No interest on this subordinated note is reflected in our 2012 historical or 2011 pro forma results prior to the May 2012 issuance date.

Financial Performance

Historical results for the three and six months ended June 30, 2012 compared to pro forma results for the corresponding periods in 2011 are set forth below (in millions):

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-------------------|---------------------------|-------------------|
| | 2012 | 2011 pro forma | 2012 | 2011 pro forma |
| Revenue: | | | | |
| Subscription revenue: | | | | |
| Video..... | € 235.3 | € 231.1 | € 468.1 | € 460.0 |
| Broadband internet..... | 68.0 | 53.0 | 134.6 | 102.3 |
| Telephony..... | 85.4 | 70.7 | 166.6 | 137.8 |
| Total subscription revenue..... | 388.7 | 354.8 | 769.3 | 700.1 |
| Non-subscription revenue (b)..... | 54.3 | 45.9 | 104.3 | 92.8 |
| | 443.0 | 400.7 | 873.6 | 792.9 |
| Operating costs and expenses: | | | | |
| OpEx..... | 125.0 | 110.3 | 249.7 | 224.0 |
| SG&A..... | 56.6 | 51.1 | 113.5 | 99.1 |
| Impairment, restructuring and other operating items, net..... | 2.9 | 0.1 | 2.5 | (0.1) |
| Related-party fees and allocations..... | 14.3 | 5.5 | 27.6 | 13.0 |
| | 198.8 | 167.0 | 393.3 | 336.0 |
| EBITDA..... | 244.2 | 233.7 | 480.3 | 456.9 |
| Depreciation and amortization..... | 158.0 | 147.7 | 311.9 | 295.4 |
| EBIT..... | 86.2 | 86.0 | 168.4 | 161.5 |
| Financial and other expense: | | | | |
| Interest expense: | | | | |
| Third-party..... | (104.1) | (105.3) | (210.8) | (214.6) |
| Related-party..... | (23.6) | (25.3) | (27.4) | (50.6) |
| Foreign currency transaction gains (losses), net..... | (55.7) | 22.8 | (26.3) | 60.0 |
| Realized and unrealized gains (losses) on derivative instruments, net..... | 68.0 | (27.1) | 33.8 | (66.0) |
| Other income (expense), net..... | 1.0 | — | (0.2) | (0.7) |
| Net financial and other expense..... | (114.4) | (134.9) | (230.9) | (271.9) |
| Loss before income taxes..... | (28.2) | (48.9) | (62.5) | (110.4) |
| Income tax benefit (expense)..... | 3.7 | (0.8) | 19.7 | 1.1 |
| Net loss..... | € (24.5) | € (49.7) | € (42.8) | € (109.3) |

Revenue

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

The details of our revenue are set forth below (in millions except percentages):

| | Three months ended June 30, | | Increase | |
|------------------------------------|------------------------------------|-------------|-----------------|----------|
| | 2012 | 2011 | € | % |
| | pro forma | | | |
| Subscription revenue: | | | | |
| Video | € 235.3 | € 231.1 | € 4.2 | 1.8 |
| Broadband internet | 68.0 | 53.0 | 15.0 | 28.3 |
| Telephony | 85.4 | 70.7 | 14.7 | 20.8 |
| Total subscription revenue | 388.7 | 354.8 | 33.9 | 9.6 |
| Non-subscription revenue (a) | 54.3 | 45.9 | 8.4 | 18.3 |
| Total | € 443.0 | € 400.7 | € 42.3 | 10.6 |

| | Six months ended June 30, | | Increase | |
|------------------------------------|----------------------------------|-------------|-----------------|----------|
| | 2012 | 2011 | € | % |
| | pro forma | | | |
| Subscription revenue: | | | | |
| Video | € 468.1 | € 460.0 | € 8.1 | 1.8 |
| Broadband internet | 134.6 | 102.3 | 32.3 | 31.6 |
| Telephony | 166.6 | 137.8 | 28.8 | 20.9 |
| Total subscription revenue | 769.3 | 700.1 | 69.2 | 9.9 |
| Non-subscription revenue (a) | 104.3 | 92.8 | 11.5 | 12.4 |
| Total | € 873.6 | € 792.9 | € 80.7 | 10.2 |

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

The details of our revenue increase during the three and six months ended June 30, 2012, as compared to the corresponding periods in 2011, are set forth below (in millions):

| | Three-month period | | Six-month period | |
|---|---------------------------|--------|-------------------------|--|
| | pro forma | | | |
| Increase in subscription revenue due to change in (a): | | | | |
| Average number of RGUs (b) | € 28.4 | € 55.7 | | |
| Average monthly subscription revenue per average RGU (ARPU) (c) | 5.5 | 13.5 | | |
| Increase in non-subscription revenue (d) | 8.4 | 11.5 | | |
| Total | € 42.3 | € 80.7 | | |

(a) Our subscription revenue includes revenue from multi-year bulk agreements with landlords, housing associations or with Professional Operators. These bulk agreements, which generally allow for the procurement of the basic video signals at volume-based discounts, provide access to nearly two-thirds of our video cable subscribers. During the three months ended June 30, 2012, our 20 largest bulk agreement accounts generated approximately 6% of our revenue (including estimated amounts billed directly to the building occupants for premium cable, broadband internet and telephony services). No assurance can be given that our bulk agreements will be renewed or extended on financially equivalent terms or at all, particularly in light of the commitments we have made to regulators in connection with the LGI/KBW Acquisition. In this

regard, we have, among other items, agreed to grant a special termination right with respect to certain of our larger bulk agreements. During the three months ended June 30, 2012, the bulk agreements that are subject to this special termination right accounted for a significant portion of the revenue associated with (i) all of our bulk agreements and (ii) the 20 largest bulk agreement accounts mentioned above. For additional information, see note 4 to our condensed consolidated financial statements.

- (b) The increases in our subscription revenue related to changes in the average numbers of RGUs are attributable to increases in the average numbers of broadband internet, telephony and digital cable RGUs that were only partially offset by declines in the average number of analog cable RGUs. The declines in our average number of analog cable RGUs led to declines in the average number of total video RGUs during the three and six months ended June 30, 2012.
- (c) The increases in our subscription revenue related to changes in ARPU are due to (i) an improvement in RGU mix, attributable to higher proportions of telephony, broadband internet and digital cable RGUs, and (ii) net decreases resulting primarily from the following factors: (a) lower ARPU due to the impact of free bundled services provided to new subscribers during promotional periods, (b) lower ARPU due to a decrease in telephony call volume for customers on usage-based calling plans, (c) lower ARPU due to a higher proportion of customers receiving discounted analog cable services through bulk agreements and (d) higher ARPU from broadband internet services. For information concerning our commitment to distribute digital free-to-air television channels in unencrypted form commencing January 1, 2013, see note 4 to our condensed consolidated financial statements.
- (d) The increases in our non-subscription revenue are primarily attributable to (i) increases in installation revenue, due to higher numbers of installations and increases in the average installation fee, and (ii) increases in mobile revenue. Our 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 at various dates ranging from 2012 through 2016. The aggregate amount of revenue related to these carriage contracts represents approximately 7% of our total revenue during the three months ended June 30, 2012. Furthermore, approximately 20% of our carriage fee revenue during the three months ended June 30, 2012 relates to contracts for which we have received notices to terminate effective December 31, 2012. While we have rejected these termination notices, no assurance can be given that any of our carriage fee contracts will be renewed or extended on financially equivalent terms, or at all. In addition, our ability to increase the aggregate carriage fees that we receive for each channel is limited by certain commitments we made to regulators in connection with the LGI/KBW Acquisition. For additional information, see note 4 to our condensed consolidated financial statements.

OpEx

General. OpEx includes programming and copyright, network operations, interconnect, customer operations, customer care and other operating costs. Our network operating costs include significant expenses incurred pursuant to long-term agreements with Deutsche Telekom for the use of assets and other services provided by Deutsche Telekom. Our programming costs, which represent the majority of our direct costs, are expected to rise in future periods as a result of (i) growth in digital cable services, in combination with the planned introduction of our next generation set-top box platform and online viewing, (ii) price increases and (iii) other factors. 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 are provided in the below table (in millions except percentages):

| | Three months ended June 30, | | Increase | |
|---|------------------------------------|-------------|-----------------|----------|
| | 2012 | 2011 | € | % |
| | pro forma | | | |
| Direct costs (programming and copyright, interconnect, and other) | € 44.6 | € 39.2 | € 5.4 | 13.8 |
| Staff-related costs | 21.7 | 21.1 | 0.6 | 2.8 |
| Network operating costs | 36.9 | 33.0 | 3.9 | 11.8 |
| Other indirect costs | 21.8 | 17.0 | 4.8 | 28.2 |
| Total..... | € 125.0 | € 110.3 | € 14.7 | 13.3 |
| | Six months ended June 30, | | Increase | |
| | 2012 | 2011 | € | % |
| | pro forma | | | |
| Direct costs (programming and copyright, interconnect, and other) | € 87.8 | € 79.2 | € 8.6 | 10.9 |
| Staff-related costs | 43.4 | 41.9 | 1.5 | 3.6 |
| Network operating and technical service costs..... | 73.5 | 67.2 | 6.3 | 9.4 |
| Other indirect costs | 45.0 | 35.7 | 9.3 | 26.1 |
| Total..... | € 249.7 | € 224.0 | € 25.7 | 11.5 |

Our total OpEx increased €14.7 million or 13.3% and €25.7 million or 11.5% during the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods in 2011. These increases include the following factors:

- Increases in other indirect costs of €4.8 million or 28.2% and €9.3 million or 26.1%, respectively, primarily attributable to increases in outsourced labor and professional fees, primarily due to increased call center costs attributable to higher call volumes and, to a lesser extent, higher outsourced labor associated with customer-facing activities;
- Increases in direct costs of €5.4 million or 13.8% and €8.6 million or 10.9%, respectively, primarily attributable to increases in (i) programming and related costs, due to growth in digital video services, and (ii) interconnect costs, primarily due to the net effect of (a) subscriber growth and (b) the favorable impacts of the settlement of certain operational contingencies during the 2012 periods;
- Increases in network operating costs of €3.9 million or 11.8% and €6.3 million or 9.4%, respectively, primarily due to (i) higher costs associated with the refurbishment of customer premises equipment, (ii) higher electricity costs, due in part to the release of a €1.3 million accrual during the second quarter of 2011 for a settlement of an operational contingency, and (iii) higher network equipment maintenance costs; and

- Increases in staff-related costs of €0.6 million or 2.8% and €1.5 million or 3.6%, respectively, due primarily to annual wage increases.

SG&A

General. SG&A includes human resources, information technology, general services, management, finance, legal and marketing costs, stock-based compensation and other general expenses. As noted above under *OpEx*, we are subject to inflationary pressures with respect to our staff-related and other costs. The details of our SG&A costs are provided in the below table (in millions except percentages):

| | Three months ended June 30, | | Increase | |
|---------------------------------|------------------------------------|----------------------------------|-----------------|----------|
| | 2012 | 2011 | € | % |
| | | pro forma | | |
| Staff-related costs..... | € 15.7 | € 15.6 | € 0.1 | 0.6 |
| Sales and marketing costs | 24.9 | 22.7 | 2.2 | 9.7 |
| Other indirect costs | 16.0 | 12.8 | 3.2 | 25.0 |
| Total..... | € 56.6 | € 51.1 | € 5.5 | 10.8 |
| | | pro forma | | |
| | | Six months ended June 30, | | |
| | | 2012 | | |
| | | 2011 | | |
| | | pro forma | | |
| Staff-related costs..... | € 32.1 | € 30.3 | € 1.8 | 5.9 |
| Sales and marketing costs | 48.7 | 44.8 | 3.9 | 8.7 |
| Other indirect costs | 32.7 | 24.0 | 8.7 | 36.3 |
| Total..... | € 113.5 | € 99.1 | € 14.4 | 14.5 |

Our total SG&A increased €5.5 million or 10.8% and €14.4 million or 14.5% during the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods in 2011. These increases include the following factors:

- Increases in other indirect costs of €3.2 million or 25.0% and €8.7 million or 36.3%, respectively, primarily attributable to (i) increases in outsourced labor and professional fees, primarily due to higher consulting costs associated with the integration of KBW's operations and (ii) increases in facilities expenses, primarily due to higher rent and related costs;
- Increases in sales and marketing costs of €2.2 million or 9.7% and €3.9 million or 8.7%, respectively, primarily due to (i) increased costs associated with rebranding campaigns and (ii) higher third-party sales commissions, mostly due to the impact of a €1.3 million accrual release during the second quarter 2011 following the settlement of an operational contingency; and
- Increases in staff-related costs of €0.1 million or 0.6% and €1.8 million or 5.9%, respectively, primarily due to the net effect of (i) annual wage increases and (ii) lower bonus costs.

Related-Party Fees and Allocations

We recorded related-party fees and allocations related to corporate services performed by Liberty Global of €14.3 million and €27.6 million during the three and six months ended June 30, 2012, respectively, compared to €5.5 million and €13.0 million during the corresponding prior year periods. These amounts represent charges that originate with UPC Holding and other Liberty

Global subsidiaries to our company, including charges for management, finance, legal, technology, marketing and other services that support our company's operations. For additional information, see note 11 to our condensed consolidated financial statements.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €10.3 million or 7.0% and €16.5 million or 5.6% during the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods in 2011. These increases are due primarily to the net effect of (i) increases in property and equipment related to capital expenditures, (ii) increases in expenditures for capitalizable subscriber acquisition costs and (iii) decreases associated with certain assets becoming fully depreciated.

Net Financial and Other Expense

Our net financial and other expense primarily includes interest expense, interest income, foreign currency transaction gains or losses and realized and unrealized gains or losses on derivative instruments. As further described below, we recorded net financial and other expense during the three and six months ended June 30, 2012 of €114.4 million and €230.9 million, respectively, compared to €134.9 million and €271.9 million, respectively, during the corresponding periods in 2011.

Interest expense – third-party

Interest expense – third-party decreased €1.2 million or 1.1% and €3.8 million or 1.8% during the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods in 2011, due primarily to (i) lower average outstanding balances and (ii) lower weighted average interest rates. Our third-party interest expense primarily relates to (i) the 2009 Unitymedia Notes, (ii) the KBW Notes prior to May 2012 and the Unitymedia Exchange Notes thereafter and (iii) the Unitymedia Revolving Credit Facilities.

Interest expense – related-party

Interest expense – related-party decreased €1.7 million and €23.2 million during the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods in 2011, due primarily to lower average outstanding balances of our related-party loans payable during the 2012 periods. Our related-party interest expense relates to (i) our shareholder loans payable to UPC Germany, including, for the period following the May 2012 KBW Fold-in, the 2012 shareholder loan payable, and (ii) our loan to UMI. For additional information, see note 8 to our condensed consolidated financial statements.

Foreign currency transaction gains (losses), net

We recognized foreign currency transaction gains (losses), net, of (€55.7 million) and (€26.3 million) during the three and six months ended June 30, 2012, respectively, as compared to €22.8 million and €60.0 million during the corresponding prior year periods. These amounts primarily relate to the remeasurement of our U.S. dollar denominated indebtedness.

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

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

| | <u>Three months ended June 30,</u> | | <u>Six months ended June 30,</u> | |
|---|------------------------------------|------------------|----------------------------------|------------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| | | <u>pro forma</u> | | <u>pro forma</u> |
| Cross-currency derivative contracts | € 69.9 | € (20.9) | € 37.6 | € (49.9) |
| Interest rate derivative contract | (1.9) | (6.2) | (3.8) | (16.1) |
| Total..... | <u>€ 68.0</u> | <u>€ (27.1)</u> | <u>€ 33.8</u> | <u>€ (66.0)</u> |

Income tax benefit (expense)

We recognized income tax benefit of €3.7 million and income tax expense of €0.8 million during the three months ended June 30, 2012 and 2011, respectively.

The income tax benefit during the three months ended June 30, 2012 differs from the expected income tax benefit of €9.0 million (based on the German group income tax rate of 31.88%), 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, 2011 differs from the expected income tax benefit of €15.4 million (based on the German group income tax rate of 31.58%), due primarily to the negative impact of a net increase in unrecognized net operating losses and interest carryforwards.

We recognized income tax benefit of €19.7 million and €1.1 million during the six months ended June 30, 2012 and 2011, respectively.

The income tax benefit during the six months ended June 30, 2012 differs from the expected income tax benefit of €19.9 million (based on the German group income tax rate of 31.88%), due primarily to the positive impact of the recognition of certain net operating loss and interest carryforwards. This positive impact was mostly offset by the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax benefit during the six months ended June 30, 2011 differs from the expected income tax benefit of €34.9 million (based on the German group income tax rate of 31.58%), due primarily to the negative impacts of (i) a net increase in unrecognized net operating losses and interest carryforwards and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items.

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

Net loss

We reported net losses of €24.5 million and €42.8 million during the three and six months ended June 30, 2012, respectively, as compared to €49.7 million and €109.3 million during the corresponding prior year periods.

Gains or losses associated with (i) the disposition of assets, (ii) changes in the fair values of derivative instruments and (iii) movements in foreign currency exchange rates are subject to a high degree of volatility, and as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-

operating items, our ability to achieve net earnings is largely dependent on our ability to increase our aggregate Adjusted EBITDA to a level that more than offsets the aggregate amount of our (a) stock-based compensation, (b) 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 tax expenses. As we use the term, Adjusted EBITDA is defined as EBITDA before stock-based compensation, impairment, restructuring and other operating items and related-party fees and allocations.

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

Although our consolidated operating subsidiaries have generated cash from operating activities, the terms of our debt instruments restrict our ability to access the assets of our subsidiaries. At June 30, 2012, substantially all of our consolidated cash and cash equivalents of €20.1 million were held by our subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax considerations or other factors.

Liquidity of Unitymedia KabelBW

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

The ongoing cash needs of Unitymedia KabelBW include (i) corporate general and administrative expenses and (ii) interest payments on outstanding debt. From time to time, Unitymedia KabelBW may also require cash in connection with (a) the repayment of outstanding debt, (b) the satisfaction of contingent liabilities, (c) acquisitions or (d) 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 Revolving Credit Facilities. At June 30, 2012, we had combined borrowing capacity of €392.5 million under the Unitymedia Revolving Credit Facilities.

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

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

Capitalization

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

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase the Adjusted EBITDA of our operating subsidiaries and to achieve adequate returns on our capital expenditures and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our and our subsidiaries' various debt instruments. In this regard, if our Adjusted EBITDA were to decline, we could be required to repay or limit our borrowings under the Unitymedia Revolving Credit Facilities in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment.

Condensed Consolidated Cash Flow Statements

The below discussion is based on the amounts as presented in our condensed consolidated statements of cash flows, which have been retrospectively revised to give effect to the KBW Fold-in for all periods during which we and the Kabel BW Group were under the common control of Liberty Global. Accordingly, the cash flows of the Kabel BW Group for periods prior to December 15, 2011 are not included in the amounts reported for the 2011 periods.

Summary. During the six months ended June 30, 2012, we used net cash provided by our operating activities of €357.9 million and €28.0 million of our existing cash and cash equivalents to fund net cash used by our investing activities of €243.0 million and net cash used by our financing activities of €142.9 million.

Operating activities. Net cash provided by our operating activities increased €185.5 million, from €172.4 million during the first six months of 2011 to €357.9 million during the first six months of 2012. This increase in cash provided is primarily attributable to the net effect of (i) an increase in the cash provided by our Adjusted EBITDA and related working capital items, due largely to the KBW Fold-in, (ii) a decrease in cash provided due to higher cash payments for interest, due largely to the KBW Fold-in, and (iii) an increase in cash provided due to lower cash payments related to derivative instruments.

Investing activities. Net cash used by our investing activities increased €112.4 million, from €130.6 million during the first six months of 2011 to €243.0 million during the first six months of 2012. This increase in cash used is primarily attributable to (i) an increase in cash used due to higher capital expenditures of €105.7 million, from €131.5 million during the first six months of 2011 to €237.2 million during the first six months of 2012, and (ii) an increase in cash used due to advances to UPC Germany of €7.0 million. The increase in capital expenditures is primarily due to (a) the KBW Fold-in, (b) an increase in expenditures for the purchase and installation of customer premises equipment, (c) an increase in expenditures for new build and upgrade projects to expand services, (d) an increase in expenditures for support capital, such as information technology upgrades and general support systems, and (e) an increase in capitalized third-party commissions of €4.2 million, from €21.9 million during the 2011 period to €26.1 million during the 2012 period, resulting from a higher number of RGU additions. In terms of the composition of our capital expenditures during the first six months of 2012, (I) 53% relates to the rebuild and upgrade of our distribution network, primarily in connection with the upgrade of in-home wiring, (II) 25% relates to the purchase and installation of customer premises equipment, (III) 15% relates to capitalized third-party commissions and (IV) the remainder relates to expenditures for general support systems.

Financing activities. Net cash used by our financing activities increased €142.4 million, from €0.5 million during the first six months of 2011 to €142.9 million during the first six months of 2012. This increase in cash used is primarily due to the net effect of (i) an increase in cash used related to higher net repayments of third-party debt of €261.9 million and (ii) a decrease in cash used related to higher net related-party borrowings of €123.6 million.

Off-Balance Sheet Arrangements

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

**SUPPLEMENTAL
FINANCIAL INFORMATION
(unaudited)**

**Supplemental Financial Information
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Unitymedia KabelBW Pro Forma Condensed Combined Statements of Operations
(unaudited)

As further explained in note 1 to our condensed consolidated financial statements, the operating results of the Kabel BW Group are not included in our historical condensed consolidated statements of operations prior to December 15, 2011. The following table presents 2011 quarterly condensed consolidated pro forma statements of operations of Unitymedia KabelBW as if (i) the LGI/KBW Transaction and (ii) the March 2011 Kabel BW Refinancing had been completed as of January 1, 2011. As a result, the pro forma statements of operations for 2011 presented below include the historical operating results of the Kabel BW Group for all periods in 2011. In connection with the KBW Fold-in, we issued the 2012 shareholder loan payable in the principal amount of €1,230.0 million to our parent as consideration for all of the outstanding shares of UPC Germany Holdings that were transferred to our company. No interest on the 2012 shareholder loan payable is reflected in our pro forma results prior to the May 2012 issuance date. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable. For additional information and definitions of capitalized terms, see notes 1, 4 and 8 to the condensed consolidated financial statements of Unitymedia KabelBW.

| | Q1 2011 | Q2 2011 | Q3 2011 | Q4 2011 | Total 2011 |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
| | in millions | | | | |
| Revenue: | | | | | |
| Subscription revenue: | | | | | |
| Video..... | € 228.9 | € 231.1 | € 231.4 | € 232.6 | € 924.0 |
| Broadband internet | 49.3 | 53.0 | 57.1 | 61.4 | 220.8 |
| Telephony | 67.1 | 70.7 | 75.4 | 79.3 | 292.5 |
| Total subscription revenue..... | 345.3 | 354.8 | 363.9 | 373.3 | 1,437.3 |
| Non-subscription revenue..... | 46.9 | 45.9 | 49.1 | 51.2 | 193.1 |
| | <u>392.2</u> | <u>400.7</u> | <u>413.0</u> | <u>424.5</u> | <u>1,630.4</u> |
| Operating costs and expenses: | | | | | |
| OpEx..... | 113.7 | 110.3 | 117.6 | 118.9 | 460.5 |
| SG&A | 48.0 | 51.1 | 50.1 | 57.0 | 206.2 |
| Impairment, restructuring and other operating items, net | (0.2) | 0.1 | — | 4.0 | 3.9 |
| Related-party fees and allocations..... | 7.5 | 5.5 | 13.7 | 9.1 | 35.8 |
| | <u>169.0</u> | <u>167.0</u> | <u>181.4</u> | <u>189.0</u> | <u>706.4</u> |
| EBITDA..... | 223.2 | 233.7 | 231.6 | 235.5 | 924.0 |
| Depreciation and amortization | 147.7 | 147.7 | 161.6 | 161.2 | 618.2 |
| EBIT | <u>75.5</u> | <u>86.0</u> | <u>70.0</u> | <u>74.3</u> | <u>305.8</u> |
| Financial and other expense: | | | | | — |
| Interest expense: | | | | | — |
| Third-party..... | (109.3) | (105.3) | (105.2) | (105.4) | (425.2) |
| Related-party | (25.3) | (25.3) | (25.6) | (23.7) | (99.9) |
| Foreign currency transaction gains (losses), net..... | 37.2 | 22.8 | (71.1) | (39.5) | (50.6) |
| Realized and unrealized gains (losses) on derivative instruments, net..... | (38.9) | (27.1) | 68.1 | 15.9 | 18.0 |
| Other income (expense), net..... | (0.7) | — | 0.5 | 1.0 | 0.8 |
| Net financial and other expense | <u>(137.0)</u> | <u>(134.9)</u> | <u>(133.3)</u> | <u>(151.7)</u> | <u>(556.9)</u> |
| Loss before income taxes | (61.5) | (48.9) | (63.3) | (77.4) | (251.1) |
| Income tax benefit (expense)..... | 1.9 | (0.8) | (1.2) | 40.8 | 40.7 |
| Net loss | <u>€ (59.6)</u> | <u>€ (49.7)</u> | <u>€ (64.5)</u> | <u>€ (36.6)</u> | <u>€ (210.4)</u> |

Unitymedia KabelBW Pro Forma Condensed Combined Statement of Operations
(unaudited)

On January 28, 2010, Unitymedia KabelBW acquired all of the issued and outstanding capital stock of Old Unitymedia (the LGI/Unitymedia Transaction). On March 2, 2010, the then existing debt of Old Unitymedia was refinanced (the March 2010 Unitymedia Refinancing) with proceeds from an escrow account that was created in November 2009, when Unitymedia KabelBW and certain of its subsidiaries issued senior and senior secured notes in contemplation of the LGI/Unitymedia Transaction. On September 16, 2010, Old Unitymedia merged with Unitymedia KabelBW and Unitymedia KabelBW became the surviving entity (the Unitymedia Merger). The Unitymedia Merger, along with the new basis of accounting that resulted from the LGI/Unitymedia Transaction, was given effect as of January 28, 2010 in the historical consolidated financial statements of Unitymedia KabelBW. As further explained in note 1 to our condensed consolidated financial statements, the operating results of the Kabel BW Group are not included in our historical condensed consolidated statements of operations prior to December 15, 2011.

The following table presents the 2010 condensed consolidated pro forma statement of operations of Unitymedia KabelBW as if (i) the LGI/Unitymedia Transaction, (ii) the Unitymedia Merger, (iii) the March 2010 Unitymedia Refinancing, (iv) the LGI/KBW Transaction and (v) the March 2011 Kabel BW Refinancing had been completed as of January 1, 2010. As a result, the pro forma statement of operations for the year ended December 31, 2010 presented below includes the historical operating results of Old Unitymedia's and the Kabel BW Group's continuing operations for the full year of 2010. In connection with the KBW Fold-in, we issued the 2012 shareholder loan payable in the principal amount of €1,230.0 million to our parent as consideration for all of the outstanding shares of UPC Germany Holdings that were transferred to our company. No interest on the 2012 shareholder loan payable has been reflected in our pro forma results prior to the May 2012 issuance date. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if these transactions had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable. For additional information and definitions of capitalized terms, see notes 1, 4 and 8 to the condensed consolidated financial statements of Unitymedia KabelBW.

**Unitymedia KabelBW Pro Forma Condensed Combined Statement of Operations
(unaudited)**

**Year ended
December 31, 2010**
in millions

| | |
|--|-----------|
| Revenue: | |
| Subscription revenue: | |
| Video | € 909.8 |
| Broadband internet | 166.3 |
| Telephony | 235.8 |
| Total subscription revenue | 1,311.9 |
| Non-subscription revenue | 173.4 |
| | 1,485.3 |
| Operating costs and expenses: | |
| OpEx | 448.8 |
| SG&A | 203.8 |
| Impairment, restructuring and other operating items, net | 36.3 |
| Related-party fees and allocations | 23.8 |
| | 712.7 |
| EBITDA | 772.6 |
| Depreciation and amortization | 560.4 |
| EBIT | 212.2 |
| Financial and other expense: | |
| Interest expense: | |
| Third party | (445.2) |
| Related party | (93.5) |
| Foreign currency transaction losses, net | (13.1) |
| Realized and unrealized gains on derivative instruments, net | 33.2 |
| Other income, net | 3.6 |
| Net financial and other expense | (515.0) |
| Loss before income taxes | (302.8) |
| Income tax benefit | 57.8 |
| Net loss | € (245.0) |