



**unitymedia**

**Condensed Consolidated Financial Statements  
March 31, 2015**

**UNITYMEDIA GMBH  
Aachener Strasse 746-750  
50933 Cologne  
Germany**

**UNITYMEDIA GMBH**  
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**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	<b>in millions</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	€ 8.7	€ 14.4
Trade receivables and unbilled revenue, net.....	151.2	118.9
Loan receivable – related-party (note 9).....	1,130.1	859.7
Other current assets (notes 4 and 9).....	96.3	60.3
Total current assets .....	1,386.3	1,053.3
Property and equipment, net (note 6).....	3,320.7	3,329.1
Goodwill .....	2,841.7	2,841.7
Intangible assets subject to amortization, net (note 6).....	801.7	834.8
Derivative instruments (note 4) .....	402.5	115.9
Investment in associate (note 9).....	64.4	62.9
Other noncurrent assets (note 9) .....	26.8	52.4
Total noncurrent assets .....	7,457.8	7,236.8
Total assets .....	€ 8,844.1	€ 8,290.1

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

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**CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)**  
**(unaudited)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	<b>in millions</b>	
<b>LIABILITIES AND SHAREHOLDER'S DEFICIT</b>		
Current liabilities:		
Accounts payable.....	€ 43.4	€ 54.0
Accrued liabilities.....	195.3	199.9
Accounts payable and accrued liabilities – related-party (note 9) .....	74.9	65.7
Corporate income taxes payable.....	49.6	33.4
Current provisions .....	22.1	23.0
Deferred revenue and advance payments from subscribers and others.....	237.4	97.2
Current portion of debt and finance lease obligations (note 7) .....	205.0	476.3
Other current liabilities.....	16.3	22.6
Total current liabilities.....	844.0	972.1
Noncurrent debt and finance lease obligations (note 7):		
Third-party .....	6,711.0	6,074.0
Related-party .....	965.2	871.9
Deferred tax liabilities.....	469.9	479.4
Noncurrent provisions.....	32.1	31.6
Other noncurrent liabilities (note 4) .....	9.8	13.1
Total noncurrent liabilities.....	8,188.0	7,470.0
Total liabilities.....	9,032.0	8,442.1
Commitments and contingencies (notes 7 and 10)		
Shareholder's deficit:		
Share capital .....	—	—
Additional paid-in capital.....	968.5	964.5
Accumulated deficit .....	(1,150.6)	(1,110.7)
Accumulated other comprehensive loss, net of taxes .....	(5.8)	(5.8)
Total shareholder's deficit.....	(187.9)	(152.0)
Total liabilities and shareholder's deficit.....	€ 8,844.1	€ 8,290.1

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three months ended	
	March 31,	
	2015	2014
	in millions	
Revenue (note 3).....	€ 538.3	€ 508.7
Operating costs and expenses:		
Operating (other than depreciation and amortization) ( <b>OpEx</b> ) (note 9).....	146.0	136.3
Selling, general and administrative (other than depreciation and amortization) (including share-based compensation) ( <b>SG&amp;A</b> ) (note 9).....	59.0	60.4
Related-party fees and allocations (note 9).....	33.4	26.5
Impairment, restructuring and other operating items, net.....	0.3	1.6
	<u>238.7</u>	<u>224.8</u>
Earnings before interest, taxes, depreciation and amortization ( <b>EBITDA</b> ).....	299.6	283.9
Depreciation and amortization.....	189.5	176.8
Earnings before interest and taxes ( <b>EBIT</b> ).....	<u>110.1</u>	<u>107.1</u>
Financial and other income (expense):		
Interest expense:		
Third-party.....	(97.4)	(99.3)
Related-party (note 9).....	(20.4)	(29.1)
Foreign currency transaction losses, net.....	(261.5)	(1.1)
Realized and unrealized gains (losses) on derivative instruments, net (note 4).....	319.4	(7.3)
Losses on debt modification and extinguishment, net (note 7).....	(93.5)	—
Other income, net (note 9).....	8.7	3.5
Net financial and other expense.....	<u>(144.7)</u>	<u>(133.3)</u>
Loss before income taxes.....	(34.6)	(26.2)
Income tax benefit (expense) (note 8).....	(5.3)	5.5
Net loss / comprehensive loss (a).....	<u>€ (39.9)</u>	<u>€ (20.7)</u>
Further details of OpEx and SG&A:		
Direct costs (programming and copyright, interconnect and other).....	€ 46.4	€ 44.0
Network operating costs.....	45.6	45.4
Staff-related costs (excluding restructuring charges).....	43.9	38.8
Sales and marketing costs.....	24.9	27.0
Outsourced labor and professional services.....	19.5	18.1
Other indirect costs.....	24.7	23.4
	<u>€ 205.0</u>	<u>€ 196.7</u>
Further details of impairment, restructuring and other operating items, net:		
Restructuring charges.....	€ 0.6	€ 2.4
Gain on disposal of assets.....	(0.2)	(0.9)
Direct acquisition costs and acquisition-related items.....	(0.1)	0.1
	<u>€ 0.3</u>	<u>€ 1.6</u>

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

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

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

	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss, net of taxes	Total shareholder's deficit
	in millions			
Balance at January 1, 2014 .....	€ 940.7	€ (920.7)	€ (3.5)	€ 16.5
Net loss .....	—	(20.7)	—	(20.7)
Share-based compensation (note 9) .....	0.6	—	—	0.6
Capital charge in connection with the exercise of Liberty Global share-based incentive awards (note 9).....	(0.2)	—	—	(0.2)
Balance at March 31, 2014 .....	<u>€ 941.1</u>	<u>€ (941.4)</u>	<u>€ (3.5)</u>	<u>€ (3.8)</u>
Balance at January 1, 2015 .....	€ 964.5	€ (1,110.7)	€ (5.8)	€ (152.0)
Net loss .....	—	(39.9)	—	(39.9)
Deemed contribution of technology-related services (note 9) .....	4.0	—	—	4.0
Share-based compensation (note 9) .....	1.0	—	—	1.0
Capital charge in connection with the exercise of Liberty Global share-based incentive awards (note 9).....	(1.0)	—	—	(1.0)
Balance at March 31, 2015 .....	<u>€ 968.5</u>	<u>€ (1,150.6)</u>	<u>€ (5.8)</u>	<u>€ (187.9)</u>

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

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**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

	Three months ended March 31,	
	2015	2014
	in millions	
Cash flows from operating activities:		
Net loss .....	€ (39.9)	€ (20.7)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense .....	1.0	0.6
Impairment, restructuring and other operating items, net .....	0.3	1.6
Related-party fees and allocations .....	33.4	26.5
Depreciation and amortization .....	189.5	176.8
Amortization of deferred financing costs and non-cash interest accretion .....	1.2	1.4
Related-party interest expense .....	20.4	29.1
Foreign currency transaction losses, net .....	261.5	1.1
Realized and unrealized losses (gains) on derivative instruments, net .....	(319.4)	7.3
Losses on debt modification and extinguishment, net .....	93.5	—
Deferred tax benefit .....	(9.6)	(11.3)
Changes in operating assets and liabilities .....	76.4	32.1
Net cash provided by operating activities .....	<u>308.3</u>	<u>244.5</u>
Cash flows from investing activities:		
Capital expenditures .....	(116.0)	(107.0)
Advances to parent .....	(264.7)	(127.8)
Other investing activities .....	28.5	1.9
Net cash used by investing activities .....	<u>(352.2)</u>	<u>(232.9)</u>
Cash flows from financing activities:		
Borrowings of third-party debt .....	1,420.0	—
Repayments of third-party debt and finance lease obligations .....	(1,343.2)	(2.9)
Related-party borrowings .....	62.4	—
Payment of financing costs and debt premiums .....	(100.8)	(2.0)
Other financing activities .....	(0.2)	(0.1)
Net cash provided (used) by financing activities .....	<u>38.2</u>	<u>(5.0)</u>
Net increase (decrease) in cash and cash equivalents .....	(5.7)	6.6
Cash and cash equivalents:		
Beginning of period .....	14.4	13.6
End of period .....	<u>€ 8.7</u>	<u>€ 20.2</u>
The following amounts are included in net cash provided by operating activities:		
Cash paid for interest (excluding payments related to derivative instruments) .....	<u>€ 108.3</u>	<u>€ 123.6</u>
Net cash paid for taxes .....	<u>€ 0.1</u>	<u>€ 2.7</u>

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

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**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2015**  
**(unaudited)**

**(1) Basis of Presentation**

Unitymedia GmbH (**Unitymedia**), formerly known as Unitymedia KabelBW GmbH, is a wholly-owned subsidiary of UPC Germany Holding B.V. (**UPC Germany**), which in turn is an indirect subsidiary of Liberty Global plc (**Liberty Global**). In the following text, the terms “Unitymedia,” “we,” “our,” “our company” and “us” may refer, as the context requires, to Unitymedia, or collectively to Unitymedia and its subsidiaries.

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

Our unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (**IAS**) 34 and do not include all of the information required by International Financial Reporting Standards (**IFRS**) as adopted by the European Union (**EU**) (**EU-IFRS**) for full annual financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our 2014 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, share-based compensation and programming and copyright expenses. Actual results could differ from those estimates.

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

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of March 31, 2015.

These condensed consolidated financial statements were submitted to our supervisory board and approved for publication by the Managing Directors on May 20, 2015.



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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**March 31, 2015**  
**(unaudited)**

**(2) Accounting Changes and Recent Pronouncements**

*First-time Application of Accounting Standards*

The application of the following accounting standard did not have a material impact on our condensed consolidated financial statements:

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the EU
IAS 19 (amendments)	Defined benefit plans: Employee contributions	July 1, 2014	December 17, 2014

*New Accounting Standards, Not Yet Effective*

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

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the EU
IFRS 9	Financial Instruments	January 1, 2018 (a)	Not yet endorsed
IFRS 15	Revenue from Contracts with Customers	January 1, 2017 (b)	Not yet endorsed
IAS 1 (amendments)	Disclosure Initiative	January 1, 2016 (a)	Not yet endorsed
IAS 16 / IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016 (a)	Not yet endorsed

- (a) We have not fully evaluated the impact of applying these new, but not yet effective, accounting standards on our consolidated financial statements, however, we currently do not expect the impact of the adoption of these standards to be material.
- (b) In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (**IFRS 15**), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. IFRS 15 will replace existing revenue recognition guidance in IFRS when it becomes effective, currently scheduled for January 1, 2017, although an extension to January 1, 2018 has been proposed by the IASB. We are currently evaluating the effect that IFRS 15 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

**(3) Segment Reporting**

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

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**March 31, 2015**  
**(unaudited)**

Our revenue by major category is as follows:

	<b>Three months ended</b>			
	<b>March 31,</b>			
	<b>2015</b>		<b>2014</b>	
	<b>in millions</b>			
Subscription revenue (a):				
Video .....	€	248.0	€	241.5
Broadband internet .....		126.7		105.2
Fixed-line telephony .....		112.5		101.1
Cable subscription revenue .....		487.2		447.8
Mobile subscription revenue (b) .....		4.8		4.4
Total subscription revenue .....		492.0		452.2
Non-subscription revenue (b) (c) .....		46.3		56.5
Total revenue .....	€	538.3	€	508.7

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of €0.3 million in each of the 2015 and 2014 periods. Mobile interconnect revenue is included in non-subscription revenue.
- (c) Non-subscription revenue includes carriage fee, installation and interconnect revenue. In addition, non-subscription revenue includes business-to-business (**B2B**) revenue from business broadband internet, video, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small office and home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive enhanced service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which aggregated €6.5 million and €4.2 million during the three months ended March 31, 2015 and 2014, respectively, is included in cable subscription revenue.

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**March 31, 2015**  
**(unaudited)**

**(4) Derivative Instruments**

In general, we seek to enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than our functional currency. In this regard, we have entered into various derivative instruments to manage foreign currency exposure with respect to the United States (U.S.) dollar. Hedge accounting is not applied to our cross-currency swaps. Accordingly, changes in the fair values of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

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

	March 31, 2015			December 31, 2014		
	Current (a)	Noncurrent	Total	Current (a)	Noncurrent (a)	Total
	in millions					
Assets:						
Cross-currency derivative contracts (b).....	€ 46.0	€ 402.5	€ 448.5	€ 20.4	€ 115.9	€ 136.3
Liabilities:						
Cross-currency derivative contracts (b).....	€ —	€ —	€ —	€ —	€ 3.0	€ 3.0

- (a) Our current derivative assets are included in other current assets and our noncurrent derivative liabilities are included in other noncurrent liabilities in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of March 31, 2015 and December 31, 2014, (i) the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €15.3 million and €1.8 million, respectively, and (ii) the fair values of our cross-currency derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating nil and €1.3 million, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of €14.8 million and €0.3 million during the three months ended March 31, 2015 and 2014, 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 regarding our fair value measurements, see note 5.

Our realized and unrealized gains (losses) on derivative instruments, net, during the three months ended March 31, 2015 and 2014 were €319.4 million and (€7.3 million), respectively. These gains (losses) relate to our cross-currency swap contracts.

The net cash received or paid 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 derivative contracts that are terminated prior to maturity, the cash paid or received upon termination that relates to future periods is classified as a financing activity. Our cash inflows related to derivative instruments during the three months ended March 31, 2015 and 2014 are €4.2 million and €0.4 million, respectively, and are classified as operating activities in our condensed consolidated statements of cash flows.

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
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The terms of our outstanding cross-currency swap contracts at March 31, 2015 are as follows:

<u>Final maturity date (a)</u>	<u>Notional amount due from counterparty</u>	<u>Notional amount due to counterparty</u>	<u>Interest rate due from counterparty</u>	<u>Interest rate due to counterparty</u>
	in millions			
January 2023 .....	\$ 1,652.9	€ 1,252.5	5.67%	4.50%
January 2021 .....	\$ 797.1	€ 546.5	5.50%	5.60%

(a) The notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis.

**(5) Fair Value Measurements**

Our derivative instruments are the only financial instruments that are accounted for at fair value as of March 31, 2015. The reported fair values of our derivative instruments as of March 31, 2015 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these derivative instruments, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

We disclose fair value measurements according to a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of our derivative instruments in or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2015, no such transfers were made.

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

As further described in note 4, we have entered into various derivative instruments to manage our foreign currency exchange risk. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. All but one of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data includes applicable interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to the valuations of our cross-currency swaps. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency swaps are quantified and further explained in note 4.

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

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of our company (our only cash-generating

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unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of our company to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During the three months ended March 31, 2015 and 2014, we did not perform significant nonrecurring fair value measurements.

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

Category (a)	March 31, 2015		December 31, 2014		
	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value	
in millions					
Assets carried at fair value – derivative financial instruments .....	I	€ 448.5	€ 448.5	€ 136.3	€ 136.3
Assets carried at cost or amortized cost:					
Loan receivable – related-party .....	II	€ 1,130.1	(b)	€ 859.7	(b)
Trade receivables and unbilled revenue .....	II	156.8	€ 156.8	123.1	€ 123.1
Other current and noncurrent financial assets .....	II	17.5	€ 17.5	46.3	€ 46.3
Cash and cash equivalents .....	II	8.7	€ 8.7	14.4	€ 14.4
Restricted cash .....	II	1.6	€ 1.6	1.6	€ 1.6
Total assets carried at cost or amortized cost .....		<u>€ 1,314.7</u>		<u>€ 1,045.1</u>	
Liabilities carried at fair value – derivative financial instruments .....	I	€ —	€ —	€ 3.0	€ 3.0
Liabilities carried at cost or amortized cost:					
Debt obligations .....	III	€ 6,910.8	€ 7,380.1	€ 6,545.1	€ 8,385.0
Loans payable – related-party .....	III	965.2	(b)	871.9	(b)
Accrued liabilities (including related-party) .....	III	235.0	€ 235.0	232.4	€ 232.4
Accounts payable and other liabilities (including related-party accounts payable) .....	III	79.3	€ 79.3	88.0	€ 88.0
Finance lease obligations .....	V	5.2	€ 5.2	5.2	€ 5.2
Total liabilities carried at cost or amortized cost .....		<u>€ 8,195.5</u>		<u>€ 7,742.6</u>	

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

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

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**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**March 31, 2015**  
**(unaudited)**

Pre-tax amounts recognized in our condensed consolidated statements of operations for March 31, 2015 and 2014 related to our financial assets and liabilities are as follows:

	<u>Interest income</u>		<u>Interest expense</u>		<u>Other statement of operations effects (a)</u>		<u>Impact on loss before income taxes</u>
	in millions						
<b>Three months ended March 31, 2015:</b>							
Derivative assets carried at fair value through our condensed consolidated statement of operations.....	€	—	€	—	€	316.4	€ 316.4
Assets carried at cost or amortized cost:							
Trade receivables (b).....		0.1		—		(2.1)	(2.0)
Loan receivable – related-party .....		7.3		—		—	7.3
Cash and cash equivalents .....		—		—		0.2	0.2
Derivative liabilities carried at fair value through our condensed consolidated statement of operations.....		—		—		3.0	3.0
Liabilities carried at cost or amortized cost .....		—		(117.8)		(355.2)	(473.0)
	<u>€</u>	<u>7.4</u>	<u>€</u>	<u>(117.8)</u>	<u>€</u>	<u>(37.7)</u>	<u>€ (148.1)</u>
<b>Three months ended March 31, 2014:</b>							
Derivative assets carried at fair value through our condensed consolidated statement of operations.....	€	—	€	—	€	(1.9)	€ (1.9)
Assets carried at cost or amortized cost:							
Trade receivables (b).....		0.4		—		(3.9)	(3.5)
Loan receivable – related-party .....		2.6		—		—	2.6
Derivative liabilities carried at fair value through our condensed consolidated statement of operations.....		—		—		(5.4)	(5.4)
Liabilities carried at cost or amortized cost .....		—		(128.4)		(1.1)	(129.5)
	<u>€</u>	<u>3.0</u>	<u>€</u>	<u>(128.4)</u>	<u>€</u>	<u>(12.3)</u>	<u>€ (137.7)</u>

- (a) Except as noted in (b) below, amounts are included in net financial and other expense in our condensed consolidated statements of operations.
- (b) The other statement of operations effects for trade receivables represent provisions for impairment of trade receivables and are included in OpEx in our condensed consolidated statements of operations.

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**(6) Long-lived Assets**

*Property and Equipment, Net*

Changes during the three months ended March 31, 2015 in the carrying amounts of our property and equipment, net, are as follows:

	<u>Cable distribution systems</u>	<u>Customer premises equipment</u>	<u>Support equipment, buildings and land</u>	<u>Total</u>
	in millions			
<b>Cost:</b>				
January 1, 2015 .....	€ 4,188.4	€ 472.5	€ 205.1	€ 4,866.0
Additions .....	69.4	34.7	10.2	114.3
Retirements and disposals .....	(6.8)	(8.7)	(5.7)	(21.2)
Reclassification to intangible assets .....	—	—	(1.4)	(1.4)
March 31, 2015 .....	<u>€ 4,251.0</u>	<u>€ 498.5</u>	<u>€ 208.2</u>	<u>€ 4,957.7</u>
<b>Accumulated depreciation:</b>				
January 1, 2015 .....	€ 1,265.3	€ 182.6	€ 89.0	€ 1,536.9
Depreciation .....	90.1	23.2	8.0	121.3
Retirements and disposals .....	(6.8)	(8.7)	(5.7)	(21.2)
March 31, 2015 .....	<u>€ 1,348.6</u>	<u>€ 197.1</u>	<u>€ 91.3</u>	<u>€ 1,637.0</u>
<b>Property and equipment, net:</b>				
March 31, 2015 .....	<u>€ 2,902.4</u>	<u>€ 301.4</u>	<u>€ 116.9</u>	<u>€ 3,320.7</u>

During the three months ended March 31, 2015, no borrowing costs were capitalized.

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

Changes during the three months ended March 31, 2015 in the carrying amounts of our finite-lived intangible assets are as follows:

	<u>Customer relationships</u>	<u>Subscriber acquisition costs</u>	<u>Other (a)</u>	<u>Total</u>
	in millions			
<b>Cost:</b>				
January 1, 2015 .....	€ 1,358.6	€ 127.9	€ 146.6	€ 1,633.1
Additions .....	—	21.4	12.3	33.7
Retirements and disposals .....	—	(8.2)	(15.4)	(23.6)
Reclassification from property and equipment .....	—	—	1.4	1.4
March 31, 2015 .....	<u>€ 1,358.6</u>	<u>€ 141.1</u>	<u>€ 144.9</u>	<u>€ 1,644.6</u>
<b>Accumulated amortization:</b>				
January 1, 2015 .....	€ 672.6	€ 57.9	€ 67.8	€ 798.3
Amortization .....	40.4	17.7	10.1	68.2
Retirements and disposals .....	—	(8.2)	(15.4)	(23.6)
March 31, 2015 .....	<u>€ 713.0</u>	<u>€ 67.4</u>	<u>€ 62.5</u>	<u>€ 842.9</u>
<b>Intangible assets subject to amortization, net:</b>				
March 31, 2015 .....	<u>€ 645.6</u>	<u>€ 73.7</u>	<u>€ 82.4</u>	<u>€ 801.7</u>

- (a) Primarily includes computer software costs. Prior to April 2015, we offered services under the brands “Unitymedia” and Kabel BW.” During the first quarter of 2015, we discontinued the “Kabel BW” trade name and recorded the retirement of the intangible asset.



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**(7) Debt and Finance Lease Obligations**

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

	March 31, 2015			Estimated fair value (a)		Carrying value (b)					
	Interest rate (c)	Borrowing currency	Euro equivalent	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014				
in millions											
Third-party debt:											
Parent:											
UM Senior Exchange Notes (d) .....	—	€	—	€	—	€	837.9	€	—	€	616.6
October 2014 UM Senior Notes (d) .....	6.125%	\$	900.0	838.9	889.8	932.6	838.9	743.8			
March 2015 UM Senior Notes (d).....	3.750%	€	700.0	700.0	689.5	—	700.0	—			
Subsidiaries:											
September 2012 UM Senior Secured Notes (d).....	5.500%	€	585.0	585.0	697.1	843.5	585.0	650.0			
December 2012 UM Dollar Senior Secured Notes (d).....	5.500%	\$	1,000.0	932.1	978.7	1,046.3	932.1	826.4			
December 2012 UM Euro Senior Secured Notes (d).....	5.750%	€	450.0	450.0	490.2	657.9	450.0	500.0			
January 2013 UM Senior Secured Notes (d).....	5.125%	€	450.0	450.0	484.0	646.6	450.0	500.0			
April 2013 UM Senior Secured Notes (d).....	5.625%	€	315.0	315.0	343.0	461.1	315.0	350.0			
November 2013 UM Senior Secured Notes (d).....	6.250%	€	475.0	475.0	537.0	654.5	475.0	475.0			
December 2014 UM Euro Senior Secured Notes (d).....	4.000%	€	1,000.0	1,000.0	1,045.6	1,237.2	1,000.0	1,000.0			
December 2014 UM Dollar Senior Secured Notes (d).....	5.000%	\$	550.0	512.7	518.1	551.7	512.7	454.5			
March 2015 UM Senior Secured Notes (d).....	3.500%	€	500.0	500.0	502.5	—	500.0	—			
UM Senior Secured Facility (e).....	2.733%	€	420.0	420.0	—	227.5	—	200.0			
UM Super Senior Secured Facility (e).....	2.233%	€	80.0	80.0	—	92.0	—	80.0			
Vendor financing (f).....	3.400%	€	115.9	115.9	115.9	96.5	115.9	96.5			
Total third-party debt before transaction costs and accrued interest .....	5.011%			<u>7,374.6</u>	<u>€ 7,291.4</u>	<u>€ 8,285.3</u>	<u>6,874.6</u>	<u>6,492.8</u>			
Transaction costs .....							(52.5)	(47.4)			
Accrued interest – third-party.....							88.7	99.7			
Total third-party debt.....							<u>6,910.8</u>	<u>6,545.1</u>			
Related-party debt (note 9):											
2010 Shareholder Loan (g) .....	8.125%	€	207.9	207.9	(g)	(g)	207.9	183.8			
2012 Shareholder Loan (h) .....	9.625%	€	674.5	674.5	(h)	(h)	674.5	571.8			
UMI Loan Payable (i).....	<u>2.826%</u>	€	62.4	62.4	(i)	(i)	62.4	—			
Total related-party debt before accrued interest.....	<u>8.846%</u>			<u>944.8</u>			<u>944.8</u>	<u>755.6</u>			
Accrued interest – related-party .....							20.4	116.3			
Total related-party debt.....							<u>965.2</u>	<u>871.9</u>			
Total debt.....	<u>5.474%</u>			<u>€ 8,319.4</u>			<u>7,876.0</u>	<u>7,417.0</u>			
Finance lease obligations.....							5.2	5.2			
Total debt and finance lease obligations.....							<u>7,881.2</u>	<u>7,422.2</u>			
Current portion .....							(205.0)	(476.3)			
Noncurrent portion .....							<u>€ 7,676.2</u>	<u>€ 6,945.9</u>			

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- (a) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 5.
- (b) Amounts include the impact of discounts, where applicable.
- (c) Represents the stated interest rate of the debt instrument as of March 31, 2015 and does not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party indebtedness was 4.9% at March 31, 2015. For information regarding our derivative instruments, see note 4.
- (d) We collectively refer to the UM Senior Exchange Notes, the October 2014 UM Senior Notes, the March 2015 UM Senior Notes, the September 2012 UM Senior Secured Notes, the December 2012 UM Dollar Senior Secured Notes, the December 2012 UM Euro Senior Secured Notes, the January 2013 UM Senior Secured Notes, the April 2013 UM Senior Secured Notes, the November 2013 UM Senior Secured Notes, the December 2014 UM Euro Senior Secured Notes, the December 2014 UM Dollar Senior Secured Notes and the March 2015 UM Senior Secured Notes as the “**Unitymedia Notes.**”
- (e) At March 31, 2015, our aggregate availability under our (i) €420.0 million senior secured revolving credit facility (the **UM Senior Secured Facility**) and (ii) €80.0 million super senior secured revolving credit facility (together with the UM Senior Secured Facility, the **Unitymedia Revolving Credit Facilities**) was limited to €439.1 million. When the relevant March 31, 2015 compliance reporting requirements have been completed, and assuming no changes from March 31, 2015 borrowing levels, we anticipate that our availability under the Unitymedia Revolving Credit Facilities will be limited to €481.9 million.
- (f) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, equipment and intangible additions. These obligations are generally due within one year. At March 31, 2015 and December 31, 2014, the amounts owed pursuant to these arrangements include €14.5 million and €12.8 million, respectively, of value-added tax (**VAT**) that was paid on our behalf by the vendor. Repayments of vendor financing obligations are included in repayments of third-party debt and finance lease obligations in our condensed consolidated statements of cash flows.
- (g) Represents a loan payable to our shareholder, UPC Germany, that originated on December 1, 2010 (the **2010 Shareholder Loan**). The 2010 Shareholder Loan bears interest at 8.125% per annum and accrued interest is transferred to the loan balance annually on January 1. All principal and accrued interest on this loan (collectively €212.1 million at March 31, 2015) is due and payable on January 1, 2030. The increase in the principal amount during the three months ended March 31, 2015 includes (i) the transfer of €13.6 million in non-cash accrued interest to the loan balance and (ii) a non-cash increase of €10.5 million related to the settlement of related-party payables. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (h) Represents a loan payable to our shareholder, UPC Germany, issued in May 2012 (the **2012 Shareholder Loan**). All principal and accrued interest (collectively €690.7 million at March 31, 2015) outstanding under this loan is due and payable on January 1, 2030. Interest accrues on the principal balance at 9.625% per annum, is subject to adjustment annually and is transferred to the loan balance annually on January 1. Amounts outstanding may be converted to equity at the option of UPC Germany. The increase in the principal amount during the three months ended March 31, 2015 includes the transfer of €102.7 million in non-cash accrued interest to the loan balance. The fair value of this loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (i) Represents a loan payable to Unitymedia International GmbH (**UMI**), an entity that is consolidated by UPC Holding B.V. (**UPC Holding**) that originated in March 2015 (the **UMI Loan**). UPC Holding is a subsidiary of Liberty Global that is outside of Unitymedia. All principal (€62.4 million at March 31, 2015) outstanding under this loan is due and payable on December 31, 2025. The principal amount outstanding under this loan bears interest at an agreed upon rate that is subject to adjustment (EURIBOR plus a margin of 2.75% per annum). Accrued interest 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.

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*Unitymedia Notes*

On March 11, 2015, Unitymedia Hessen GmbH & Co. KG (**Unitymedia Hessen**) and Unitymedia NRW GmbH (**Unitymedia NRW**) (the **UM Senior Secured Note Issuers**) issued €500.0 million principal amount of 3.5% senior secured notes due January 15, 2027 (the **March 2015 UM Senior Secured Notes**). The net proceeds from the March 2015 UM Senior Secured Notes were used to (i) redeem 10% of the principal amount of each of the following series of notes issued by the UM Senior Secured Note Issuers: (a) the €650.0 million principal amount of 5.5% senior secured notes due September 15, 2022 (the **September 2012 UM Senior Secured Notes**), (b) the €500.0 million principal amount of 5.75% senior secured notes due January 15, 2023 (the **December 2012 UM Euro Senior Secured Notes**), (c) the €500.0 million principal amount of 5.125% senior secured notes due January 21, 2023 (the **January 2013 UM Senior Secured Notes**) and (d) the €350.0 million principal amount of 5.625% senior secured notes due April 15, 2023 (the **April 2013 UM Senior Secured Notes**), each at a redemption price equal to 103% of the applicable redeemed principal amount in accordance with the indentures governing each of the notes and (ii) prepay the outstanding balance under the UM Senior Secured Facility. In connection with these transactions, we recognized a loss on debt modification and extinguishment, net, of €7.6 million. This loss includes (1) the payment of €6.0 million of redemption premium and (2) the write-off of €1.6 million of deferred financing costs.

On March 16, 2015, Unitymedia issued €700.0 million principal amount of 3.75% senior notes due January 15, 2027 (the **March 2015 UM Senior Notes**). The net proceeds from the March 2015 UM Senior Notes were used to fully redeem the €618.0 million principal amount of 9.5% senior notes issued by Unitymedia (the **UM Senior Exchange Notes**). In connection with this transaction, we recognized a loss on debt modification and extinguishment, net, of €85.9 million, including (i) the payment of €83.6 million of redemption premium, (ii) the write-off of €1.3 million of unamortized discount and (iii) the write-off of €1.0 million of deferred financing costs.

The March 2015 UM Senior Secured Notes are (i) senior obligations of the UM Senior Secured Note Issuers that rank equally with all of the existing and future senior debt of each UM Senior Secured Note Issuer and are senior to all existing and future subordinated debt of each of the UM Senior Secured Note Issuers, (ii) are guaranteed on a senior basis by Unitymedia and certain of its subsidiaries and (iii) are secured by a first-ranking pledge over the shares of the UM Senior Secured Note Issuers and certain other share and/or asset security of Unitymedia and certain of its subsidiaries.

The March 2015 UM Senior Notes are senior obligations of Unitymedia that rank equally with all of the existing and future senior debt of Unitymedia and are senior to all existing and future subordinated debt of Unitymedia. The March 2015 UM Senior Notes are guaranteed on a senior subordinated basis by various subsidiaries of Unitymedia and are secured by a first-ranking pledge over the shares of Unitymedia and junior-priority share pledges and other asset security of certain subsidiaries of Unitymedia.

We refer to the March 2015 UM Senior Secured Notes and the March 2015 UM Senior Notes as the “**March 2015 UM Notes**”.

The March 2015 UM Notes contain certain customary incurrence-based covenants. For example, the ability to raise certain additional debt and make certain distributions or loans to other subsidiaries of Liberty Global is subject to a consolidated net leverage ratio test, as specified in the applicable indenture. The March 2015 UM Notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of €75.0 million or more in the aggregate of Unitymedia or a UM Senior Secured Note Issuer or any of the restricted subsidiaries (as specified in the applicable indenture) is an event of default under the March 2015 UM Notes.

Subject to the circumstances described below, the March 2015 UM Notes are non-callable until January 15, 2021. At any time prior to January 15, 2021, the UM Senior Secured Note Issuers or Unitymedia may redeem some or all of the March 2015 UM Notes (as applicable) by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments to the redemption date using the discount rate (as specified in the applicable indenture) as of the redemption date plus 50 basis points.

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The UM Senior Secured Note Issuers or Unitymedia (as applicable) may redeem some or all of the March 2015 UM Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the applicable indenture), if any, to the redemption date, if redeemed during the 12-month period commencing on January 15 of the years set forth below:

<u>Year</u>	<u>Redemption price</u>	
	<u>March 2015 UM Senior Secured Notes</u>	<u>March 2015 UM Senior Notes</u>
2021.....	101.750%	101.875%
2022.....	100.875%	100.938%
2023.....	100.438%	100.469%
2024 and thereafter .....	100.000%	100.000%

If Unitymedia or certain of its subsidiaries sell certain assets or experience specific changes in control, Unitymedia must offer to repurchase the March 2015 UM Notes at a redemption price of 101%.

Prior to January 15, 2021, during each 12-month period commencing on the date on which the March 2015 UM Senior Secured Notes were issued, the UM Senior Secured Note Issuers may redeem up to 10% of the principal amount of the March 2015 UM Senior Secured Notes at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest up to (but excluding) the redemption date.

***Maturities of Debt***

The euro equivalents of the maturities of our debt as of March 31, 2015 are presented below:

	<u>Third-party debt</u>	<u>Related- party debt</u>	<u>Total</u>
	<u>in millions</u>		
Year ending December 31:			
2015 (remainder of year).....	€ 102.5	€ —	€ 102.5
2016 .....	13.4	—	13.4
2017 .....	—	—	—
2018 .....	—	—	—
2019 .....	—	—	—
2020 .....	—	—	—
Thereafter.....	6,758.7	944.8	7,703.5
Total debt before transaction costs and accrued interest.....	6,874.6	944.8	7,819.4
Accrued interest, transaction costs and finance lease obligations, net.....	41.4	20.4	61.8
Total debt and finance lease obligations.....	<u>€ 6,916.0</u>	<u>€ 965.2</u>	<u>€ 7,881.2</u>

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**(8) Income Taxes**

The income tax benefit (expense) attributable to our loss before income taxes differs from the income tax benefit computed by using the German group income tax rate of 32.49% for the 2015 period and 32.59% for the 2014 period as a result of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>in millions</b>	
Computed expected tax benefit.....	€ 11.2	€ 8.5
Non-deductible or non-taxable interest and other expenses (a).....	(13.1)	(14.4)
Unrecognized net operating losses and interest carryforwards, net.....	(1.9)	(9.3)
Recognition of previously unrecognized tax benefits (b).....	—	21.0
Other, net.....	(1.5)	(0.3)
Total.....	€ (5.3)	€ 5.5

- (a) The income tax expense for the three months ended March 31, 2014 includes (i) a net deferred tax expense of €3.6 million related to prior year items and (ii) a current tax benefit of €2.4 million related to prior year items.
- (b) The amount for the three months ended March 31, 2014 includes a net deferred tax benefit of €14.9 million and a current tax benefit of €6.1 million related to the final assessments of our income tax liabilities for fiscal years 2005 through 2007, which were recorded during the first quarter of 2014.

**(9) Related-party Transactions**

Our related-party transactions consist of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>in millions</b>	
OpEx.....	€ 4.4	€ 3.7
SG&A.....	0.8	0.1
Allocated share-based compensation expense.....	1.0	0.6
Fees and allocations:		
Operating and SG&A related (exclusive of depreciation and share-based compensation).....	11.8	10.1
Depreciation and share-based compensation.....	15.9	7.4
Management fee.....	5.7	9.0
Total fees and allocations.....	33.4	26.5
Included in EBIT.....	39.6	30.9
Interest expense.....	20.4	29.1
Interest income.....	(7.3)	(2.6)
Share of associate gain.....	(1.5)	(0.4)
Included in net loss.....	€ 51.2	€ 57.0
Property, equipment and intangible asset additions.....	€ 29.4	€ 22.7

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*General.* Certain Liberty Global subsidiaries charge fees and allocate costs and expenses to our company. Depending on the nature of these related-party transactions, the amount of the charges or allocations may be based on (i) our estimated share of the underlying costs, (ii) our estimated share of the underlying costs plus a mark-up or (iii) commercially-negotiated rates. Through June 30, 2014, our related-party OpEx and SG&A expenses and our related-party fees and allocations generally were based on our company's estimated share of the applicable estimated costs (including personnel-related and other costs associated with the services provided) incurred by the applicable Liberty Global subsidiaries. The estimated amounts charged were reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified, generally the first quarter of the following year. The revision to reflect the actual costs underlying our related-party fees and allocations for 2013 amounted to an increase of €3.7 million in our billings from a subsidiary of Liberty Global, which was recorded during the first quarter of 2014. The revision to reflect actual costs for our related-party OpEx and SG&A expenses for 2013 was not material. During the third quarter of 2014, Liberty Global and its subsidiaries began basing the fees charged and amounts allocated on actual costs incurred. As a result, during the third quarter of 2014, we recorded a €7.6 million increase to the fees and allocations charged to our company by a subsidiary of Liberty Global to reflect the impact of this change in methodology as of January 1, 2014. The impact of this change in methodology on our related-party OpEx and SG&A expenses was not material. Although we believe that the related-party charges and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

During the first quarter of 2015, Liberty Global transferred certain entities that incur central and other administrative costs (the **Corporate Entities Transfer**) from UPC Holding to certain other Liberty Global subsidiaries that are outside of Liberty Global's borrowing groups. In connection with the Corporate Entities Transfer, Liberty Global changed the processes it uses to charge fees and allocate costs and expenses from one subsidiary to another, which, as further described below, impact the calculation of the "EBITDA" metric specified by our debt agreements (**Covenant EBITDA**). This new methodology (the **2015 Liberty Global Allocation Methodology**) is intended to ensure that Liberty Global continues to allocate its central and administrative costs to its borrowing groups on a fair and rational basis. Subject to the specific terms contained in our debt agreements, the implementation of the 2015 Liberty Global Allocation Methodology impacts the calculation of Covenant EBITDA for our company. In this regard, the components of related-party fees and allocations that are deducted to arrive at Covenant EBITDA are based on (i) the amount and nature of costs incurred by the allocating Liberty Global subsidiaries during the period, (ii) the allocation methodologies in effect during the period and (iii) the size of the overall pool of entities that are charged fees and allocated costs, such that changes in any of these factors would likely result in changes to the amount of related-party fees and allocations that will be deducted to arrive at Covenant EBITDA in future periods. For example, to the extent that a Liberty Global subsidiary borrowing group was to acquire (sell) an operating entity, and assuming no change in the total costs incurred by the allocating entities, the fees charged and the costs allocated to our company would decrease (increase).

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

*SG&A.* These amounts represent certain cash settled charges from other Liberty Global subsidiaries to our company, primarily for software maintenance services.

*Allocated share-based compensation expense.* These amounts are allocated to our company by Liberty Global and represent the share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. Share-based compensation expense is reflected as an increase to shareholder's deficit and is included in SG&A in our condensed consolidated statements of operations.

We recorded an aggregate capital charge of €1.0 million and €0.2 million during the three months ended March 31, 2015 and 2014, respectively, in our condensed consolidated statements of changes in shareholder's deficit in connection with the exercise of Liberty Global share appreciation rights and the vesting of Liberty Global restricted share awards held by certain employees of our subsidiaries. These capital charges, which we and Liberty Global have agreed will not exceed the amount of share-based compensation allocated to our company by Liberty Global, are based on the fair value of the underlying Liberty Global shares on the exercise or vesting date, as applicable.

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*Fees and allocations.* These amounts represent fees charged to our company that originate with Liberty Global and certain other Liberty Global subsidiaries, and include charges for management, finance, legal, technology, marketing and other services that support our company's operations, including the use of the UPC trademark. The categories of our fees and allocations, net, are as follows:

- *Operating and SG&A related (exclusive of depreciation and share-based compensation).* The amounts included in this category, which are cash settled, represent our estimated share of certain centralized technology, management, marketing, finance and other operating and SG&A expenses of Liberty Global's European operations, whose activities benefit multiple operations, including operations within and outside of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's European operations, without a mark-up.
- *Depreciation and share-based compensation.* The amounts included in this category, which are loan settled, represent our estimated share of (i) depreciation of assets not owned by our company and (ii) share-based compensation associated with Liberty Global employees who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's European operations, without a mark-up.
- *Management fee.* The amounts included in this category, which are loan settled, represent our estimated allocable share of (i) operating and SG&A expenses related to the stewardship services provided by certain Liberty Global subsidiaries and (ii) the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

During the first three quarters of 2014, a subsidiary of Liberty Global allocated technology-based costs to our company and other Liberty Global subsidiaries based on each subsidiaries' estimated proportionate share of these costs. During the fourth quarter of 2014, the approach used to charge technology-based fees was changed to a royalty-based method that was made retroactively effective to January 1, 2014. For the three months ended March 31, 2015, our €18.7 million proportional share of the technology-based costs was €4.0 million more than the royalty-based technology fee charged under the new approach. Accordingly, the €4.0 million excess has been reflected as a deemed contribution of technology-related services in our condensed consolidated statement of changes in shareholder's deficit. The charges under the new royalty-based fee are expected to escalate in future periods. Any excess of these charges over our estimated proportionate share of the underlying technology-based costs will be classified as a management fee and added back to arrive at Covenant EBITDA.

*Interest expense.* Related-party interest expense relates to (i) our shareholder loans payable to UPC Germany, including (a) the 2010 Shareholder Loan, (b) the 2012 Shareholder Loan and (c) the 2013 Shareholder Capex Loan, which was fully repaid during the third quarter of 2014, and (ii) the UMI Loan, which originated in the first quarter of 2015. Accrued interest is transferred to the respective loan balance annually on January 1 for the 2010 Shareholder Loan and 2012 Shareholder Loan. For the UMI Loan, accrued interest may be, at the option of UMI, (1) transferred to the loan balance annually on January 1 or (2) repaid on the last day of each month and on the date of principal repayments. For additional information, see note 7. The "**2013 Shareholder Capex Loan**" represented a loan payable to our shareholder, UPC Germany, issued in September 2013. The 2013 Shareholder Capex Loan bore interest at an agreed upon rate (7.500% per annum during all periods that the loan was outstanding).

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

*Share of associate gain.* These amounts represent our share of the results of the operations of UMI. Share of associate gain is included in other income, net, in our condensed consolidated statements of operations.

*Property, equipment and intangible asset additions.* These amounts (i) primarily represent the carrying values of customer premises and network-related equipment acquired from other Liberty Global subsidiaries and (ii) are generally cash settled.

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	<b>in millions</b>	
Other current assets (a).....	€ 11.2	€ 11.4
Loan receivable – related-party (b).....	1,130.1	859.7
Investment in associate (c).....	64.4	62.9
Other noncurrent assets (d).....	—	27.5
Total.....	€ 1,205.7	€ 961.5
Accounts payable and accrued liabilities – related-party (e).....	€ 74.9	€ 65.7
Related-party debt (f).....	965.2	871.9
Total.....	€ 1,040.1	€ 937.6

- (a) Represents various related-party receivables that may be cash or loan settled.
- (b) Represents (i) principal (€1,122.9 million at March 31, 2015) and accrued interest associated with our loan receivable from UPC Germany (the **UPC Germany Loan Receivable**) and (ii) accrued interest associated with the UMI Loan Receivable (as defined and described below) at December 31, 2014. Pursuant to the UPC Germany Loan Receivable agreement, we can require the repayment of all or part of the amount outstanding within five days of providing notice to UPC Germany. Amounts loaned to UPC Germany pursuant to the UPC Germany Loan Receivable agreement are subject to certain restrictions contained in the instruments governing our indebtedness. The interest rate on this loan, which is subject to adjustment, was 2.98% as of March 31, 2015. The increase during the three months ended March 31, 2015 is due to the net effect of (a) a net increase in the UPC Germany Loan Receivable, due to (1) cash loaned of €2,054.5 million, (2) cash received of €1,789.8 million, (3) the transfer of €16.1 million in non-cash accrued interest to the receivable balance and (4) individually insignificant net non-cash decreases of €0.8 million, and (b) a net decrease in accrued interest, due to (A) the transfer of €16.1 million in non-cash accrued interest to the UPC Germany Loan Receivable balance, (B) accrued interest of €7.2 million related to the UPC Germany Loan Receivable, (C) the transfer of €0.9 million in non-cash accrued interest to the UMI Loan Receivable balance and (D) accrued interest of €0.2 million related to the UMI Loan Receivable prior to repayment in the first quarter of 2015.
- (c) Represents our investment in UMI. We own a 100% equity interest in UMI. UMI was formed for the purpose of effecting certain asset purchase and related leasing transactions involving certain of UPC Holding’s subsidiaries, including certain purchase and leaseback transactions that were initiated in December 2011. UMI is considered a special purpose entity and is consolidated by UPC Holding. Although UPC Holding has no equity or voting interest in UMI, all of the revenue of UMI is derived from UPC Holding. As such, UPC Holding is required by the provisions of EU-IFRS to consolidate UMI. As a result, we use the equity method to account for our investment in UMI.
- (d) The December 31, 2014 amount represents our loan receivable from UMI (the **UMI Loan Receivable**). The UMI Loan Receivable, which was fully repaid in the first quarter of 2015, bore interest at an agreed upon rate of 2.61% as of December 31, 2014. The net decrease in the UMI Loan Receivable during the three months ended March 31, 2015 includes (i) cash received of €31.4 million, (ii) cash loaned of €3.0 million and (iii) the transfer of €0.9 million in non-cash accrued interest to the receivable balance.
- (e) Represents various non-interest bearing related-party payables that may be cash or loan settled.
- (f) For information regarding our related-party debt, see note 7.



(10) Commitments and Contingencies

*Commitments*

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

*Guarantees and Other Credit Enhancements*

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

*Legal and Regulatory Proceedings and Other Contingencies*

*Deutsche Telekom Litigation.* On December 28, 2012, we filed a lawsuit against Telekom Deutschland GmbH, an operating subsidiary of Deutsche Telekom, in which we assert that we pay excessive prices for the co-use of Deutsche Telekom's cable ducts in our footprint. The Federal Network Agency approved rates for the co-use of certain ducts of Deutsche Telekom in March 2011. Based in part on these approved rates, we are seeking a reduction of the annual lease fees (approximately €76 million for 2012) by approximately two-thirds and the return of similarly calculated overpayments from 2009 through the ultimate settlement date, plus accrued interest. While we expect a decision by the court of first instance during 2015, the resolution of this matter may take several years and no assurance can be given that our claims will be successful. Any recovery by our company will not be reflected in our consolidated financial statements until such time as the final disposition of this matter has been reached.

*FCO Regulatory Issues.* Our 2011 acquisition (the **LG/KBW Transaction**) of the German cable network Kabel BW GmbH (**KBW**) was subject to the approval of The Federal Cartel Office (the **FCO**) in Germany, which approval was received in December 2011. In January 2012, two of our competitors (collectively, the **Appellants**), including the incumbent telecommunications operator, each filed an appeal (collectively, the **FCO Appeals**) against the FCO regarding its decision to approve our LG/KBW Transaction. On August 14, 2013, the Düsseldorf Court of Appeal issued a ruling that set aside the FCO's clearance decision.

During the fourth quarter of 2014, we and Liberty Global entered into agreements with the Appellants pursuant to which the Appellants withdrew the FCO Appeals and, on January 21, 2015, the FCO consented to the withdrawal. On March 15, 2015, the Federal Court of Justice terminated the proceedings, as a result of which the FCO's clearance decision with respect to our LG/KBW Transaction became final (without any additional review or conditions). On April 29, 2015, Liberty Global paid the Appellants an aggregate amount of €183.5 million, in satisfaction of the provision that we recorded during the fourth quarter of 2014. We consider this matter to be closed.

*Financial Transactions Tax.* Eleven countries in the EU, including Germany, are participating in an enhanced cooperation procedure to introduce a financial transactions tax (the **FTT**). Under the draft language of the FTT proposal, a wide range of financial transactions could be taxed at rates of at least 0.01% for derivative transactions based on the notional amount and 0.1% for other covered financial transactions based on the underlying transaction price. Each of the individual countries would be permitted to determine an exact rate, which could be higher than the proposed rates of 0.01% and 0.1%. Any implementation of the FTT could have a global impact because it would apply to all financial transactions where a financial institution is involved (including unregulated entities that engage in certain types of covered activity) and either of the parties (whether the financial institution or its counterparty) is in one of the eleven participating countries. Although ongoing debate in the relevant countries demonstrates continued momentum around the FTT, uncertainty remains as to when the FTT would be implemented and the breadth of its application. Based on our understanding of the current status of the potential FTT, we do not expect that any implementation of the

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FTT would occur before 2016. Any imposition of the FTT could increase banking fees and introduce taxes on internal transactions that we currently perform. Due to the uncertainty regarding the FTT, we are currently unable to estimate the financial impact that the FTT could have on our results of operations, cash flows or financial position.

*Other Regulatory Issues.* Broadband communications and mobile businesses are subject to significant regulation and supervision by various regulatory bodies, including state authorities in the jurisdictions in which we operate, and German and EU authorities. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property and equipment additions. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

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

## 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 2014 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2015 and 2014.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed consolidated statements of cash flows.

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

### Forward-Looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product and finance strategies, our property, equipment and intangible asset additions, subscriber growth and retention rates, competitive and economic factors, liquidity and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties in the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the markets in which we operate;
- the competitive environment in Germany, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our enhanced video, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to renew on equivalent terms existing contracts with housing associations and Professional Operators (as defined and described below), especially in light of the conditions imposed on us as a result of our acquisition of KBW;
- our ability to maintain our revenue from channel carriage arrangements;
- our ability to maintain or increase the number of subscriptions to our enhanced video, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;

- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the markets in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would impact our contractual relationships with housing associations and Professional Operators or would open our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions, including the impact of the conditions imposed in connection with our acquisition of KBW on our operations;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the markets in which we operate;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our enhanced video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and realize anticipated efficiencies from the businesses we or Liberty Global acquire;
- the leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in the nature of key relationships with Deutsche Telekom and certain of its affiliates for the access and operation of a significant portion of our network;
- our ability to successfully interact with labor councils and unions; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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

## Overview

We are a subsidiary of Liberty Global that provides video, broadband internet and fixed-line telephony services over our broadband communications network and mobile services as a mobile virtual network operator (**MVNO**). We are the second largest cable operator in Germany and largest cable operator in the German federal states of North Rhine-Westphalia, Hesse and Baden-Württemberg in terms of the number of video subscribers.

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

In our upgraded network coverage area, we provide an integrated triple-play (and in some instances, quadruple-play) service offering that allows our residential subscribers to access enhanced video, broadband internet, fixed-line telephony and mobile services in addition to our basic video services as follows:

- Video Services. As of March 31, 2015, we provided our basic and enhanced video services to 51.3% of the homes passed by our network. Our basic video channels are unencrypted and, as a result, subscribers who have the necessary equipment and who pay the monthly subscription fee for our basic package are able to watch our basic video channels in either analog or digital format. Our enhanced video service offerings include premium subscription channels and other encrypted content, such as SVoD services. As of March 31, 2015, 21.4% of our video base subscribed to enhanced video services. We provide basic video services via individual contracts with single dwelling units or bulk contracts with landlords or housing associations or with third parties that operate and administer the in-building networks on behalf of housing associations (**Professional Operators**).
- Broadband Internet Services. Our current service portfolio consists of services with download speeds ranging from 25 Mbps to 200 Mbps with no time or data volume restrictions. Our customers can choose between various packages and bundles. As of March 31, 2015, our ultra high-speed broadband internet services were available to 98% of our homes passed.
- Fixed-Line Telephony Services. We market our fixed-line telephony services principally as a component of our product bundles, but also on a standalone basis.
- Mobile Services. As an MVNO, we offer mobile voice and data services to our customers as a component of our product bundles or on a standalone basis.

As of March 31, 2015, we served 6,524,900 video revenue generating units (**RGUs**) (including 1,393,400 enhanced video RGUs), 2,931,000 broadband internet RGUs and 2,775,100 fixed-line telephony RGUs over a broadband communications network that passed 12,722,400 homes. In addition, at March 31, 2015, we served 322,700 mobile subscribers.

During the first quarter of 2015, we modified our video subscriber definitions to better align these definitions with the underlying services received by our subscribers and have replaced our “digital cable” and “analog cable” subscriber definitions with “enhanced video” and “basic video,” respectively. A basic video subscriber receives our video service via an analog video signal or a digital video signal without subscribing to any recurring monthly service that requires the use of encryption-enabling technology. An enhanced video subscriber receives our video service via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology. In connection with the implementation of the new definitions, we reclassified 916,900 enhanced video subscribers to basic video subscribers, representing video subscribers who either pay a recurring rental fee for a leased set-top box or pay a recurring access fee, but do not subscribe to any recurring encrypted video content.

We added 28,700 RGUs on an organic basis during the three months ended March 31, 2015, as compared to 126,800 RGUs that we added on an organic basis during the three months ended March 31, 2014. The organic RGU growth during the three months ended March 31, 2015 is attributable to the growth of our (i) broadband internet services, which added 34,600 RGUs, (ii) enhanced video services, which added 32,500 RGUs, and (iii) fixed-line telephony services, which added 27,100 RGUs. The

growth of our broadband internet, enhanced video and fixed-line telephony RGUs was partially offset by a decline in our basic video RGUs of 65,500.

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

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

In general, our ability to increase or maintain the fees we receive for our services is limited by competitive and, to a lesser degree, regulatory factors. The competition we face in our markets, as well as any decline in the economic environment, could adversely impact our ability to increase or maintain our revenue, RGUs, Adjusted Segment EBITDA or liquidity. We currently are unable to predict the extent of any of these potential adverse effects. As we use the term, “**Adjusted Segment EBITDA**” is defined as EBITDA before share-based compensation, impairment, restructuring and other operating items, net and related-party fees and allocations.

### Material Changes in Results of Operations

This section provides an analysis of our results of operations for the three months ended March 31, 2015 and 2014.

#### Revenue

The details of our revenue are as follows:

	Three months ended		Increase (decrease)	
	March 31,		€	%
	2015	2014		
	in millions			
Subscription revenue (a):				
Video.....	€ 248.0	€ 241.5	€ 6.5	2.7
Broadband internet .....	126.7	105.2	21.5	20.4
Fixed-line telephony .....	112.5	101.1	11.4	11.3
Cable subscription revenue .....	487.2	447.8	39.4	8.8
Mobile subscription revenue (b).....	4.8	4.4	0.4	9.1
Total subscription revenue .....	492.0	452.2	39.8	8.8
Non-subscription revenue (b) (c) .....	46.3	56.5	(10.2)	(18.1)
Total revenue.....	€ 538.3	€ 508.7	€ 29.6	5.8

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of €0.3 million in each of the 2015 and 2014 periods. Mobile interconnect revenue is included in non-subscription revenue.
- (c) Non-subscription revenue includes carriage fee, installation and interconnect revenue. In addition, non-subscription revenue includes B2B revenue from business broadband internet, video, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain SOHO subscribers. SOHO

subscribers pay a premium price to receive enhanced service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which aggregated €6.5 million and €4.2 million during the three months ended March 31, 2015 and 2014, respectively, is included in cable subscription revenue.

The details of our revenue increase during the three months ended March 31, 2015, as compared to the corresponding period in 2014, are set forth below (in millions):

Increase in cable subscription revenue due to change in (a):	
Average number of RGUs (b) .....	€ 18.0
Average monthly subscription revenue per average RGU (ARPU) (c) .....	21.4
Total increase in cable subscription revenue .....	39.4
Increase in mobile subscription revenue .....	0.4
Total increase in subscription revenue .....	39.8
Decrease in non-subscription revenue (d) .....	(10.2)
Total .....	€ 29.6

- (a) Subscription revenue includes revenue from multi-year bulk agreements with landlords 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 approximately two-thirds of our video subscribers. Our bulk agreements are, to a significant extent, medium- and long-term contracts. As of March 31, 2015, bulk agreements covering approximately 36% of the video subscribers that we serve through these agreements expire by the end of 2016 or are terminable on 30-days notice. During the three months ended March 31, 2015, our 20 largest bulk agreement accounts generated approximately 8% of our total revenue (including estimated amounts billed directly to the building occupants for enhanced video, broadband internet and fixed-line telephony services). No assurance can be given that our bulk agreements will be renewed or extended on financially equivalent terms or at all.
- (b) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of broadband internet, fixed-line telephony and enhanced video RGUs that were only partially offset by a decline in the average number of basic video RGUs.
- (c) The increase in cable subscription revenue related to a change in ARPU is due to (i) a net increase primarily resulting from the following factors: (a) higher ARPU due to the impact of price increases in February 2015, November 2014 and September 2014 for broadband internet and video services, partially offset by an increase in the proportion of subscribers receiving lower-priced tiers of services in Germany's bundles, (b) higher ARPU from fixed-line telephony services due to the net effect of (1) an increase in ARPU associated with the migration of customers to fixed-rate calling plans and related value-added services and (2) a decrease in ARPU associated with lower fixed-line telephony call volume for customers on usage-based calling plans and (c) slightly lower ARPU from basic video services, primarily due to the net effect of (A) a higher proportion of customers receiving discounted basic video services through certain bulk agreements and (B) higher negotiated rates through these agreements, and (ii) an improvement in RGU mix. The net increase in cable subscription revenue related to a change in ARPU includes the negative impact of higher bundling and promotional discounts.
- (d) The decrease in non-subscription revenue includes the unfavorable impact of €8.7 million of nonrecurring network usage revenue recorded during the first quarter of 2014 that was related to the settlement of prior period amounts. In addition, our non-subscription revenue includes a net decrease resulting from individually insignificant changes in other non-subscription revenue categories. Non-subscription revenue includes fees received for the carriage of certain channels included in our basic and enhanced video offerings. This carriage fee revenue is subject to contracts that expire or are otherwise terminable by either party on various dates ranging from 2015 through 2018. The aggregate amount of revenue related to these carriage contracts represented approximately 4% of our total revenue during the three months ended March 31, 2015. No assurance can be given that these contracts will be renewed or extended on financially equivalent terms, or at all. Also, our ability to

increase the aggregate carriage fees that we receive for each channel is limited through 2016 by certain commitments we made to regulators in connection with the acquisition of KBW.

### **OpEx**

*General.* OpEx includes programming and copyright, network operations, interconnect, customer operations, customer care and other costs related to our operations. Our network operating costs include significant expenses incurred pursuant to long-term agreements with Deutsche Telekom for the use of assets and other services. Our programming and copyright costs, which represent the majority of our direct costs, are expected to rise in future periods as a result of (i) growth in the number of our enhanced video subscribers, (ii) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (iii) rate increases. In addition, we are subject to inflationary pressures with respect to our staff-related and other costs. Any cost increases that we are not able to pass on to our subscribers through rate increases would result in increased pressure on our operating margins. The details of our OpEx costs are as follows:

	Three months ended March 31,		Increase	
	2015	2014	€	%
	in millions			
Direct costs (programming and copyright, interconnect and other) .....	€ 46.4	€ 44.0	€ 2.4	5.5
Network operating costs .....	45.6	45.4	0.2	0.4
Staff-related costs (excluding restructuring charges) .....	24.1	21.1	3.0	14.2
Outsourced labor and professional services .....	17.2	14.1	3.1	22.0
Other indirect costs .....	12.7	11.7	1.0	8.5
Total.....	<u>€ 146.0</u>	<u>€ 136.3</u>	<u>€ 9.7</u>	<u>7.1</u>

Our total OpEx increased €9.7 million or 7.1% during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This increase includes the following factors:

- An increase in outsourced labor and professional services of €3.1 million or 22.0%, primarily due to higher call center costs;
- An increase in staff-related costs of €3.0 million or 14.2%, primarily due to increased staffing levels; and
- An increase in direct costs of €2.4 million or 5.5%, primarily due to the net effect of (i) an increase in programming and copyright costs, primarily due to growth in enhanced video services, and (ii) a decrease in interconnect costs, primarily attributable to lower rates.



## SG&A

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

	Three months ended		Increase (decrease)	
	March 31,		€	%
	2015	2014		
	in millions			
Staff-related costs (excluding restructuring charges).....	€ 19.8	€ 17.7	€ 2.1	11.9
Sales and marketing costs .....	24.9	27.0	(2.1)	(7.8)
Outsourced labor and professional services .....	2.3	4.0	(1.7)	(42.5)
Other indirect costs .....	12.0	11.7	0.3	2.6
Total.....	€ 59.0	€ 60.4	€ (1.4)	(2.3)

Our total SG&A decreased €1.4 million or 2.3% during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This decrease includes the following factors:

- An increase in staff-related costs of €2.1 million or 11.9%, due to individually insignificant changes in various personnel cost categories;
- A decrease in sales and marketing costs of €2.1 million or 7.8%, primarily due to the net effect of (i) lower costs associated with advertising campaigns and (ii) a net increase in third-party sales commissions; and
- A decrease in outsourced labor and professional services of €1.7 million or 42.5%, primarily due to decreased consulting and legal costs.

### *Related-party fees and allocations*

We recorded related-party fees and allocations related to corporate services performed by Liberty Global of €33.4 million during the three months ended March 31, 2015, as compared to €26.5 million during the corresponding period in 2014. These amounts represent fees charged by certain other Liberty Global subsidiaries, and include charges for management, finance, legal, technology, marketing and other services that support our company's broadband communications operations, including the use of the UPC trademark. For additional information, see note 9 to our condensed consolidated financial statements.

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

We recognized impairment, restructuring and other operating items, net, of €0.3 million during the three months ended March 31, 2015, as compared to €1.6 million during the corresponding period in 2014. The 2014 amount includes (i) €2.4 million of restructuring charges associated with employee severance and termination costs related to reorganization activities and (ii) a €0.9 million gain on disposal of assets.

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

### ***Depreciation and amortization expense***

Depreciation and amortization expense increased €12.7 million or 7.2% during the three months ended March 31, 2015, as compared to the corresponding period in 2014. This increase is primarily due to the net effect of (i) an increase associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) a decrease associated with certain assets becoming fully depreciated and (iii) an increase in the amortization of subscriber acquisition costs.

### ***Net financial and other expense***

Our net financial and other expense primarily includes interest expense, interest income, foreign currency transaction gains or losses, realized and unrealized gains or losses on derivative instruments and losses on debt modification and extinguishment. As further described below, we recorded net financial and other expense of €144.7 million during the three months ended March 31, 2015, as compared to €133.3 million during the corresponding period in 2014.

#### ***Interest expense – third-party***

Interest expense – third-party decreased €1.9 million or 1.9% during the three months ended March 31, 2015, as compared to the corresponding period in 2014, primarily due to the net effect of (i) lower weighted average interest rates and (ii) higher average outstanding third-party debt balances. During the fourth quarter of 2014 and first quarter of 2015, we have completed various refinancing transactions that have lowered average interest rates and extended debt maturities. For additional information, see note 7 to our condensed consolidated financial statements.

#### ***Interest expense – related-party***

Interest expense – related-party decreased €8.7 million or 29.9% during the three months ended March 31, 2015, as compared to the corresponding period in 2014, primarily due to lower average outstanding related-party debt balances and, to a lesser extent, lower weighted average interest rates. Our related-party interest expense relates to (i) our shareholder loans payable to UPC Germany, including (a) the 2010 Shareholder Loan, (b) the 2012 Shareholder Loan and (c) the 2013 Shareholder Capex Loan, which was fully repaid during the third quarter of 2014, and (ii) the UMI Loan, which originated during the first quarter of 2015. For additional information, see note 7 to our condensed consolidated financial statements.

#### ***Foreign currency transaction losses, net***

We recognized foreign currency transaction losses, net, of €261.5 million during the three months ended March 31, 2015, as compared to €1.1 million during the corresponding period in 2014. 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 derivative contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the derivative contracts.

Our realized and unrealized gains (losses) on derivative instruments, net, were €319.4 million during the three months ended March 31, 2015, as compared to (€7.3 million) during the corresponding period in 2014. The gain during the three months ended March 31, 2015 is primarily attributable to the net effect of (i) gains associated with an increase in the value of the U.S. dollar relative to the euro, (ii) gains associated with decreases in market interest rates in the U.S. dollar market and (iii) losses associated with decreases in market interest rates in the euro market. In addition, the gain during 2015 includes a net loss of €14.8 million resulting from changes in our credit risk valuation adjustments. The loss during the three months ended March 31, 2014 is primarily attributable to the net effect of (a) losses associated with decreases in market interest rates in the euro market, (b) losses associated with increases in market interest rates in the U.S. dollar market and (c) gains associated with an increase in the value of the U.S. dollar relative to the euro. In addition, the loss during the 2014 period includes a net loss of €0.3 million resulting from changes

in our credit risk valuation adjustments.

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

#### *Losses on debt modification and extinguishment, net*

We recognized losses on debt modification and extinguishment, net, of €93.5 million and nil during the three months ended March 31, 2015 and 2014, respectively. The losses during 2015 are related to:

- an €85.9 million loss related to the redemption of the UM Senior Exchange Notes, including (i) the payment of €83.6 million of redemption premium, (ii) the write-off of €1.3 million of unamortized discount and (iii) the write-off of €1.0 million of deferred financing costs; and
- a €7.6 million loss related to the redemption of 10% of the principal amount of (i) the September 2012 UM Senior Secured Notes, (ii) the December 2012 UM Euro Senior Secured Notes, (iii) the January 2013 UM Senior Secured Notes and (iv) the April 2013 UM Senior Secured Notes. This loss includes (a) the payment of €6.0 million of redemption premium and (b) the write-off of €1.6 million of deferred financing costs.

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

#### *Income tax benefit (expense)*

We recognized income tax expense of €5.3 million and income tax benefit of €5.5 million during the three months ended March 31, 2015 and 2014, respectively.

The income tax expense during the three months ended March 31, 2015 differs from the expected income tax benefit of €11.2 million (based on the German group income tax rate of 32.49%), primarily due to 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 three months ended March 31, 2014 differs from the expected income tax benefit of €8.5 million (based on the German group income tax rate of 32.59%), due primarily to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest and other items and (ii) the nonrecognition of certain net operating losses and interest carryforwards. The negative impacts of these items were partially offset by the positive impact of the recognition of previously unrecognized tax benefits.

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

#### *Net loss*

We reported net losses of €39.9 million and €20.7 million during the three months ended March 31, 2015 and 2014, respectively.

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

Subject to the limitations included in our various debt instruments, we expect that Liberty Global will cause our company to maintain our debt at current levels relative to our Covenant EBITDA. As a result, we expect that we will continue to report significant levels of interest expense for the foreseeable future.

## **Material Changes in Financial Condition**

### ***Sources and Uses of Cash***

#### *Cash and cash equivalents*

Although our consolidated operating subsidiaries have generated cash from operating activities, the terms of our subsidiaries' debt instruments restrict our ability to access the assets of these subsidiaries. At March 31, 2015, substantially all of our consolidated cash and cash equivalents was held by our subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal considerations or other factors.

#### *Liquidity of Unitymedia*

Our sources of liquidity at the parent level include (i) our cash and cash equivalents, (ii) amounts due under the UPC Germany Loan Receivable, (iii) funding from UPC Germany (and ultimately from Liberty Global or other Liberty Global subsidiaries) in the form of loans or contributions, as applicable, and (iv) subject to certain restrictions as 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 include (i) corporate general and administrative expenses and (ii) interest payments on outstanding debt. From time to time, Unitymedia may also require cash in connection with (a) the repayment of outstanding debt, (b) the satisfaction of contingent liabilities or (c) acquisitions and other investment opportunities. No assurance can be given that funding from UPC Germany (and ultimately from Liberty Global or other Liberty Global subsidiaries), our subsidiaries or external sources would be available on favorable terms, or at all.

#### *Liquidity of Unitymedia Hessen, Unitymedia NRW, KBW and our other operating subsidiaries*

In addition to cash and cash equivalents, the primary sources of liquidity of Unitymedia Hessen, Unitymedia NRW, KBW and our other operating subsidiaries is cash provided by operations and, in the case of Unitymedia Hessen and Unitymedia NRW, any borrowing availability under the Unitymedia Revolving Credit Facilities. At March 31, 2015, we had aggregate borrowing capacity of €500.0 million under the Unitymedia Revolving Credit Facilities. For information regarding limitations on the borrowing availability of the Unitymedia Revolving Credit Facilities, see note 7 to our condensed consolidated financial statements.

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

### ***Capitalization***

At March 31, 2015, our outstanding consolidated third-party debt and finance lease obligations aggregated €6,916.0 million, substantially all of which is not due until 2021 or thereafter.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our Covenant EBITDA and to achieve adequate returns on our capital expenditures and acquisitions. Our ability to maintain or increase cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our and our subsidiaries' various debt instruments. In this regard, if our Covenant 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.

We believe that our cash and cash equivalents, the UPC Germany Loan Receivable, the cash provided from the operations of our subsidiaries and any available borrowings under the Unitymedia Revolving Credit Facilities will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. However, as our debt matures in later years, we anticipate that we will seek

to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

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

*Summary.* Our condensed consolidated statements of cash flows for the three months ended March 31, 2015 and 2014 are summarized as follows:

	<b>Three months ended March 31,</b>		<b>Change</b>
	<b>2015</b>	<b>2014</b>	
	<b>in millions</b>		
Net cash provided by operating activities .....	€ 308.3	€ 244.5	€ 63.8
Net cash used by investing activities .....	(352.2)	(232.9)	(119.3)
Net cash provided (used) by financing activities .....	38.2	(5.0)	43.2
Net increase (decrease) in cash and cash equivalents .....	<u>€ (5.7)</u>	<u>€ 6.6</u>	<u>€ (12.3)</u>

*Operating Activities.* The increase in net cash provided by our operating activities is primarily attributable to (i) an increase in the cash provided by our Adjusted Segment EBITDA and related working capital items and (ii) an increase in cash provided due to lower cash payments for interest.

*Investing Activities.* The increase in net cash used by our investing activities is primarily attributable to an increase in cash used to fund advances to UPC Germany of €136.9 million.

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

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

	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>in millions</b>	
Property, equipment and intangible asset additions .....	€ 148.0	€ 124.5
Assets acquired under capital-related vendor financing arrangements .....	(39.5)	(19.6)
Changes in liabilities related to capital expenditures (including related-party amounts) .....	7.5	2.1
Capital expenditures .....	<u>€ 116.0</u>	<u>€ 107.0</u>

The increase in our property, equipment and intangible asset additions is primarily due to (i) an increase in expenditures for the purchase and installation of customer premises equipment, (ii) an increase in expenditures for new build and upgrade projects to expand services and (iii) an increase in capitalized third-party commissions. In terms of the composition of our property, equipment and intangible asset additions during 2015, (a) 47% relates to the rebuild and upgrade of our distribution network, (b)

24% relates to the purchase and installation of customer premises equipment, (c) 15% relates to capitalized third-party commissions and (d) the remainder relates to expenditures for general support purposes and systems.

*Financing activities.* The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) a decrease in cash of €98.8 million associated with higher payments of financing costs and debt premiums, (ii) an increase in cash of €79.7 million related to higher net borrowings of third-party debt and (iii) an increase in cash of €62.4 million related to higher borrowings of related-party debt.

#### ***Debt Maturities***

For information regarding the maturities of our debt as of March 31, 2015, see note 7 to our condensed consolidated financial statements.