



**unitymedia**

**Condensed Consolidated Financial Statements  
September 30, 2016**

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

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

|   | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015 (a)</b> |
|---|-------------------------------|----------------------------------|
|   | <b>in millions</b>            |                                  |
| <b>ASSETS</b>   |                               |                                  |
| Current assets:   |                               |                                  |
| Cash and cash equivalents.....                                | € 1.3                         | € 2.0                            |
| Trade receivables and unbilled revenue, net .....             | 85.8                          | 105.9                            |
| Loan receivable – related-party (note 11) .....               | 1,121.0                       | 739.0                            |
| Restricted cash (note 9) .....                                | —                             | 108.2                            |
| Other current assets (notes 5 and 11) .....                   | 56.2                          | 64.0                             |
| Total current assets.....                                     | 1,264.3                       | 1,019.1                          |
| Property and equipment, net (note 7).....                     | 3,188.0                       | 3,251.8                          |
| Goodwill.....   | 2,841.7                       | 2,841.7                          |
| Intangible assets subject to amortization, net (note 7) ..... | 577.3                         | 690.7                            |
| Derivative instruments (note 5).....                          | 283.2                         | 378.8                            |
| Investment in associate (note 11).....                        | 61.4                          | 60.7                             |
| Other noncurrent assets (note 11).....                        | 305.6                         | 251.4                            |
| Total noncurrent assets.....                                  | 7,257.2                       | 7,475.1                          |
| Total assets.....   | € 8,521.5                     | € 8,494.2                        |

(a) As retrospectively revised – see note 2.

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

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

|  | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015 (a)</b> |
|--|-------------------------------|----------------------------------|
|  | <b>in millions</b>            |                                  |
| <b>LIABILITIES AND OWNER'S DEFICIT</b>                                   |                               |                                  |
| Current liabilities:   |                               |                                  |
| Accounts payable .....   | € 51.2                        | € 23.0                           |
| Accrued liabilities .....  | 206.3                         | 213.0                            |
| Accounts payable and accrued liabilities – related-party (note 11) ..... | 87.3                          | 65.0                             |
| Deferred revenue and advance payments from subscribers and others .....  | 125.3                         | 92.7                             |
| Current portion of debt and finance lease obligations:                   |                               |                                  |
| Third-party (note 9) .....   | 251.9                         | 391.4                            |
| Related-party (note 11) .....  | 1.2                           | 1.4                              |
| Corporate income taxes payable .....                                     | 112.8                         | 83.5                             |
| Current provisions (note 8) .....  | 66.2                          | 22.8                             |
| Other current liabilities .....  | 13.9                          | 31.6                             |
| Total current liabilities .....  | 916.1                         | 924.4                            |
| Noncurrent debt and finance lease obligations:                           |                               |                                  |
| Third-party (note 9) .....   | 6,988.0                       | 6,919.9                          |
| Related-party (note 11) .....  | 323.0                         | 317.9                            |
| Deferred tax liabilities .....   | 435.8                         | 465.2                            |
| Noncurrent provisions (note 8) .....                                     | 49.1                          | 32.6                             |
| Other noncurrent liabilities .....                                       | 41.7                          | 27.2                             |
| Total noncurrent liabilities .....                                       | 7,837.6                       | 7,762.8                          |
| Total liabilities .....  | 8,753.7                       | 8,687.2                          |
| Commitments and contingencies (notes 5, 9, 10 and 12)                    |                               |                                  |
| Owner's deficit:   |                               |                                  |
| Share capital .....  | —                             | —                                |
| Additional paid-in capital .....   | 969.8                         | 955.3                            |
| Accumulated deficit .....  | (1,196.3)                     | (1,142.6)                        |
| Accumulated other comprehensive loss, net of taxes .....                 | (5.7)                         | (5.7)                            |
| Total owner's deficit .....  | (232.2)                       | (193.0)                          |
| Total liabilities and owner's deficit .....                              | € 8,521.5                     | € 8,494.2                        |

(a) As retrospectively revised – see note 2.

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

**UNITYMEDIA GMBH**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

|  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2016                                | 2015 (a) | 2016                               | 2015 (a)  |
| in millions  |                                     |          |                                    |           |
| Revenue (note 4) .....   | € 567.5                             | € 541.5  | € 1,688.6                          | € 1,610.5 |
| Operating costs and expenses:  |                                     |          |                                    |           |
| Operating (other than depreciation and amortization) ( <b>OpEx</b> ) (note 11) .....   | 139.3                               | 138.2    | 436.5                              | 421.3     |
| Selling, general and administrative (other than depreciation and amortization)<br>(including share-based compensation) ( <b>SG&amp;A</b> ) (note 11) ..... | 64.0                                | 64.3     | 193.0                              | 188.2     |
| Related-party fees and allocations (note 11) .....   | 63.3                                | 40.3     | 142.4                              | 103.3     |
| Impairment, restructuring and other operating items, net .....   | 9.9                                 | 0.2      | 65.8                               | 1.0       |
|  | 276.5                               | 243.0    | 837.7                              | 713.8     |
| Earnings before interest, taxes, depreciation and amortization ( <b>EBITDA</b> ) .....   | 291.0                               | 298.5    | 850.9                              | 896.7     |
| Depreciation and amortization .....  | 209.5                               | 197.4    | 627.5                              | 582.7     |
| Earnings before interest and taxes ( <b>EBIT</b> ) .....   | 81.5                                | 101.1    | 223.4                              | 314.0     |
| Financial and other income (expense):  |                                     |          |                                    |           |
| Interest expense:  |                                     |          |                                    |           |
| Third-party .....  | (90.7)                              | (87.9)   | (271.4)                            | (273.2)   |
| Related-party (note 11) .....  | (5.0)                               | (16.2)   | (16.0)                             | (56.0)    |
| Foreign currency transaction gains (losses), net .....   | 30.6                                | 4.7      | 74.7                               | (168.0)   |
| Realized and unrealized gains (losses) on derivative instruments, net (note 5) .....   | (53.8)                              | 35.1     | (59.8)                             | 264.2     |
| Losses on debt modification and extinguishment, net (note 9) .....   | —                                   | —        | (3.9)                              | (93.5)    |
| Other income, net (notes 6, 9 and 11) .....  | 6.5                                 | 8.0      | 21.4                               | 24.6      |
| Net financial and other expense .....  | (112.4)                             | (56.3)   | (255.0)                            | (301.9)   |
| Earnings (loss) before income taxes .....  | (30.9)                              | 44.8     | (31.6)                             | 12.1      |
| Income tax benefit (expense) (note 10) .....   | 0.1                                 | (25.8)   | (22.1)                             | (38.8)    |
| Net earnings (loss) / comprehensive earnings (loss) (b) .....  | € (30.8)                            | € 19.0   | € (53.7)                           | € (26.7)  |
| Further details of OpEx and SG&A:  |                                     |          |                                    |           |
| Staff-related costs (excluding restructuring charges) .....  | € 48.8                              | € 43.8   | € 152.5                            | € 137.9   |
| Direct costs (programming and copyright, interconnect and other) .....   | 50.1                                | 46.7     | 150.6                              | 138.9     |
| Network operating costs .....  | 43.0                                | 48.1     | 136.0                              | 138.3     |
| Sales and marketing costs .....  | 21.7                                | 25.3     | 72.0                               | 74.5      |
| Outsourced labor and professional services .....   | 18.2                                | 16.1     | 52.8                               | 53.8      |
| Other indirect costs .....   | 21.5                                | 22.5     | 65.6                               | 66.1      |
|  | € 203.3                             | € 202.5  | € 629.5                            | € 609.5   |
| Further details of impairment, restructuring and other operating items, net:   |                                     |          |                                    |           |
| Restructuring charges .....  | € 10.4                              | € 1.6    | € 67.1                             | € 2.8     |
| Gains on disposal of assets, net .....   | (1.0)                               | (1.7)    | (2.0)                              | (2.4)     |
| Other .....  | 0.5                                 | 0.3      | 0.7                                | 0.6       |
|  | € 9.9                               | € 0.2    | € 65.8                             | € 1.0     |

(a) As retrospectively revised – see note 2.

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

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

**UNITYMEDIA GMBH**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN OWNER'S DEFICIT**  
**(unaudited)**

|  | <u>Additional<br/>paid-in capital</u> | <u>Accumulated<br/>deficit</u> | <u>Accumulated<br/>other<br/>comprehensive<br/>loss, net of<br/>taxes</u> | <u>Total owner's<br/>deficit</u> |
|--|---------------------------------------|--------------------------------|---|----------------------------------|
|  | in millions                           |                                |   |                                  |
| Balance at January 1, 2015.....  | € 964.5                               | € (1,110.7)                    | € (5.8)   | € (152.0)                        |
| Net loss (a).....  | —                                     | (26.7)                         | —   | (26.7)                           |
| Deemed contribution of technology-related services<br>(note 11).....   | 8.8                                   | —                              | —   | 8.8                              |
| Share-based compensation (note 11).....  | 4.7                                   | —                              | —   | 4.7                              |
| Capital charge in connection with the exercise or vesting<br>of Liberty Global share-based incentive awards (note<br>11).....                          | (2.4)                                 | —                              | —   | (2.4)                            |
| Excess of carrying value over consideration paid for<br>property, equipment and intangible assets transferred<br>from entity under common control..... | 0.2                                   | —                              | —   | 0.2                              |
| Balance at September 30, 2015 (a).....   | <u>€ 975.8</u>                        | <u>€ (1,137.4)</u>             | <u>€ (5.8)</u>  | <u>€ (167.4)</u>                 |
| Balance at January 1, 2016 before retrospective revision.....  | € 955.3                               | € (1,137.1)                    | € (5.7)   | € (187.5)                        |
| Impact of retrospective revision (note 2).....   | —                                     | (5.5)                          | —   | (5.5)                            |
| Balance at January 1, 2016 after retrospective revision.....   | <u>955.3</u>                          | <u>(1,142.6)</u>               | <u>(5.7)</u>  | <u>(193.0)</u>                   |
| Net loss.....  | —                                     | (53.7)                         | —   | (53.7)                           |
| Deemed contribution of technology-related services<br>(note 11).....   | 11.6                                  | —                              | —   | 11.6                             |
| Share-based compensation (note 11).....  | 5.7                                   | —                              | —   | 5.7                              |
| Capital charge in connection with the exercise or vesting<br>of Liberty Global share-based incentive awards (note<br>11).....                          | (2.8)                                 | —                              | —   | (2.8)                            |
| Balance at September 30, 2016.....   | <u>€ 969.8</u>                        | <u>€ (1,196.3)</u>             | <u>€ (5.7)</u>  | <u>€ (232.2)</u>                 |

(a) As retrospectively revised – see note 2.

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

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

|   | Nine months ended<br>September 30, |                |
|---|------------------------------------|----------------|
|   | 2016                               | 2015 (a)       |
| in millions   |                                    |                |
| Cash flows from operating activities:   |                                    |                |
| Net loss .....  | € (53.7)                           | € (26.7)       |
| Adjustments to reconcile net loss to net cash provided by operating activities:     |                                    |                |
| Share-based compensation expense .....  | 5.7                                | 4.7            |
| Impairment, restructuring and other operating items, net .....                      | 65.8                               | 1.0            |
| Related-party fees and allocations .....  | 142.4                              | 103.3          |
| Depreciation and amortization .....   | 627.5                              | 582.7          |
| Amortization of deferred financing costs and non-cash interest accretion .....      | 4.5                                | 3.9            |
| Related-party interest expense .....  | 16.0                               | 56.0           |
| Foreign currency transaction losses (gains), net .....                              | (74.7)                             | 168.0          |
| Realized and unrealized losses (gains) on derivative instruments, net .....         | 59.8                               | (264.2)        |
| Losses on debt modification and extinguishment, net .....                           | 3.9                                | 93.5           |
| Deferred tax benefit .....  | (29.4)                             | (3.2)          |
| Changes in operating assets and liabilities .....                                   | (48.5)                             | 96.0           |
| Net cash provided by operating activities .....                                     | <u>719.3</u>                       | <u>815.0</u>   |
| Cash flows from investing activities:   |                                    |                |
| Advances to parent .....  | (464.8)                            | (514.7)        |
| Capital expenditures .....  | (287.5)                            | (316.9)        |
| Other investing activities .....  | 1.7                                | 30.1           |
| Net cash used by investing activities .....   | <u>(750.6)</u>                     | <u>(801.5)</u> |
| Cash flows from financing activities:   |                                    |                |
| Repayments of third-party debt and finance lease obligations .....                  | (313.2)                            | (1,402.5)      |
| Borrowings of third-party debt .....  | 245.9                              | 1,420.0        |
| Change in cash collateral .....   | 108.2                              | —              |
| Related-party borrowings (repayments), net .....                                    | (4.4)                              | 62.3           |
| Payment of financing costs and debt premiums .....                                  | (4.2)                              | (104.3)        |
| Other financing activities, net .....   | (1.7)                              | (0.9)          |
| Net cash provided (used) by financing activities .....                              | <u>30.6</u>                        | <u>(25.4)</u>  |
| Net decrease in cash and cash equivalents .....                                     | (0.7)                              | (11.9)         |
| Cash and cash equivalents:  |                                    |                |
| Beginning of period .....   | 2.0                                | 14.4           |
| End of period .....   | <u>€ 1.3</u>                       | <u>€ 2.5</u>   |
| The following amounts are included in net cash provided by operating activities:    |                                    |                |
| Cash paid for interest (excluding payments related to derivative instruments) ..... | <u>€ 346.7</u>                     | <u>€ 276.1</u> |
| Net cash paid (refunded) for taxes .....  | <u>€ 10.2</u>                      | <u>€ (1.9)</u> |

(a) As retrospectively revised – see note 2.

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

**UNITYMEDIA GMBH**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2016**  
**(unaudited)**

**(1) Basis of Presentation**

Unitymedia GmbH (**Unitymedia**) 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 consumers and businesses.

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 (**E.U.**) (**E.U.-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 2015 consolidated financial statements and notes thereto included in our 2015 annual report, which include a description of the significant accounting policies followed in these financial statements.

The preparation of financial statements in conformity with E.U.-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, programming and copyright costs, deferred income taxes and the related recognition of deferred tax assets, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets and share-based compensation. Actual results could differ from those estimates.

The Unitymedia 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 4 (14) of the Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004). For more information regarding the Unitymedia Notes, see note 9.

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of September 30, 2016.

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

These condensed consolidated financial statements were submitted to our supervisory board and approved for publication by the Managing Directors on November 16, 2016.



**UNITYMEDIA GMBH**  
**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**September 30, 2016**  
**(unaudited)**

**(2) Retrospective Revision**

The amounts reported by our company for revenue, EBIT, income tax expense and net earnings (loss) for the three and nine months ended September 30, 2015 have been retrospectively revised from the amounts originally reported in our quarterly report for the quarter ended September 30, 2015. As discussed in our *Summary of Significant Accounting Policies* in our 2015 annual report, when free or discounted service periods are offered to customers in relation to a subscription service, we recognize the total amount of billable revenue that we expect to receive from customers in equal monthly installments over the term of the contract provided that we have the enforceable and contractual right to deliver services to the customer after the promotional period. Prior to the issuance of our quarterly report for the three months ended March 31, 2016, we discovered an error in the computation used to recognize this revenue on an equalized monthly basis. This error had a continuing impact for the remainder of 2015, and we have and will continue to retrospectively revise each comparative period in our quarterly and annual 2016 reports.

The following table quantifies the impact of this error on our revenue, EBIT, income tax expense and net earnings (loss) for each quarter and in total for 2015. The corresponding adjustments to trade receivables and unbilled revenue, net, deferred tax liabilities and accumulated deficit were not significant to our consolidated balance sheets and we therefore do not present a third balance sheet column.

|   | <u>Revenue</u>   | <u>EBIT</u>    | <u>Income tax<br/>expense</u> | <u>Net earnings<br/>(loss)</u> |
|---|------------------|----------------|-------------------------------|--------------------------------|
|   | in millions      |                |                               |                                |
| <b>Three months ended March 31, 2015:</b>     |                  |                |                               |                                |
| As previously reported.....                   | € 538.3          | € 110.1        | € (5.3)                       | € (39.9)                       |
| Revision .....                                | (3.9)            | (3.9)          | 1.3                           | (2.6)                          |
| As retrospectively revised.....               | <u>€ 534.4</u>   | <u>€ 106.2</u> | <u>€ (4.0)</u>                | <u>€ (42.5)</u>                |
| <b>Three months ended June 30, 2015:</b>      |                  |                |                               |                                |
| As previously reported.....                   | € 537.7          | € 109.8        | € (10.0)                      | € (1.1)                        |
| Revision .....                                | (3.1)            | (3.1)          | 1.0                           | (2.1)                          |
| As retrospectively revised.....               | <u>€ 534.6</u>   | <u>€ 106.7</u> | <u>€ (9.0)</u>                | <u>€ (3.2)</u>                 |
| <b>Three months ended September 30, 2015:</b> |                  |                |                               |                                |
| As previously reported.....                   | € 542.2          | € 101.8        | € (26.0)                      | € 19.5                         |
| Revision .....                                | (0.7)            | (0.7)          | 0.2                           | (0.5)                          |
| As retrospectively revised.....               | <u>€ 541.5</u>   | <u>€ 101.1</u> | <u>€ (25.8)</u>               | <u>€ 19.0</u>                  |
| <b>Three months ended December 31, 2015:</b>  |                  |                |                               |                                |
| As previously reported.....                   | € 554.1          | € 111.9        | € (7.6)                       | € (4.9)                        |
| Revision .....                                | (0.4)            | (0.4)          | 0.1                           | (0.3)                          |
| As retrospectively revised.....               | <u>€ 553.7</u>   | <u>€ 111.5</u> | <u>€ (7.5)</u>                | <u>€ (5.2)</u>                 |
| <b>Year ended December 31, 2015:</b>          |                  |                |                               |                                |
| As previously reported.....                   | € 2,172.3        | € 433.6        | € (48.9)                      | € (26.4)                       |
| Revision .....                                | (8.1)            | (8.1)          | 2.6                           | (5.5)                          |
| As retrospectively revised.....               | <u>€ 2,164.2</u> | <u>€ 425.5</u> | <u>€ (46.3)</u>               | <u>€ (31.9)</u>                |

UNITYMEDIA GMBH  
Notes to Condensed Consolidated Financial Statements – (Continued)  
September 30, 2016  
(unaudited)

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

***First-time Application of Accounting Standards***

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

| Standard/<br>Interpretation     | Title  | Applicable for<br>fiscal years<br>beginning on or after | Date of<br>endorsement<br>by the E.U. |
|---------------------------------|--|---|---------------------------------------|
| IAS 1<br>(amendments)           | Disclosure Initiative  | January 1, 2016   | December 18, 2015                     |
| IAS 16 / IAS 38<br>(amendments) | Clarification of Acceptable Methods of Depreciation and Amortization | January 1, 2016   | December 2, 2015                      |

***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/<br>Interpretation | Title  | Applicable for<br>fiscal years<br>beginning on or after | Date of<br>endorsement<br>by the E.U. |
|-----------------------------|--|---|---------------------------------------|
| IFRS 2<br>(amendments)      | Classification and Measurement of Share-based Payment Transactions | January 1, 2018 (a)                                     | Not yet endorsed                      |
| IFRS 9                      | Financial Instruments  | January 1, 2018 (b)                                     | Not yet endorsed                      |
| IFRS 15                     | Revenue from Contracts with Customers                              | January 1, 2018 (c)                                     | September 22, 2016                    |
| IFRS 15<br>(amendments)     | Clarifications to IFRS 15 Revenue from Contracts with Customers    | January 1, 2018 (c)                                     | Not yet endorsed                      |
| IFRS 16                     | Leases   | January 1, 2019 (d)                                     | Not yet endorsed                      |
| IAS 7<br>(amendments)       | Disclosure Initiative  | January 1, 2017 (e)                                     | Not yet endorsed                      |
| IAS 12<br>(amendments)      | Recognition of Deferred Tax Assets for Unrealized Losses           | January 1, 2017 (e)                                     | Not yet endorsed                      |

- (a) In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payments (IFRS 2)*, which includes new requirements for the accounting of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments to IFRS 2 will require that certain transactions be classified as equity-settled share-based payment transactions. These amendments are effective for annual reporting periods beginning on or after January 1, 2018, while early application is permitted. We are currently evaluating the effect that these amendments to IFRS 2 will have on our consolidated financial statements and related disclosures.
- (b) In July 2014, the IASB issued IFRS 9, *Financial Instruments (IFRS 9)*, which introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities, especially with regard to managing non-financial risks. The new standard is effective for annual reporting periods beginning on or after January 1, 2018, while early application is permitted. We are currently evaluating the effect that IFRS 9 will have on our consolidated financial statements and related disclosures.

**UNITYMEDIA GMBH**  
**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**September 30, 2016**  
**(unaudited)**

- (c) 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 for annual and interim reporting periods beginning after January 1, 2018. This new standard permits the use of either a retrospective or cumulative effect transition method. We will adopt IFRS 15 effective January 1, 2018 using the cumulative effect transition method. We are currently evaluating the effect that IFRS 15 will have on our consolidated financial statements and related disclosures.
- (d) In January 2016, the IASB issued IFRS 16, *Leases (IFRS 16)*, which supersedes IAS 17 *Leases (IAS 17)*. IFRS 16 will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements and eliminate the classification of leases as either operating leases or finance leases for a lessee. IFRS 16 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. IFRS 16 also replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for the lease asset and an interest expense on the lease liability. This change aligns the lease expense treatment for all leases. The new standard is effective for annual reporting periods beginning on or after January 1, 2019, while early adoption is permitted if IFRS 15 is applied. We are currently evaluating the effect that IFRS 16 will have on our consolidated financial statements and related disclosures.
- (e) We evaluated the impact of applying these accounting standards on our consolidated financial statements and do not believe the impact of the adoption of these standards to be material.

**(4) Segment Reporting**

We have one reportable segment that provides video, broadband internet, fixed-line telephony and mobile services to consumers and businesses in Germany.

Our revenue by major category is as follows:

|  | <b>Three months ended</b> |                 | <b>Nine months ended</b> |                  |
|--|---------------------------|-----------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                 | <b>September 30,</b>     |                  |
|  | <b>2016</b>               | <b>2015 (a)</b> | <b>2016</b>              | <b>2015 (a)</b>  |
|  | <b>in millions</b>        |                 |                          |                  |
| Subscription revenue (b):                    |                           |                 |                          |                  |
| Video .....                                  | € 258.0                   | € 248.4         | € 767.6                  | € 742.3          |
| Broadband internet .....                     | 148.6                     | 133.1           | 437.2                    | 386.9            |
| Fixed-line telephony .....                   | 112.5                     | 111.4           | 337.2                    | 334.6            |
| Cable subscription revenue .....             | 519.1                     | 492.9           | 1,542.0                  | 1,463.8          |
| Mobile (c) .....                             | 4.7                       | 4.8             | 15.3                     | 13.9             |
| Total subscription revenue .....             | 523.8                     | 497.7           | 1,557.3                  | 1,477.7          |
| Business-to-business (B2B) revenue (d) ..... | 2.3                       | 2.1             | 6.1                      | 5.0              |
| Other revenue (c) (e) .....                  | 41.4                      | 41.7            | 125.2                    | 127.8            |
| Total .....                                  | <u>€ 567.5</u>            | <u>€ 541.5</u>  | <u>€ 1,688.6</u>         | <u>€ 1,610.5</u> |

(a) As retrospectively revised – see note 2.

(b) 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.

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- (c) Mobile subscription revenue excludes mobile interconnect revenue of €0.3 million during each of the three months ended September 30, 2016 and 2015, and €0.8 million and €1.0 million during the nine months ended September 30, 2016 and 2015, respectively. Mobile interconnect revenue is included in other revenue.
- (d) B2B revenue includes revenue from business broadband internet, video, voice, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small or home office (SOHO) subscribers. SOHO subscribers pay a premium price to receive expanded 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 is included in subscription revenue, aggregated €10.2 million and €8.5 million during the three months ended September 30, 2016 and 2015, respectively, and €28.8 million and €22.4 million during the nine months ended September 30, 2016 and 2015, respectively.
- (e) Other revenue includes, among other items, channel carriage fee, installation and interconnect revenue.

**(5) 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 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 interest rate exposure and foreign currency exposure with respect to the United States (U.S.) dollar. We do not apply hedge accounting to our derivative instruments. 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:

|  | <b>September 30, 2016</b> |                   |              | <b>December 31, 2015</b> |                   |              |
|--|---------------------------|-------------------|--------------|--------------------------|-------------------|--------------|
|  | <b>Current (a)</b>        | <b>Noncurrent</b> | <b>Total</b> | <b>Current (a)</b>       | <b>Noncurrent</b> | <b>Total</b> |
|  | <b>in millions</b>        |                   |              |                          |                   |              |
| Cross-currency and interest rate derivative contracts (b)..... | € 36.9                    | € 283.2           | € 320.1      | € 40.7                   | € 378.8           | € 419.5      |

- (a) Our current derivative assets are included in other current assets in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of September 30, 2016 and December 31, 2015, the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €18.9 million and €18.4 million, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market and market quotations for certain of our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in a net gain (loss) of €7.3 million and (€5.2 million) during the three months ended September 30, 2016 and 2015, respectively, and net losses of €0.5 million and €18.6 million during the nine months ended September 30, 2016 and 2015, 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 6.

We recorded realized and unrealized gains (losses) on derivative instruments, net, of (€53.8 million) and €35.1 million during the three months ended September 30, 2016 and 2015, respectively, and (€59.8 million) and €264.2 million during the nine months ended September 30, 2016 and 2015, respectively. These gains (losses) relate to our cross-currency and interest rate derivative contracts.

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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 nine months ended September 30, 2016 and 2015 were €39.8 million and €28.4 million, respectively, and are classified as operating activities in our condensed consolidated statements of cash flows.

**Details of our Derivative Instruments**

In the following tables, we present the details of the various categories of our subsidiary's derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. In addition, for derivative instruments that were in effect as of September 30, 2016, we present a single date that represents the applicable final maturity date.

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

*Cross-currency Swaps:*

The terms of our outstanding cross-currency swap contracts at September 30, 2016, which are held by Unitymedia Hessen GmbH & Co. KG (**Unitymedia Hessen**), are as follows:

| <u>Final maturity date</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 .....         | \$ 2,450.0                                   | € 1,799.0                                  | 5.62%                                      | 4.76%                                    |

*Interest Rate Swaps:*

The terms of our outstanding interest rate swap contracts at September 30, 2016, which are held by Unitymedia Hessen, are as follows:

| <u>Final maturity date</u> | <u>Notional amount</u> | <u>Interest rate due from counterparty</u> | <u>Interest rate due to counterparty</u> |
|----------------------------|------------------------|--|--|
|                            | in millions            |  |  |
| January 2023 .....         | € 268.2                | 5.01%                                      | 6 mo. EURIBOR + 4.82%                    |

**(6) Fair Value Measurements**

We use the fair value method to account for (i) our derivative instruments and (ii) certain instruments that we classify as debt. The reported fair values of these instruments as of September 30, 2016 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these 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 assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the nine months ended September 30, 2016, no such transfers were made.

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

In order to manage our interest rate and foreign currency exchange risk, we have entered into (i) various derivative instruments and (ii) certain instruments that we classify as debt, as further described in note 5. The recurring fair value measurements of these instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these 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 these instruments. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency and interest rate swaps and certain of our debt are quantified and further explained in notes 5 and 9.

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

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of our company (our only cash-generating unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer relationship, 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 our reporting unit as if our reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform any significant nonrecurring fair value measurements during the nine months ended September 30, 2016 and 2015.

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

| Category (b)  | September 30, 2016 |                      | December 31, 2015 (a) |                      |           |
|---|--------------------|----------------------|-----------------------|----------------------|-----------|
|   | Carrying amount    | Estimated fair value | Carrying amount       | Estimated fair value |           |
| in millions   |                    |                      |                       |                      |           |
| Assets carried at fair value — derivative financial instruments .....                   | I                  | € 320.1              | € 320.1               | € 419.5              | € 419.5   |
| Assets carried at cost or amortized cost:   |                    |                      |                       |                      |           |
| Loan receivable – related-party .....   | II                 | € 1,121.0            | (c)                   | € 739.0              | (c)       |
| Other current and noncurrent financial assets .....                                     | II                 | 290.9                | € 290.9               | 240.6                | € 240.6   |
| Trade receivables and unbilled revenue .....  | II                 | 92.7                 | € 92.7                | 110.5                | € 110.5   |
| Cash and cash equivalents .....   | II                 | 1.3                  | € 1.3                 | 2.0                  | € 2.0     |
| Restricted cash .....   | II                 | 1.2                  | € 1.2                 | 109.4                | € 109.4   |
| Total assets carried at cost or amortized cost .....                                    |                    | <u>€ 1,507.1</u>     |                       | <u>€ 1,201.5</u>     |           |
| Liabilities carried at fair value — third-party debt obligations .....                  | I                  | € 90.8               | € 90.8                | € —                  | € —       |
| Liabilities carried at cost or amortized cost:  |                    |                      |                       |                      |           |
| Debt obligations – third-party .....  | III                | € 7,144.3            | € 7,458.3             | € 7,306.3            | € 7,311.1 |
| Loans payable – related-party .....   | III                | 324.2                | (c)                   | 319.3                | (c)       |
| Accrued liabilities (including related-party) .....                                     | III                | 284.0                | € 284.0               | 261.1                | € 261.1   |
| Accounts payable and other liabilities (including related-party accounts payable) ..... | III                | 63.3                 | € 63.3                | 42.1                 | € 42.1    |
| Finance lease obligations .....   | V                  | 4.8                  | € 4.8                 | 5.0                  | € 5.0     |
| Total liabilities carried at cost or amortized cost .....                               |                    | <u>€ 7,820.6</u>     |                       | <u>€ 7,933.8</u>     |           |

(a) As retrospectively revised – see note 2.

(b) Pursuant to IAS 39, *Financial Instruments: Recognition and Measurement (IAS 39)*, category I refers to financial assets and liabilities at fair value through profit and loss, category II refers to loans and receivables, category III refers to financial liabilities measured at amortized cost and category IV refers to derivative instruments designated as hedging instruments. Category V refers to finance leases outside the scope of IAS 39.

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

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Pre-tax amounts recognized in our condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 related to our financial assets and liabilities are as follows:

|   | <u>Interest<br/>income</u> | <u>Interest<br/>expense</u> | <u>Other<br/>statement of<br/>operations<br/>effect (a)</u> | <u>Impact on<br/>earnings (loss)<br/>before income<br/>taxes</u> |
|---|----------------------------|-----------------------------|---|--|
|   | in millions                |                             |   |  |
| <b>Three months ended September 30, 2016:</b>   |                            |                             |   |  |
| Derivative assets carried at fair value through our condensed consolidated statement of operations .....      | € —                        | € —                         | € (53.8)  | € (53.8)   |
| Assets carried at cost or amortized cost:   |                            |                             |   |  |
| Trade receivables (b) .....   | —                          | —                           | (2.7)   | (2.7)  |
| Loan receivable – related-party .....   | 10.5                       | —                           | —   | 10.5   |
| Cash and cash equivalents .....   | —                          | —                           | 0.2   | 0.2  |
| Liabilities carried at fair value through our condensed consolidated statement of operations .....            | —                          | —                           | (4.1)   | (4.1)  |
| Liabilities carried at cost or amortized cost .....   | —                          | (95.7)                      | 30.4  | (65.3)   |
|   | <u>€ 10.5</u>              | <u>€ (95.7)</u>             | <u>€ (30.0)</u>   | <u>€ (115.2)</u>   |
| <b>Three months ended September 30, 2015:</b>   |                            |                             |   |  |
| Derivative assets carried at fair value through our condensed consolidated statement of operations .....      | € —                        | € —                         | € 35.1  | € 35.1   |
| Assets carried at cost or amortized cost:   |                            |                             |   |  |
| Trade receivables (b) .....   | 0.1                        | —                           | (4.2)   | (4.1)  |
| Loan receivable – related-party .....   | 7.3                        | —                           | —   | 7.3  |
| Cash and cash equivalents .....   | —                          | —                           | 0.3   | 0.3  |
| Liabilities carried at cost or amortized cost .....   | —                          | (104.1)                     | 4.4   | (99.7)   |
|   | <u>€ 7.4</u>               | <u>€ (104.1)</u>            | <u>€ 35.6</u>   | <u>€ (61.1)</u>  |
| <b>Nine months ended September 30, 2016:</b>  |                            |                             |   |  |
| Derivative assets carried at fair value through our condensed consolidated statement of operations .....      | € —                        | € —                         | € (59.8)  | € (59.8)   |
| Assets carried at cost or amortized cost:   |                            |                             |   |  |
| Trade receivables (b) .....   | 0.1                        | —                           | (8.5)   | (8.4)  |
| Loan receivable – related-party .....   | 28.3                       | —                           | —   | 28.3   |
| Cash and cash equivalents .....   | —                          | —                           | 0.2   | 0.2  |
| Liabilities carried at fair value through our condensed consolidated statement of operations .....            | —                          | —                           | (7.3)   | (7.3)  |
| Liabilities carried at cost or amortized cost .....   | —                          | (287.4)                     | 70.6  | (216.8)  |
|   | <u>€ 28.4</u>              | <u>€ (287.4)</u>            | <u>€ (4.8)</u>  | <u>€ (263.8)</u>   |
| <b>Nine months ended September 30, 2015:</b>  |                            |                             |   |  |
| Derivative assets carried at fair value through our condensed consolidated statement of operations .....      | € —                        | € —                         | € 261.2   | € 261.2  |
| Assets carried at cost or amortized cost:   |                            |                             |   |  |
| Trade receivables (b) .....   | 0.2                        | —                           | (8.7)   | (8.5)  |
| Loan receivable – related-party .....   | 22.4                       | —                           | —   | 22.4   |
| Cash and cash equivalents .....   | —                          | —                           | 0.5   | 0.5  |
| Derivative liabilities carried at fair value through our condensed consolidated statement of operations ..... | —                          | —                           | 3.0   | 3.0  |
| Liabilities carried at cost or amortized cost .....   | —                          | (329.2)                     | (262.0)   | (591.2)  |
|   | <u>€ 22.6</u>              | <u>€ (329.2)</u>            | <u>€ (6.0)</u>  | <u>€ (312.6)</u>   |



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- (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.

**(7) Long-lived Assets**

***Property and Equipment, Net***

Changes during the nine months ended September 30, 2016 in the carrying amounts of our property and equipment, net, are as follows:

|   | <u>Cable<br/>distribution<br/>systems</u> | <u>Customer<br/>premises<br/>equipment</u> | <u>Support<br/>equipment,<br/>buildings<br/>and land</u> | <u>Total</u>     |
|---|---|--|--|------------------|
|   | in millions                               |  |  |                  |
| <b>Cost:</b>  |   |  |  |                  |
| January 1, 2016.....  | € 4,437.9                                 | € 540.9                                    | € 201.1  | € 5,179.9        |
| Additions.....  | 224.8                                     | 84.4                                       | 35.8   | 345.0            |
| Retirements and disposals.....                                | (65.1)                                    | (58.8)                                     | (11.2)   | (135.1)          |
| Impairments .....   | (0.6)                                     | (0.2)                                      | —  | (0.8)            |
| Transfers of used property and equipment - related-party..... | 0.1                                       | (0.5)                                      | —  | (0.4)            |
| September 30, 2016 .....                                      | <u>€ 4,597.1</u>                          | <u>€ 565.8</u>                             | <u>€ 225.7</u>   | <u>€ 5,388.6</u> |
| <b>Accumulated depreciation:</b>                              |   |  |  |                  |
| January 1, 2016.....  | € 1,591.1                                 | € 240.4                                    | € 96.6   | € 1,928.1        |
| Depreciation.....   | 297.7                                     | 81.4                                       | 28.7   | 407.8            |
| Retirements and disposals.....                                | (65.1)                                    | (58.8)                                     | (11.2)   | (135.1)          |
| Transfers of used property and equipment - related-party..... | —   | (0.2)                                      | —  | (0.2)            |
| September 30, 2016 .....                                      | <u>€ 1,823.7</u>                          | <u>€ 262.8</u>                             | <u>€ 114.1</u>   | <u>€ 2,200.6</u> |
| <b>Property and equipment, net:</b>                           |   |  |  |                  |
| September 30, 2016 .....                                      | <u>€ 2,773.4</u>                          | <u>€ 303.0</u>                             | <u>€ 111.6</u>   | <u>€ 3,188.0</u> |

During the nine months ended September 30, 2016 and 2015, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of €118.9 million and €108.4 million, respectively, which exclude related value-added taxes (VAT) of €18.9 million and €15.2 million, respectively, that were also financed by our vendors under these arrangements.

During the nine months ended September 30, 2016, no borrowing costs were capitalized.

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

Changes during the nine months ended September 30, 2016 in the carrying amounts of our finite-lived intangible assets are as follows:

|  | <u>Customer<br/>relationships</u> | <u>Subscriber<br/>acquisition<br/>costs</u> | <u>Other (a)</u> | <u>Total</u>     |
|--|-----------------------------------|---|------------------|------------------|
|  | in millions                       |   |                  |                  |
| <b>Cost:</b>   |                                   |   |                  |                  |
| January 1, 2016.....                                   | € 1,358.6                         | € 149.7                                     | € 170.5          | € 1,678.8        |
| Additions.....   | —                                 | 69.9  | 37.3             | 107.2            |
| Retirements and disposals.....                         | —                                 | (56.3)                                      | (33.8)           | (90.1)           |
| September 30, 2016.....                                | <u>€ 1,358.6</u>                  | <u>€ 163.3</u>                              | <u>€ 174.0</u>   | <u>€ 1,695.9</u> |
| <b>Accumulated amortization:</b>                       |                                   |   |                  |                  |
| January 1, 2016.....                                   | € 834.3                           | € 71.8                                      | € 82.0           | € 988.1          |
| Amortization.....                                      | 121.3                             | 61.6  | 36.8             | 219.7            |
| Retirements and disposals.....                         | —                                 | (55.4)                                      | (33.8)           | (89.2)           |
| September 30, 2016.....                                | <u>€ 955.6</u>                    | <u>€ 78.0</u>                               | <u>€ 85.0</u>    | <u>€ 1,118.6</u> |
| <b>Intangible assets subject to amortization, net:</b> |                                   |   |                  |                  |
| September 30, 2016.....                                | <u>€ 403.0</u>                    | <u>€ 85.3</u>                               | <u>€ 89.0</u>    | <u>€ 577.3</u>   |

(a) Primarily includes computer software costs.

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**(8) Provisions**

The details of our provisions are set forth as follows:

|                               | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|-------------------------------|-------------------------------|------------------------------|
|                               | <b>in millions</b>            |                              |
| Restructuring liability ..... | € 67.3                        | € 6.4                        |
| Net pension liability .....   | 31.7                          | 30.6                         |
| Other .....                   | 16.3                          | 18.4                         |
| Total provisions.....         | <u>€ 115.3</u>                | <u>€ 55.4</u>                |
| Current portion .....         | <u>€ 66.2</u>                 | <u>€ 22.8</u>                |
| Noncurrent portion .....      | <u>€ 49.1</u>                 | <u>€ 32.6</u>                |

The following table shows the development of our provisions:

|                         | <b>Restructuring<br/>liability</b> | <b>Net pension<br/>liability</b> | <b>Other</b>  | <b>Total</b>   |
|-------------------------|------------------------------------|----------------------------------|---------------|----------------|
|                         | <b>in millions</b>                 |                                  |               |                |
| January 1, 2016.....    | € 6.4                              | € 30.6                           | € 18.4        | € 55.4         |
| Additions.....          | 67.1                               | 1.5                              | 4.3           | 72.9           |
| Releases .....          | —                                  | —                                | (6.1)         | (6.1)          |
| Cash payments .....     | (6.2)                              | (0.4)                            | (0.3)         | (6.9)          |
| September 30, 2016..... | <u>€ 67.3</u>                      | <u>€ 31.7</u>                    | <u>€ 16.3</u> | <u>€ 115.3</u> |

Our restructuring charges during the nine months ended September 30, 2016 relate to employee severance and termination costs associated with certain reorganization activities.

Employee benefit-related expenses associated with our (i) contributions to the German statutory pension system, (ii) defined contribution plan, (iii) defined benefit pension plans and (iv) direct insurance aggregated €13.3 million during the nine months ended September 30, 2016.

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

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

|   | September 30, 2016 |                    |                  | Estimated fair value (a) |                   | Carrying value     |                   |
|---|--------------------|--------------------|------------------|--------------------------|-------------------|--------------------|-------------------|
|   | Interest rate (b)  | Borrowing currency | Euro equivalent  | September 30, 2016       | December 31, 2015 | September 30, 2016 | December 31, 2015 |
|   | in millions        |                    |                  |                          |                   |                    |                   |
| Third-party debt:   |                    |                    |                  |                          |                   |                    |                   |
| Unitymedia Notes:   |                    |                    |                  |                          |                   |                    |                   |
| Parent:   |                    |                    |                  |                          |                   |                    |                   |
| 2025 UM Senior Notes.....   | 6.125%             | \$ 900.0           | € 801.6          | € 843.2                  | € 822.6           | € 801.6            | € 828.3           |
| 2027 UM Senior Notes.....   | 3.750%             | € 700.0            | 700.0            | 672.9                    | 604.6             | 700.0              | 700.0             |
| Subsidiaries:   |                    |                    |                  |                          |                   |                    |                   |
| 2022 UM Senior Secured Notes.....   | 5.500%             | € 526.5            | 526.5            | 554.8                    | 621.6             | 526.5              | 585.0             |
| January 2023 UM Senior Secured Notes:                                     |                    |                    |                  |                          |                   |                    |                   |
| January 2023 UM Dollar Senior Secured Notes.....                          | 5.500%             | \$ 1,000.0         | 890.6            | 925.1                    | 916.9             | 890.6              | 920.3             |
| January 2023 5.75% UM Euro Senior Secured Notes.....                      | 5.750%             | € 405.0            | 405.0            | 430.3                    | 430.3             | 405.0              | 405.0             |
| January 2023 5.125% UM Euro Senior Secured Notes.....                     | 5.125%             | € 405.0            | 405.0            | 426.0                    | 472.8             | 405.0              | 450.0             |
| April 2023 UM Senior Secured Notes.....                                   | 5.625%             | € 280.0            | 280.0            | 297.5                    | 297.0             | 280.0              | 280.0             |
| 2025 UM Senior Secured Notes:   |                    |                    |                  |                          |                   |                    |                   |
| 2025 UM Euro Senior Secured Notes.....                                    | 4.000%             | € 1,000.0          | 1,000.0          | 1,032.5                  | 966.9             | 1,000.0            | 1,000.0           |
| 2025 UM Dollar Senior Secured Notes.....                                  | 5.000%             | \$ 550.0           | 489.8            | 500.6                    | 486.9             | 489.8              | 506.2             |
| 2026 UM Senior Secured Notes.....   | 4.625%             | € 420.0            | 420.0            | 447.0                    | 419.2             | 420.0              | 420.0             |
| 2027 UM Senior Secured Notes.....   | 3.500%             | € 500.0            | 500.0            | 494.7                    | 462.8             | 500.0              | 500.0             |
| 2029 UM Senior Secured Notes.....   | 6.250%             | € 475.0            | 475.0            | 531.1                    | 521.9             | 475.0              | 475.0             |
| Unitymedia Revolving Credit Facilities (c):                               |                    |                    |                  |                          |                   |                    |                   |
| UM Senior Secured Facility.....   | —                  | € 420.0            | 420.0            | —                        | —                 | —                  | —                 |
| UM Super Senior Secured Facility.....                                     | —                  | € 80.0             | 80.0             | —                        | —                 | —                  | —                 |
| Vendor financing (d).....   | 2.820%             | € 167.9            | 167.9            | 167.9                    | 130.8             | 167.9              | 130.8             |
| Other (e).....  | 2.859%             | € 137.1            | 137.1            | 147.0                    | —                 | 143.3              | —                 |
| Total third-party debt before transaction costs and accrued interest..... | <u>4.902%</u>      |                    | <u>€ 7,698.5</u> | <u>€ 7,470.6</u>         | <u>€ 7,154.3</u>  | 7,204.7            | 7,200.6           |
| Transaction costs.....  |                    |                    |                  |                          |                   | (48.1)             | (51.1)            |
| Accrued interest – third-party.....                                       |                    |                    |                  |                          |                   | 78.5               | 156.8             |
| Total third-party debt.....   |                    |                    |                  |                          |                   | <u>7,235.1</u>     | <u>7,306.3</u>    |
| Finance lease obligations.....  |                    |                    |                  |                          |                   | 4.8                | 5.0               |
| Total third-party debt and finance lease obligations.....                 |                    |                    |                  |                          |                   | <u>7,239.9</u>     | <u>7,311.3</u>    |
| Related-party debt (note 11):   |                    |                    |                  |                          |                   |                    |                   |
| Related-party debt – principal.....                                       |                    |                    |                  |                          |                   | 317.0              | 316.6             |
| Accrued interest – related-party.....                                     |                    |                    |                  |                          |                   | 7.2                | 2.7               |
| Total related-party debt.....   |                    |                    |                  |                          |                   | <u>324.2</u>       | <u>319.3</u>      |
| Total debt and finance lease obligations.....                             |                    |                    |                  |                          |                   | <u>7,564.1</u>     | <u>7,630.6</u>    |
| Current portion of debt and finance lease obligations.....                |                    |                    |                  |                          |                   | (253.1)            | (392.8)           |
| Noncurrent portion of debt and finance lease obligations.....             |                    |                    |                  |                          |                   | <u>€ 7,311.0</u>   | <u>€ 7,237.8</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 6.
- (b) Represents the stated interest rate of the debt instrument as of September 30, 2016 and does not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and 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 4.7% at September 30, 2016. For information regarding our derivative instruments, see note 5.
- (c) At September 30, 2016, based on the applicable leverage and other financial covenants, €470.1 million of unused borrowing capacity was available to be borrowed under the Unitymedia Revolving Credit Facilities. Unused borrowing capacity represents the maximum availability under the Unitymedia Revolving Credit Facilities without regard to covenant compliance calculations or other conditions precedent to borrowing. When the relevant September 30, 2016 compliance reporting requirements have been completed and assuming no changes from September 30, 2016 borrowing levels, we anticipate that the full amount of unused borrowing capacity under the Unitymedia Revolving Credit Facilities will be available to be borrowed.
- (d) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, equipment and intangible asset additions and, to a lesser extent, certain of our operating expenses. These obligations are generally due within one year and include VAT that were paid on our behalf by the vendor. The nine months ended September 30, 2016 includes €26.9 million of operating expenses that were financed by an intermediary and are reflected as a hypothetical cash outflow within net cash provided by operating activities and a hypothetical cash inflow within net cash provided (used) by financing activities in our condensed consolidated statement of cash flows. In addition, during the nine months ended September 30, 2016 and 2015, aggregate payments of €127.7 million and €84.3 million, respectively, were made under capital-related vendor financing arrangements. 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.
- (e) The September 30, 2016 balance includes €90.8 million associated with certain derivative-related borrowing instruments that are carried at fair value. As of September 30, 2016, the fair value of certain of our debt has been reduced by credit risk valuation adjustments aggregating €11.8 million. The changes in the credit risk valuation adjustments associated with certain of our debt resulted in a net gain (loss) of (€2.0 million) and €11.8 million during the three and nine months ended September 30, 2016, respectively. These amounts are included in other income, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 6.

***Unitymedia Notes***

In December 2015, Unitymedia Hessen and Unitymedia NRW GmbH (**Unitymedia NRW**), each a wholly-owned subsidiary of Unitymedia, issued €420.0 million of 4.625% senior secured notes due February 15, 2026 (the **2026 UM Senior Secured Notes**). A portion of the net proceeds from the 2026 UM Senior Secured Notes, which were held in escrow at December 31, 2015 as cash collateral, were used in January 2016 to redeem 10% of the principal amount of each of the following series of notes: (i) the €585.0 million outstanding principal amount of 5.5% senior secured notes due September 15, 2022 and (ii) the €450.0 million outstanding principal amount of 5.125% senior secured notes due January 21, 2023, each at a redemption price equal to 103% of the applicable redeemed principal amount in accordance with the indentures governing each of the notes. In connection with these transactions, we recognized a loss on debt modification and extinguishment, net, during the first quarter of 2016 of €3.9 million. This loss includes (a) the payment of €3.1 million of redemption premium and (b) the write-off of €0.8 million of deferred financing costs.

The terms and conditions of the notes entered into are largely consistent with those of our existing notes with regard to covenants, events of default and change of control provisions, among other items. For information concerning the general terms and conditions of our debt, see note 12 to the consolidated financial statements included in our 2015 annual report.

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***Maturities of Debt***

The euro equivalents of the maturities of our debt as of September 30, 2016 are presented below:

|   | <u>Third-party<br/>debt</u> | <u>Related-<br/>party debt</u> | <u>Total</u>     |
|---|-----------------------------|--------------------------------|------------------|
|   | <u>in millions</u>          |                                |                  |
| Year ending December 31:  |                             |                                |                  |
| 2016 (remainder of year) .....  | € 40.2                      | € —                            | € 40.2           |
| 2017 .....  | 129.5                       | —                              | 129.5            |
| 2018 .....  | 2.1                         | —                              | 2.1              |
| 2019 .....  | 2.2                         | —                              | 2.2              |
| 2020 .....  | 2.2                         | —                              | 2.2              |
| 2021 .....  | 2.3                         | —                              | 2.3              |
| Thereafter.....   | 7,020.0                     | 317.0                          | 7,337.0          |
| Total debt before transaction costs and accrued interest.....               | <u>7,198.5</u>              | <u>317.0</u>                   | <u>7,515.5</u>   |
| Accrued interest, transaction costs and finance lease obligations, net..... | 35.2                        | 7.2                            | 42.4             |
| Total debt and finance lease obligations.....                               | <u>€ 7,233.7</u>            | <u>€ 324.2</u>                 | <u>€ 7,557.9</u> |

**(10) Income Taxes**

The income tax benefit (expense) attributable to our earnings (loss) before income taxes differs from the income tax benefit (expense) computed by using the German income tax rate of 32.78% for the 2016 periods and 32.49% for the 2015 periods as a result of the following:

|   | <u>Three months ended<br/>September 30,</u> |                 | <u>Nine months ended<br/>September 30,</u> |                 |
|---|---|-----------------|--|-----------------|
|   | <u>2016</u>                                 | <u>2015 (a)</u> | <u>2016</u>                                | <u>2015 (a)</u> |
|   | <u>in millions</u>                          |                 |  |                 |
| Computed “expected” income tax benefit (expense) .....          | € 10.2                                      | € (14.5)        | € 10.4                                     | € (3.9)         |
| Non-deductible or non-taxable interest and other expenses ..... | (7.6)                                       | (9.4)           | (26.4)                                     | (29.7)          |
| Other, net.....   | (2.5)                                       | (1.9)           | (6.1)                                      | (5.2)           |
| Total.....  | <u>€ 0.1</u>                                | <u>€ (25.8)</u> | <u>€ (22.1)</u>                            | <u>€ (38.8)</u> |

(a) As retrospectively revised – see note 2.

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**(11) Related-party Transactions**

Our related-party transactions consist of the following:

|   | <u>Three months ended</u><br><u>September 30,</u> |             | <u>Nine months ended</u><br><u>September 30,</u> |             |
|---|---|-------------|--|-------------|
|   | <u>2016</u>                                       | <u>2015</u> | <u>2016</u>                                      | <u>2015</u> |
|   | in millions                                       |             |  |             |
| OpEx .....  | € 1.1   | € 1.4       | € 3.9  | € 7.0       |
| SG&A.....   | 0.4   | 0.3         | 0.5  | 1.4         |
| Allocated share-based compensation expense .....                            | 1.9   | 2.6         | 5.7  | 4.7         |
| Fees and allocations:   |   |             |  |             |
| OpEx and SG&A (exclusive of depreciation and share-based compensation)..... | 16.3  | 13.0        | 43.8   | 45.4        |
| Depreciation .....  | 13.3  | 11.7        | 36.8   | 23.2        |
| Share-based compensation .....  | 4.0   | 5.4         | 14.1   | 12.7        |
| Management fee .....  | 29.7  | 10.2        | 47.7   | 22.0        |
| Total fees and allocations.....   | 63.3  | 40.3        | 142.4  | 103.3       |
| Included in EBIT.....   | 66.7  | 44.6        | 152.5  | 116.4       |
| Interest expense.....   | 5.0   | 16.2        | 16.0   | 56.0        |
| Interest income .....   | (10.5)  | (7.3)       | (28.3)   | (22.4)      |
| Share of associate gain.....  | (0.1)   | (0.6)       | (0.7)  | (2.1)       |
| Included in net earnings (loss) .....                                       | € 61.1  | € 52.9      | € 139.5  | € 147.9     |
| Property, equipment and intangible asset additions .....                    | € 24.9  | € 28.1      | € 78.6   | € 80.2      |

*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. The methodology Liberty Global uses to allocate its central and administrative costs to its borrowing groups impacts the calculation of the “EBITDA” metric specified by our debt agreements (**Covenant EBITDA**). In this regard, the components of related-party fees and allocations that are deducted to arrive at our Covenant EBITDA are based on (a) the amount and nature of costs incurred by the allocating Liberty Global subsidiaries during the period, (b) the allocation methodologies in effect during the period and (c) 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 our 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). 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.

*OpEx.* These amounts represent certain cash settled charges from other Liberty Global subsidiaries to our company, primarily for certain backbone and other network-related services provided to our company.

*SG&A.* These amounts represent the net impact of certain cash settled (i) charges from other Liberty Global subsidiaries to our company, primarily for software maintenance services and (ii) recharges for certain general and administrative services provided by our company to other Liberty Global subsidiaries.

*Allocated share-based compensation expense.* These amounts are allocated to our company by Liberty Global and represent the share-based compensation expense associated with the Liberty Global share-based incentive awards held by certain employees

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of our subsidiaries. Share-based compensation expense is reflected as a decrease to owner's deficit and is included in SG&A in our condensed consolidated statements of operations.

*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 are as follows:

- *OpEx and SG&A (exclusive of depreciation and share-based compensation).* The amounts included in this category, which are generally cash settled, represent our estimated share of certain centralized technology, management, marketing, finance and other OpEx 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. Amounts in this category are generally deducted to arrive at our Covenant EBITDA.
- *Depreciation.* The amounts included in this category, which are generally cash settled, represent our estimated share of depreciation of assets not owned by our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's European operations, without a mark-up.
- *Share-based compensation.* The amounts included in this category, which are generally loan settled, represent our estimated share of 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 generally loan settled, represent our estimated allocable share of (i) OpEx and SG&A expenses related to 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.

Liberty Global charges technology-based fees to our company using a royalty-based method. For the nine months ended September 30, 2016 and 2015, our proportional share of the technology-based costs of €69.8 million and €62.4 million, respectively, was nil and €8.8 million, respectively, more than the actual amount charged under the royalty-based method. Accordingly, the excess of €8.8 million has been reflected as a deemed contribution of technology-related services in our condensed consolidated statement of changes in owner's deficit for the nine months ended September 30, 2015. In addition, we recorded an adjustment during the nine months ended September 30, 2016 to reduce the amount charged during 2015 under the royalty-based method. This adjustment resulted in an €11.6 million decrease to owner's deficit that is reflected as a deemed contribution of technology-related services in our condensed consolidated statement of changes in owner's deficit. The fees charged under the royalty-based method 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.* These amounts relate to (i) our shareholder loans payable to UPC Germany, including (a) the 2010 Shareholder Loan (as defined and described below) and (b) the 2012 Shareholder Loan, which was settled during the fourth quarter of 2015, and (ii) the 2015 UMI Loan (as defined and described below). The "**2012 Shareholder Loan**" represented a loan payable to our shareholder, UPC Germany, issued in May 2012. The 2012 Shareholder Loan bore interest at an agreed upon rate (9.625% per annum during all periods that the loan was outstanding).

*Interest income.* These amounts relate to (i) our loans receivable from UPC Germany, including (a) the 2012 UPC Germany Loan Receivable, (b) the 2015 UPC Germany Loan Receivable, (c) the 2016 UPC Germany Loan Receivable (each as defined and described below), and (ii) the UMI Loan Receivable, which was fully repaid in the first quarter of 2015. The "**UMI Loan Receivable**" represented a loan receivable from our shareholder, Unitymedia International GmbH (**UMI**), issued in August 2013. The interest rate on the UMI Loan Receivable, which was subject to adjustment during the periods that the loan was outstanding, was 2.61% as of December 31, 2014. 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.



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*Property, equipment and intangible asset additions.* These amounts, which are generally cash settled, primarily represent the net carrying values of (i) customer premises and network-related equipment acquired from other Liberty Global subsidiaries, which centrally procure equipment on behalf of our company and other Liberty Global subsidiaries and (ii) equipment transferred from other Liberty Global subsidiaries outside of Unitymedia.

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

|  | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|-------------------------------|------------------------------|
|  | <b>in millions</b>            |                              |
| Loan receivable – related-party (a) .....                          | € 1,121.0                     | € 739.0                      |
| Other current assets (b) .....                                     | 2.8                           | 6.3                          |
| Investment in associate (c) .....                                  | 61.4                          | 60.7                         |
| Other noncurrent assets (d) .....                                  | 283.5                         | 230.0                        |
| Total.....   | <u>€ 1,468.7</u>              | <u>€ 1,036.0</u>             |
| Accounts payable and accrued liabilities – related-party (e) ..... | € 87.3                        | € 65.0                       |
| 2010 Shareholder Loan (f) .....                                    | 257.4                         | 253.9                        |
| 2015 UMI Loan Payable (g).....                                     | 59.6                          | 62.7                         |
| Total.....   | <u>€ 404.3</u>                | <u>€ 381.6</u>               |

- (a) Represents (i) principal (€1,101.0 million at September 30, 2016) and accrued interest associated with our loan receivable from UPC Germany (the **2012 UPC Germany Loan Receivable**) and (ii) accrued interest associated with the 2016 UPC Germany Loan Receivable and the 2015 UPC Germany Loan Receivable (each as defined and described below). Pursuant to the 2012 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 2012 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 2.61% as of September 30, 2016. The increase in the principal balance of the loan receivable during the nine months ended September 30, 2016 is due to a net increase in the 2012 UPC Germany Loan Receivable due to (a) cash advances of €2,499.2 million, (b) cash repayments of €2,087.9 million, (c) a €57.3 million non-cash decrease related to the settlement of amounts due under the 2010 Shareholder Loan (as defined and described below), (d) an €8.0 million non-cash increase related to the settlement of aggregate amounts due under the 2015 UPC Germany Loan Receivable and the 2016 UPC Germany Loan Receivable and (e) the transfer of €1.5 million in non-cash accrued interest to the 2012 UPC Germany Loan Receivable balance.
- (b) Represents various related-party receivables that may be cash or loan settled.
- (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 UPC Holding B.V. (**UPC Holding**) subsidiaries. UPC Holding is a subsidiary of Liberty Global. 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 E.U.-IFRS to consolidate UMI. As a result, we use the equity method to account for our investment in UMI.
- (d) Represents (i) principal (€53.5 million at September 30, 2016) associated with our loan receivable from UPC Germany that was issued in June 2016 and matures on January 15, 2023 (the **2016 UPC Germany Loan Receivable**) and (ii) principal (€230.0 million at September 30, 2016) associated with our loan receivable from UPC Germany that was issued in December 2015 and matures on February 15, 2026 (the **2015 UPC Germany Loan Receivable**). Amounts loaned to UPC Germany pursuant to the 2016 UPC Germany Loan Receivable and the 2015 UPC Germany Loan Receivable agreements are subject

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to certain restrictions contained in the instruments governing our indebtedness. The interest rates on these loans, which are subject to adjustment, were 4.30% and 5.25%, respectively, as of September 30, 2016.

- (e) Represents various non-interest bearing related-party payables that may be cash or loan settled.
- (f) Represents a loan payable to our shareholder, UPC Germany, that originated in December 2010 (the **2010 Shareholder Loan**). The 2010 Shareholder Loan bears interest at 8.125% per annum and accrued interest is generally transferred to the loan balance annually on January 1. All principal and accrued interest on this loan (collectively €263.5 million at September 30, 2016) is due and payable on January 1, 2030. The net increase in the principal amount during the nine months ended September 30, 2016 includes (i) a €57.3 million non-cash decrease related to settlement of amounts against the 2012 UPC Germany Loan Receivable, (ii) a non-cash increase of €50.6 million related to the settlement of related-party payables and (iii) the transfer of €10.2 million in non-cash accrued interest to the loan balance.
- (g) Represents a loan payable to UMI that originated in March 2015 (the **2015 UMI Loan**). All principal and accrued interest (collectively €60.7 million at September 30, 2016) 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 net decrease in the principal amount during the nine months ended September 30, 2016 includes (a) cash payments of €5.1 million, (b) the transfer of €1.3 million in non-cash accrued interest to the loan balance and (c) cash borrowings of €0.7 million.

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, we recorded aggregate capital charges of €2.8 million and €2.4 million during the nine months ended September 30, 2016 and 2015, respectively, in our condensed consolidated statements of changes in owner's deficit. We and Liberty Global have agreed that these capital charges will be based on the fair value of the underlying Liberty Global shares associated with share-based incentive awards that vest or are exercised during the period, subject to any reduction that is necessary to ensure that the capital charge does not exceed the amount of share-based compensation expense recorded by our company with respect to Liberty Global share-based incentive awards.

**(12) 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 and other equipment, programming contracts, non-cancellable 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 E.U.-IFRS, we treat these agreements as operating rather than finance leases or as other commitments, as applicable.

**UNITYMEDIA GMBH**  
**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**September 30, 2016**  
**(unaudited)**

As of September 30, 2016, the network and connectivity commitments, purchase commitments, operating leases, programming obligations and other commitments are as follows:

|  | <b>Payments due during:</b>  |                |                |                |                |               |                   | <b>Total</b>     |
|--|------------------------------|----------------|----------------|----------------|----------------|---------------|-------------------|------------------|
|  | <b>Remainder<br/>of 2016</b> | <b>2017</b>    | <b>2018</b>    | <b>2019</b>    | <b>2020</b>    | <b>2021</b>   | <b>Thereafter</b> |                  |
|  | <b>in millions</b>           |                |                |                |                |               |                   |                  |
| Network and connectivity commitments ..... | € 31.0                       | € 98.7         | € 92.6         | € 89.4         | € 84.8         | € 83.1        | € 699.7           | € 1,179.3        |
| Purchase commitments (a).....              | 88.7                         | 48.1           | 29.3           | 29.2           | 23.4           | —             | —                 | 218.7            |
| Operating leases .....                     | 3.9                          | 12.3           | 9.6            | 6.7            | 6.0            | 5.8           | 29.4              | 73.7             |
| Programming commitments....                | 9.5                          | 35.1           | 5.0            | 5.4            | 5.8            | —             | —                 | 60.8             |
| Other commitments .....                    | 0.3                          | 0.6            | 0.1            | 0.1            | 0.1            | 0.1           | 0.1               | 1.4              |
| <b>Total (b).....</b>                      | <b>€ 133.4</b>               | <b>€ 194.8</b> | <b>€ 136.6</b> | <b>€ 130.8</b> | <b>€ 120.1</b> | <b>€ 89.0</b> | <b>€ 729.2</b>    | <b>€ 1,533.9</b> |

(a) Includes €20.2 million of related-party purchase obligations due during the remainder of 2016.

(b) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2016 condensed consolidated balance sheet.

Network and connectivity commitments include indefinite-lived lease agreements with Deutsche Telekom for cable ducts and, to a lesser extent, certain repair and maintenance, fiber capacity and energy commitments.

Purchase commitments include unconditional and legally binding obligations related to (i) the purchase of customer premises and other equipment and (ii) certain service-related commitments, including call center, information technology and maintenance services.

Programming commitments consist of obligations associated with certain of our programming and copyright contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems or (iii) whether we discontinue our premium film or sports services. The amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods. In this regard, our third-party programming and copyright costs aggregated €111.1 million and €95.1 million during the nine months ended September 30, 2016 and 2015, respectively.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2016 and 2015, see note 5.

***Guarantees and Other Credit Enhancements***

In the ordinary course of business, we may provide (i) indemnifications to our lenders, our vendors and certain other parties and (ii) 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.

**UNITYMEDIA GMBH**  
**Notes to Condensed Consolidated Financial Statements – (Continued)**  
**September 30, 2016**  
**(unaudited)**

***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. In October 2016, the first instance court dismissed this action. Unitymedia is evaluating whether to appeal this decision, 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.

*Financial Transactions Tax.* Certain countries in the E.U., 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 participating countries. Although there continues to be ongoing discussions in the relevant countries around the FTT, uncertainty remains as to if and when the FTT will 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 FTT would occur before 2018. 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 E.U. 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, equipment and intangible asset 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.

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, withholding and other tax issues and (iii) disputes over interconnection, programming, copyright and channel 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 2015 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and nine months ended September 30, 2016 and 2015.
- *Material Changes in Financial Condition.* This section provides an analysis of our parent and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our condensed consolidated financial statements. In the following text, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to 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 (including with respect to the planned new build and upgrade activities), subscriber growth and retention rates, competitive and economic factors, the timing and impacts of proposed transactions, 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, and those described herein, as some of 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 Germany;
- 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 cable television, 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 Unitymedia BW GmbH (**KBW**);
- our ability to maintain or increase the number of subscriptions to our cable television, 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 Germany 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;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan, with respect to the businesses we may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in Germany;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors (including our third-party wireless network provider under our MVNO (as defined and described below) arrangement) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our 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, including the costs and benefits associated with our planned new build and upgrade activities;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- 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 quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein,

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

## Overview

We are a subsidiary of Liberty Global 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 also provide B2B services, including broadband internet, video, voice, mobile and data services. 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 customers.

As further described in note 2 to our condensed consolidated financial statements, we have retrospectively revised our revenue, income tax expense and net earnings (loss) for the three and nine months ended September 30, 2015.

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 September 30, 2016, we provided our basic and enhanced video services to 49.9% 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 digital video service offerings include premium subscription channels and other encrypted content, such as subscription video-on-demand services. As of September 30, 2016, 24.3% 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 10 Mbps to 400 Mbps with no time or data volume restrictions. Our customers can choose between various packages and bundles. As of September 30, 2016, our ultra high-speed broadband internet services were available to 98.5% 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 September 30, 2016, we served 12,741,000 revenue generating units (**RGUs**) consisting of 6,430,100 video RGUs (including 1,564,300 enhanced video RGUs), 3,263,500 broadband internet RGUs and 3,047,400 fixed-line telephony RGUs over a broadband communications network that passed 12,878,700 homes. In addition, at September 30, 2016, we served 356,400 mobile subscribers.

We added 89,400 and 222,300 RGUs on an organic basis during the three and nine months ended September 30, 2016, respectively, as compared to 102,200 and 222,600 RGUs that we added on an organic basis during the three and nine ended September 30, 2015, respectively. The organic RGU growth during the three and nine months ended September 30, 2016 is attributable to the net effect of (i) increases of 56,000 and 157,300 broadband internet RGUs, respectively, (ii) decreases of 36,000 and 138,000 basic video RGUs, respectively, (iii) increases of 48,700 and 135,800 fixed-line telephony RGUs, respectively, and (iv) increases of 20,700 and 67,200 enhanced video RGUs, respectively.

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

- (i) satellite-based and other broadband cable or fiber-based providers 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 digital 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, provisions and provision releases related to significant litigation, impairment, restructuring and other operating items and related-party fees and allocations.

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which U.K. citizens voted in favor of, on an advisory basis, an exit from the E.U. commonly referred to as “**Brexit**.” Although the vote is non-binding, the British government has announced it will formally notify the E.U. in March 2017 of its intention to leave the E.U. The U.K. High Court ruled on November 3, 2016 that the U.K. parliament must vote on whether the U.K. can start the process of leaving the E.U. The British government has appealed the ruling, which may take several months. The outcome of the appeal is relevant for the timing and terms under which the parties will commence negotiations to determine the terms of the U.K.’s withdrawal from the E.U. A withdrawal could, among other outcomes, disrupt the free movement of goods, services, people and capital between the U.K. and the E.U., undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the E.U. or other nations as the U.K. pursues independent trade relations. The initial impact of the announcement of Brexit caused significant volatility in global capital markets.

The potential impacts, if any, of the uncertainty relating to Brexit or the resulting terms of the withdrawal of the U.K. from the E.U. on customer behavior, economic conditions, interest rates, currency exchange rates, availability of capital or other matters are unclear. Examples of the impact Brexit could have on our business, financial condition or results of operations include:

- changes in foreign currency exchange rates and disruptions in the capital markets;
- legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws and directives to replace or replicate, or where previously implemented by enactment of U.K. laws or regulations, to retain, amend or repeal;
- uncertainty as to the terms of the U.K.’s withdrawal from, and future relationship with, the E.U. in terms of the impact on the free movement of our services, capital and employees;
- global economic uncertainty, which may cause our customers to reevaluate what they are willing to spend on our products and services; and
- various geopolitical forces may impact the global economy and our business, including, for example, other E.U. member states proposing referendums to, or electing to, exit the E.U.

## **Material Changes in Results of Operations**

### ***General***

Most of our revenue is subject to VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our Adjusted Segment EBITDA and Adjusted Segment EBITDA margin to the extent of any such tax increases.

We pay interconnection fees to other telephony providers when calls or text messages from our subscribers terminate on another network, and we receive similar fees from such providers when calls or text messages from their customers terminate on our networks or networks that we access through MVNO or other arrangements. The amounts we charge and incur with respect to fixed-line telephony and mobile interconnection fees are subject to regulatory oversight. To the extent that regulatory authorities introduce fixed-line or mobile termination rate changes, we would experience prospective changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our Adjusted Segment EBITDA would be dependent on the call or text messaging patterns that are subject to the changed termination rates.



## Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communications and other fixed-line services (collectively referred to herein as “**cable subscription revenue**”) and our mobile services and (ii) B2B services, interconnect fees, channel carriage fees, installation fees and late fees. Consistent with the presentation of our revenue categories in note 4 to our condensed consolidated financial statements, we use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees and late fees. In the below tables, mobile subscription revenue excludes the related interconnect revenue.

Variances in the subscription revenue that we receive from our customers are a function of (i) changes in the number of RGUs or mobile subscribers outstanding during the period and (ii) changes in average monthly subscription revenue per average RGUs or mobile subscribers, as applicable, (**ARPU**). Changes in ARPU can be attributable to (a) price increases, (b) changes in bundling or promotional discounts, (c) changes in the tier of services selected, (d) variances in subscriber usage patterns and (e) the overall mix of cable and mobile products during the period. In the following discussion, we discuss ARPU changes in terms of the net impact of the above factors on the ARPU that is derived from our video, broadband internet, fixed-line telephony and mobile products.

The details of our revenue are as follows:

|                                  | Three months ended |           | Increase (decrease) |       |
|----------------------------------|--------------------|-----------|---------------------|-------|
|                                  | September 30,      |           | €                   | %     |
|                                  | 2016               | 2015 (a)  |                     |       |
|                                  | in millions        |           |                     |       |
| Subscription revenue (b):        |                    |           |                     |       |
| Video.....                       | € 258.0            | € 248.4   | € 9.6               | 3.9   |
| Broadband internet .....         | 148.6              | 133.1     | 15.5                | 11.6  |
| Fixed-line telephony .....       | 112.5              | 111.4     | 1.1                 | 1.0   |
| Cable subscription revenue ..... | 519.1              | 492.9     | 26.2                | 5.3   |
| Mobile (c) .....                 | 4.7                | 4.8       | (0.1)               | (2.1) |
| Total subscription revenue ..... | 523.8              | 497.7     | 26.1                | 5.2   |
| B2B revenue (d) .....            | 2.3                | 2.1       | 0.2                 | 9.5   |
| Other revenue (c) (e) .....      | 41.4               | 41.7      | (0.3)               | (0.7) |
| Total.....                       | € 567.5            | € 541.5   | € 26.0              | 4.8   |
|                                  |                    |           |                     |       |
|                                  | Nine months ended  |           | Increase (decrease) |       |
|                                  | September 30,      |           | €                   | %     |
|                                  | 2016               | 2015 (a)  |                     |       |
|                                  | in millions        |           |                     |       |
| Subscription revenue (b):        |                    |           |                     |       |
| Video .....                      | € 767.6            | € 742.3   | € 25.3              | 3.4   |
| Broadband internet .....         | 437.2              | 386.9     | 50.3                | 13.0  |
| Fixed-line telephony .....       | 337.2              | 334.6     | 2.6                 | 0.8   |
| Cable subscription revenue ..... | 1,542.0            | 1,463.8   | 78.2                | 5.3   |
| Mobile (c) .....                 | 15.3               | 13.9      | 1.4                 | 10.1  |
| Total subscription revenue ..... | 1,557.3            | 1,477.7   | 79.6                | 5.4   |
| B2B revenue (d) .....            | 6.1                | 5.0       | 1.1                 | 22.0  |
| Other revenue (c) (e) .....      | 125.2              | 127.8     | (2.6)               | (2.0) |
| Total.....                       | € 1,688.6          | € 1,610.5 | € 78.1              | 4.8   |

- (a) As retrospectively revised – see note 2 to our condensed consolidated financial statements.
- (b) 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.
- (c) Mobile subscription revenue excludes mobile interconnect revenue of €0.3 million during each of the three months ended September 30, 2016 and 2015 and €0.8 million and €1.0 million during the nine months ended September 30, 2016 and 2015, respectively. Mobile interconnect revenue is included in other revenue.
- (d) B2B revenue includes revenue from business broadband internet, video, voice, mobile 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 expanded 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 is included in subscription revenue, aggregated €10.2 million and €8.5 million during the three months ended September 30, 2016 and 2015, respectively, and €28.8 million and €22.4 million during the nine months ended September 30, 2016 and 2015, respectively.
- (e) Other revenue includes, among other items, channel carriage fee, installation and interconnect revenue.

The details of our revenue increases during the three and nine months ended September 30, 2016, as compared to the corresponding periods in 2015, are set forth below:

|  | <b>Three-month<br/>period</b> | <b>Nine-month<br/>period</b> |
|--|-------------------------------|------------------------------|
|  | <b>in millions</b>            |                              |
| Increase in cable subscription revenue due to change in (a): |                               |                              |
| Average number of RGUs (b).....                              | € 13.2                        | € 38.9                       |
| ARPU (c) .....   | 13.0                          | 39.3                         |
| Total increase in cable subscription revenue .....           | <u>26.2</u>                   | <u>78.2</u>                  |
| Increase (decrease) in mobile subscription revenue.....      | <u>(0.1)</u>                  | <u>1.4</u>                   |
| Total increase in subscription revenue.....                  | 26.1                          | 79.6                         |
| Increase in B2B revenue.....                                 | 0.2                           | 1.1                          |
| Decrease in other revenue (d).....                           | (0.3)                         | (2.6)                        |
| Total.....   | <u>€ 26.0</u>                 | <u>€ 78.1</u>                |

- (a) Subscription revenue includes revenue from multi-year bulk agreements with landlords or 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 September 30, 2016, bulk agreements covering approximately 35% of the video subscribers that we serve expire by the end of 2017 or are terminable on 30-days notice. During the three months ended September 30, 2016, our 20 largest bulk agreement accounts generated approximately 8% of our total revenue (including estimated amounts billed directly to the building occupants for digital 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 increases in cable subscription revenue related to changes in the average numbers of RGUs are attributable to increases in the average numbers of broadband internet, fixed-line telephony and enhanced video RGUs that were only partially offset by declines in the average number of basic video RGUs.
- (c) The increases in cable subscription revenue related to changes in ARPU are attributable to (i) net increases due to (a) higher ARPU from broadband internet and video services and (b) lower ARPU from fixed-line telephony services and (ii) improvements in RGU mix.
- (d) The decreases in other revenue are due to the net effect of (i) increases in installation revenue, (ii) for the nine-month comparison, a decrease due to legislative developments that have reduced the fees we can charge our late-paying customers and (iii) net decreases resulting from individually insignificant changes in other non-subscription revenue categories. Other revenue includes fees received for the carriage of certain channels included in our basic and enhanced video offerings. This channel carriage fee revenue is subject to contracts that expire or are otherwise terminable by either party on various dates ranging from 2016 through 2018. The aggregate amount of revenue related to these channel carriage contracts represented approximately 4% of our total revenue during the three months ended September 30, 2016. 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 channel carriage fees that we receive for each channel is limited through the end of 2016 by certain commitments we made to regulators in connection with the acquisition of KBW. In June 2017, we plan to discontinue our analog video service. We estimate that the discontinuance of this service will reduce our channel carriage revenue and operating income by approximately €30 million annually.

### **OpEx**

*General.* OpEx includes programming and copyright, network operations, mobile access and 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. Programming and copyright costs, which represent the majority of our direct costs, are expected to rise in future periods as a result of (i) 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, (ii) rate increases and (iii) growth in the number of our enhanced video subscribers. 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:

|   | <b>Three months ended</b> |                | <b>Increase (decrease)</b> |            |
|---|---------------------------|----------------|----------------------------|------------|
|   | <b>September 30,</b>      |                | <b>€</b>                   | <b>%</b>   |
|   | <b>2016</b>               | <b>2015</b>    |                            |            |
|   | <b>in millions</b>        |                |                            |            |
| Direct costs (programming and copyright, interconnect and other)..... | € 50.1                    | € 46.7         | € 3.4                      | 7.3        |
| Network operating costs.....  | 43.0                      | 48.1           | (5.1)                      | (10.6)     |
| Staff-related costs (excluding restructuring charges).....            | 22.7                      | 19.9           | 2.8                        | 14.1       |
| Outsourced labor and professional services.....                       | 15.4                      | 12.9           | 2.5                        | 19.4       |
| Other indirect costs .....  | 8.1                       | 10.6           | (2.5)                      | (23.6)     |
| Total.....  | <u>€ 139.3</u>            | <u>€ 138.2</u> | <u>€ 1.1</u>               | <u>0.8</u> |

|   | Nine months ended<br>September 30, |                | Increase (decrease) |            |
|---|------------------------------------|----------------|---------------------|------------|
|   | 2016                               | 2015           | €                   | %          |
|   | in millions                        |                |                     |            |
| Direct costs (programming and copyright, interconnect and other)..... | € 150.6                            | € 138.9        | € 11.7              | 8.4        |
| Network operating costs.....  | 136.0                              | 138.3          | (2.3)               | (1.7)      |
| Staff-related costs (excluding restructuring charges).....            | 76.0                               | 71.5           | 4.5                 | 6.3        |
| Outsourced labor and professional services.....                       | 41.8                               | 42.2           | (0.4)               | (0.9)      |
| Other indirect costs .....  | 32.1                               | 30.4           | 1.7                 | 5.6        |
| Total.....  | <u>€ 436.5</u>                     | <u>€ 421.3</u> | <u>€ 15.2</u>       | <u>3.6</u> |

Our total OpEx increased €1.1 million or 0.8% and €15.2 million or 3.6% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. These increases include the following factors:

- Increases in direct costs of €3.4 million or 7.3% and €11.7 million or 8.4%, respectively, primarily due to the net effect of (i) increases in programming and copyright costs, primarily due to higher costs for certain premium content and growth in the number of enhanced video subscribers, and (ii) decreases in mobile access and interconnect costs, largely attributable to the net effect of (a) lower fixed-line rates and call volumes and (b) higher mobile usage;
- Increases in staff-related costs of €2.8 million or 14.1% and €4.5 million or 6.3%, respectively, primarily due to the net effect of (i) increased costs resulting from lower proportions of capitalized labor costs, (ii) for the nine-month comparison, decreased staffing levels, (iii) annual wage increases and (iv) higher incentive compensation costs; and
- Decreases in network operating costs of €5.1 million or 10.6% and €2.3 million or 1.7%, respectively, largely due to the net effect of (i) net decreases of €3.9 million and €3.6 million, respectively, associated with certain reassessments of an accrual during the third quarters of 2016 and 2015, (ii) lower outsourced labor costs associated with customer-facing activities and (iii) for the nine-month comparison, an increase in network maintenance costs.

## SG&A

*General.* SG&A expenses include human resources, information technology, general services, management, finance, legal, sales and marketing, 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 expenses are as follows:

|  | Three months ended<br>September 30, |        | Increase (decrease) |        |
|--|-------------------------------------|--------|---------------------|--------|
|  | 2016                                | 2015   | €                   | %      |
|  | in millions                         |        |                     |        |
| Staff-related costs (excluding restructuring charges)..... | € 26.1                              | € 23.9 | € 2.2               | 9.2    |
| Sales and marketing costs .....                            | 21.7                                | 25.3   | (3.6)               | (14.2) |
| Outsourced labor and professional services.....            | 2.8                                 | 3.2    | (0.4)               | (12.5) |
| Other indirect costs .....                                 | 13.4                                | 11.9   | 1.5                 | 12.6   |
| Total.....   | € 64.0                              | € 64.3 | € (0.3)             | (0.5)  |

  

|  | Nine months ended<br>September 30, |         | Increase (decrease) |       |
|--|------------------------------------|---------|---------------------|-------|
|  | 2016                               | 2015    | €                   | %     |
|  | in millions                        |         |                     |       |
| Staff-related costs (excluding restructuring charges)..... | € 76.5                             | € 66.4  | € 10.1              | 15.2  |
| Sales and marketing costs .....                            | 72.0                               | 74.5    | (2.5)               | (3.4) |
| Outsourced labor and professional services.....            | 11.0                               | 11.6    | (0.6)               | (5.2) |
| Other indirect costs .....                                 | 33.5                               | 35.7    | (2.2)               | (6.2) |
| Total.....   | € 193.0                            | € 188.2 | € 4.8               | 2.6   |

Our total SG&A increased (decreased) (€0.3 million) or (0.5%) and €4.8 million or 2.6% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. These changes include the following factors:

- Increases in staff-related costs of €2.2 million or 9.2% and €10.1 million or 15.2%, respectively, largely due to increased staffing levels;
- Decreases in sales and marketing costs of €3.6 million or 14.2% and €2.5 million or 3.4%, respectively, largely due to (i) lower third-party sales commissions and (ii) a net decrease of €2.1 million and €0.9 million, respectively, due to the impact of accrual releases recorded in the third quarters of 2016 and 2015 associated with the reassessment of an operational contingency, including lower costs of €2.3 million and €1.9 million, respectively, during the 2016 periods and €0.2 million and €1.0 million, respectively, during the 2015 periods; and
- An increase (decrease) in other indirect costs of €1.5 million or 12.6% and (€2.2 million) or (6.2%), respectively, primarily due to the net effect of (i) lower software and other information technology-related maintenance costs and (ii) for the three-month comparison, a net increase resulting from individually insignificant changes in other indirect expense categories.

### ***Related-party fees and allocations***

We recorded related-party fees and allocations of €63.3 million and €40.3 million during the three months ended September 30, 2016 and 2015, respectively, and €142.4 million and €103.3 million during the nine months ended September 30, 2016 and 2015, respectively. 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. For additional information, see note 11 to our condensed consolidated financial statements.

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

We recognized impairment, restructuring and other operating items, net, of €9.9 million and €0.2 million during the three months ended September 30, 2016 and 2015, respectively, and €65.8 million and €1.0 million during the nine months ended September 30, 2016 and 2015, respectively. The 2016 amounts include (i) restructuring charges of €10.4 million and €67.1 million, respectively, associated with employee severance and termination costs related to reorganization activities and (ii) gains on disposal of assets of €1.0 million and €2.0 million, respectively. The 2015 amounts include (a) restructuring charges of €1.6 million and €2.8 million, respectively, associated with employee severance and termination costs related to reorganization activities and (b) gains on disposal of assets of €1.7 million and €2.4 million, respectively.

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 €12.1 million or 6.1% and €44.8 million or 7.7% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015. These increases are primarily due to the net effect of (i) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) decreases associated with certain assets becoming fully depreciated, (iii) increases in the amortization of subscriber acquisition costs and (iv) increases in accelerated depreciation related to the disposal of certain assets.

### ***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 €112.4 million and €56.3 million during the three months ended September 30, 2016 and 2015, respectively, and €255.0 million and €301.9 million during the nine months ended September 30, 2016 and 2015, respectively.

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

Interest expense – third-party increased (decreased) €2.8 million or 3.2% and (€1.8 million) or (0.7%) during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015, primarily due to the net effect of (i) lower weighted average interest rates and (ii) higher average outstanding third-party debt balances. We have completed various financing transactions that have lowered average interest rates and extended debt maturities. For additional information regarding our outstanding indebtedness, see note 9 to our condensed consolidated financial statements.

It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 5 to our condensed consolidated financial statements, we use derivative instruments to manage our interest rate risks.

### *Interest expense – related-party*

Interest expense – related-party decreased €11.2 million or 69.1% and €40.0 million or 71.4% during the three and nine months ended September 30, 2016, respectively, as compared to the corresponding periods in 2015, 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 and (b) the 2012 Shareholder Loan, which was fully repaid during the fourth quarter of 2015, and (ii) the 2015 UMI Loan. For additional information, see note 11 to our condensed consolidated financial statements.

### *Foreign currency transaction gains (losses), net*

We recognized foreign currency transaction gains (losses), net, of €30.6 million and €4.7 million during the three months ended September 30, 2016 and 2015, respectively, and €74.7 million and (€168.0 million) during the nine months ended September 30, 2016 and 2015, respectively. These amounts primarily relate to the remeasurement of our U.S. dollar denominated indebtedness.

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

Our realized and unrealized gains or losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the 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 (€53.8 million) and €35.1 million during the three months ended September 30, 2016 and 2015, respectively, and (€59.8 million) and €264.2 million during the nine months ended September 30, 2016 and 2015, respectively. These gains (losses) relate to our cross-currency and interest rate derivative contracts. The loss during the three months ended September 30, 2016 is attributable to (i) losses associated with increases in market interest rates in the U.S. dollar market, (ii) losses associated with a decrease in the value of the U.S. dollar relative to the euro and (iii) losses associated with decreases in market interest rates in the euro market. The loss during the nine months ended September 30, 2016 is attributable to the net effect of (a) gains associated with decreases in market interest rates in the U.S. dollar market, (b) losses associated with a decrease in the value of the U.S. dollar relative to the euro and (c) losses associated with decreases in market interest rates in the euro market. In addition, losses during the 2016 periods include a net gain (loss) of €7.3 million and (€0.5 million), respectively, resulting from changes in our credit risk valuation adjustments. The gain during the three months ended September 30, 2015 is primarily attributable to the net effect of (1) gains associated with decreases in market interest rates in the U.S. dollar market, (2) losses associated with decreases in market interest rates in the euro market and (3) losses associated with a decrease in the value of the U.S. dollar relative to the euro. The gain during the nine months ended September 30, 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 gains during the 2015 periods include net losses of €5.2 million and €18.6 million, respectively, resulting from changes in our credit risk valuation adjustments.

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

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

We recognized a loss on debt modification and extinguishment, net, of €3.9 million during the nine months ended September 30, 2016, attributable to (i) the payment of €3.1 million of redemption premium and (ii) the write-off of €0.8 million of deferred financing costs.

We recognized a loss on debt modification and extinguishment, net, of €93.5 million during the nine months ended September 30, 2015, attributable to (i) the payment of €89.6 million of redemption premiums, (ii) the write-off of €2.6 million of deferred financing costs and (iii) the write-off of €1.3 million of unamortized discounts.

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

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

We recognized income tax benefit (expense) of €0.1 million and (€25.8 million) during the three months ended September 30, 2016 and 2015, respectively.

The income tax benefit during the three months ended September 30, 2016 differs from the expected income tax benefit of €10.2 million (based on the German group income tax rate of 32.78%), 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 expense during the three months ended September 30, 2015 differs from the expected income tax expense of €14.5 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.

We recognized income tax expense of €22.1 million and €38.8 million during the nine months ended September 30, 2016 and 2015, respectively.

The income tax expense during the nine months ended September 30, 2016 differs from the expected income tax benefit of €10.4 million (based on the German group income tax rate of 32.78%), 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 expense during the nine months ended September 30, 2015 differs from the expected income tax expense of €3.9 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.

For additional information regarding our income taxes, see note 10 to our condensed consolidated financial statements.

### ***Net earnings (loss)***

We reported net earnings (loss) of (€30.8 million) and €19.0 million during the three months ended September 30, 2016 and 2015, respectively, and (€53.7 million) and (€26.7 million) during the nine months ended September 30, 2016 and 2015, respectively.

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

Subject to the limitations included in our various debt instruments, we expect that Liberty Global will continue to 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 generate cash from operating activities, the terms of our subsidiaries' debt instruments restrict our ability to access the liquidity of these subsidiaries. At September 30, 2016, 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 2012 UPC Germany Loan Receivable, the 2015 UPC Germany Loan Receivable and the 2016 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.

Our corporate liquidity requirements 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 our 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 September 30, 2016, we had aggregate borrowing capacity of €470.1 million under the Unitymedia Revolving Credit Facilities. For information regarding limitations on the borrowing availability of the Unitymedia Revolving Credit Facilities, see note 9 to our condensed consolidated financial statements.

The liquidity of Unitymedia Hessen, Unitymedia NRW, KBW and our other operating subsidiaries is generally 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 September 30, 2016, our outstanding consolidated third-party debt before transaction costs and accrued interest, together with our finance lease obligations, aggregated €7,209.5 million, substantially all of which is not due until 2022 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 property, equipment and intangible asset additions 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 2012 UPC Germany Loan Receivable, the 2015 UPC Germany Loan Receivable, the 2016 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 maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

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

*Summary.* Our condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015 are summarized as follows:

|   | <b>Nine months ended<br/>September 30,</b> |                 | <b>Change</b> |
|---|--|-----------------|---------------|
|   | <b>2016</b>                                | <b>2015 (a)</b> |               |
|   | <b>in millions</b>                         |                 |               |
| Net cash provided by operating activities.....        | € 719.3                                    | € 815.0         | € (95.7)      |
| Net cash used by investing activities .....           | (750.6)                                    | (801.5)         | 50.9          |
| Net cash provided (used) by financing activities..... | 30.6                                       | (25.4)          | 56.0          |
| Net decrease in cash and cash equivalents .....       | <u>€ (0.7)</u>                             | <u>€ (11.9)</u> | <u>€ 11.2</u> |

(a) As retrospectively revised – see note 2 to our condensed consolidated financial statements.

*Operating Activities.* The decrease in net cash provided by our operating activities is primarily attributable to the net effect of (i) a decrease in cash provided due to higher cash payments for interest, (ii) a decrease in cash provided by our Adjusted Segment EBITDA and related working capital items, (iii) a decrease in cash provided due to higher payments for taxes and (iv) an increase in cash provided due to higher cash receipts related to derivative instruments.

*Investing Activities.* The decrease in net cash used by our investing activities is largely attributable to the net effect of (i) a decrease in cash used of €49.9 million to fund advances to UPC Germany and (ii) a decrease in cash used of €29.4 million associated with lower capital expenditures.

The capital expenditures that we report in our condensed 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 this 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. For further details regarding our property, equipment and intangible asset additions and our debt, see notes 7 and 9, respectively, to our condensed consolidated financial statements. A reconciliation of our consolidated property, equipment and intangible asset additions to our consolidated capital expenditures as reported in our condensed consolidated statements of cash flows is set forth below:

|  | <b>Nine months ended</b> |                |
|--|--------------------------|----------------|
|  | <b>September 30,</b>     |                |
|  | <b>2016</b>              | <b>2015</b>    |
|  | <b>in millions</b>       |                |
| Property, equipment and intangible asset additions .....                                       | € 451.8                  | € 434.3        |
| Assets acquired under capital-related vendor financing arrangements .....                      | (118.9)                  | (108.4)        |
| Changes in liabilities related to capital expenditures (including related-party amounts) ..... | (45.4)                   | (9.0)          |
| Capital expenditures.....  | <u>€ 287.5</u>           | <u>€ 316.9</u> |

The increase in our property, equipment and intangible asset additions is primarily due to an increase in expenditures for support capital, such as information technology upgrades and general support systems. In terms of the composition of our property, equipment and intangible asset additions during 2016, (i) 50% relates to the rebuild and upgrade of our distribution network, (ii) 19% relates to the purchase and installation of customer premises equipment, (iii) 16% relates to capitalized third-party commissions and (iv) the remainder relates to expenditures for general support purposes and systems.

*Financing Activities.* The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) an increase in cash of €108.2 million due to a change in cash collateral, (ii) an increase in cash of €100.1 million associated with lower payments of financing costs and debt premiums, (iii) a decrease in cash of €84.8 million due to higher net repayments of third-party debt and finance lease obligations and (iv) a decrease in cash of €66.7 million related to higher net repayments of related-party debt.

## Contractual Commitments

The euro equivalents of our commitments as of September 30, 2016 are presented below:

|   | Payments due during: |                |                |                |                |                |                  | Total            |
|---|----------------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|   | Remainder<br>of 2016 | 2017           | 2018           | 2019           | 2020           | 2021           | Thereafter       |                  |
|   | in millions          |                |                |                |                |                |                  |                  |
| Debt (excluding interest):  |                      |                |                |                |                |                |                  |                  |
| Third-party .....   | € 40.2               | € 129.5        | € 2.1          | € 2.2          | € 2.2          | € 2.3          | € 7,020.0        | € 7,198.5        |
| Related-party .....   | —                    | —              | —              | —              | —              | —              | 317.0            | 317.0            |
| Finance leases (excluding<br>interest).....   | 0.1                  | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 3.2              | 4.8              |
| Network and connectivity<br>commitments .....   | 31.0                 | 98.7           | 92.6           | 89.4           | 84.8           | 83.1           | 699.7            | 1,179.3          |
| Purchase commitments (a)....  | 88.7                 | 48.1           | 29.3           | 29.2           | 23.4           | —              | —                | 218.7            |
| Operating leases.....   | 3.9                  | 12.3           | 9.6            | 6.7            | 6.0            | 5.8            | 29.4             | 73.7             |
| Programming<br>commitments .....  | 9.5                  | 35.1           | 5.0            | 5.4            | 5.8            | —              | —                | 60.8             |
| Other commitments .....   | 0.3                  | 0.6            | 0.1            | 0.1            | 0.1            | 0.1            | 0.1              | 1.4              |
| Total (b).....  | <u>€ 173.7</u>       | <u>€ 324.6</u> | <u>€ 139.0</u> | <u>€ 133.3</u> | <u>€ 122.6</u> | <u>€ 91.6</u>  | <u>€ 8,069.4</u> | <u>€ 9,054.2</u> |
| Projected cash interest<br>payments on third-party<br>debt and finance lease<br>obligations (c) ..... | <u>€ 20.4</u>        | <u>€ 354.9</u> | <u>€ 353.8</u> | <u>€ 353.7</u> | <u>€ 353.7</u> | <u>€ 348.1</u> | <u>€ 1,142.5</u> | <u>€ 2,927.1</u> |

- (a) Includes €20.2 million of related-party purchase obligations due during the remainder of 2016.
- (b) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2016 condensed consolidated balance sheet other than debt and finance lease obligations.
- (c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of September 30, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest-rate derivative contracts, deferred financing costs or original issue premiums or discounts. Amounts associated with related-party debt are excluded from the table.

For information concerning our debt and finance lease obligations, see note 9 to our condensed consolidated financial statements. For information concerning our commitments, see note 12 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2016 and 2015, see note 5 to our condensed consolidated financial statements.

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

The following table provides information regarding the projected cash flows associated with our derivative instruments at September 30, 2016. The euro equivalents presented below are based on interest rates and exchange rates that were in effect as of September 30, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash paid or received in future periods. For additional information regarding our derivative instruments, see note 5 to our condensed consolidated financial statements.

|  | <b>Receipts due during:</b>  |               |               |               |               |               |                   | <b>Total</b>   |
|--|------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|----------------|
|  | <b>Remainder<br/>of 2016</b> | <b>2017</b>   | <b>2018</b>   | <b>2019</b>   | <b>2020</b>   | <b>2021</b>   | <b>Thereafter</b> |                |
|  | <b>in millions</b>           |               |               |               |               |               |                   |                |
| Projected derivative cash receipts, net: |                              |               |               |               |               |               |                   |                |
| Interest-related (a) .....               | € —                          | € 31.0        | € 31.0        | € 31.0        | € 31.0        | € 31.0        | € 46.7            | € 201.7        |
| Principal-related (b)...                 | —                            | —             | —             | —             | —             | —             | 383.0             | 383.0          |
| Total .....                              | <u>€ —</u>                   | <u>€ 31.0</u> | <u>€ 31.0</u> | <u>€ 31.0</u> | <u>€ 31.0</u> | <u>€ 31.0</u> | <u>€ 429.7</u>    | <u>€ 584.7</u> |

(a) Includes the interest-related cash flows of our cross-currency and interest rate swap contracts.

(b) Includes the principal-related cash flows of our cross-currency swap contracts.