



# **The UPC Holding Group**

**Condensed Combined Financial Statements**  
**June 30, 2018**

**The UPC Holding Group**

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**The UPC Holding Group**  
**CONDENSED COMBINED BALANCE SHEETS**  
**(unaudited)**

	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
	<b>in millions</b>			
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	€	17.6	€	27.5
Trade receivables, net.....		139.6		236.2
Related-party receivables (note 10).....		152.7		130.6
Derivative instruments (note 5).....		104.2		114.4
Prepaid expenses .....		39.1		18.2
Current assets of discontinued operations (note 4) .....		78.0		79.9
Other current assets (note 3).....		33.8		41.6
Total current assets .....		565.0		648.4
Property and equipment, net (note 7) .....		1,553.9		1,562.1
Goodwill (note 7).....		2,948.2		2,943.3
Derivative instruments (note 5) .....		471.3		348.2
Long-term assets of discontinued operations (note 4).....		2,290.2		2,274.7
Other assets, net (notes 3, 7 and 10) .....		175.8		119.3
Total assets.....	€	8,004.4	€	7,896.0

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

**The UPC Holding Group**  
**CONDENSED COMBINED BALANCE SHEETS — (Continued)**  
**(unaudited)**

	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
	<b>in millions</b>			
<b>LIABILITIES AND COMBINED EQUITY (DEFICIT)</b>				
Current liabilities:				
Accounts payable (note 10).....	€	267.7	€	333.4
Deferred revenue (notes 3 and 10).....		171.5		253.7
Derivative instruments (note 5).....		135.0		95.5
Current portion of debt and capital lease obligations (note 8) .....		444.1		615.4
Current liabilities of discontinued operations (note 4).....		240.9		273.2
Other accrued and current liabilities (note 10).....		521.4		535.9
Total current liabilities.....		1,780.6		2,107.1
Long-term debt and capital lease obligations (note 8):				
Third-party .....		5,559.8		5,443.4
Related-party (notes 8 and 10) .....		—		6,700.5
Derivative instruments (note 5) .....		446.7		538.2
Long-term liabilities of discontinued operations (note 4) .....		93.5		83.6
Other long-term liabilities (notes 3 and 10).....		81.9		61.0
Total liabilities .....		7,962.5		14,933.8
Commitments and contingencies (notes 5, 8 and 11)				
Combined equity (deficit):				
Parent entities:				
Distributions and accumulated losses in excess of contributions.....		(723.7)		(7,772.9)
Accumulated other comprehensive earnings, net of taxes .....		746.5		715.0
Total combined equity (deficit) attributable to parent entities.....		22.8		(7,057.9)
Noncontrolling interests .....		19.1		20.1
Total combined equity (deficit) .....		41.9		(7,037.8)
Total liabilities and combined equity (deficit).....	€	8,004.4	€	7,896.0

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

**The UPC Holding Group**  
**CONDENSED COMBINED STATEMENTS OF OPERATIONS**  
**(unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	in millions			
Revenue (notes 3, 10 and 12).....	€ 406.2	€ 437.0	€ 817.4	€ 874.9
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):				
Programming and other direct costs of services (note 10) .....	87.4	73.0	178.9	145.2
Other operating (note 10) .....	50.0	56.1	105.2	116.0
Selling, general and administrative (SG&A) (note 10) .....	57.0	58.8	113.8	119.1
Related-party fees and allocations, net (note 10) .....	54.6	76.0	106.1	145.6
Depreciation and amortization .....	89.9	99.0	180.5	194.3
Impairment, restructuring and other operating items, net .....	2.1	0.8	4.7	1.5
	<u>341.0</u>	<u>363.7</u>	<u>689.2</u>	<u>721.7</u>
Operating income.....	<u>65.2</u>	<u>73.3</u>	<u>128.2</u>	<u>153.2</u>
Non-operating income (expense):				
Interest expense:				
Third-party .....	(68.5)	(78.0)	(134.9)	(155.8)
Related-party (note 10) .....	(143.9)	(155.8)	(312.3)	(312.7)
Realized and unrealized gains (losses) on derivative instruments, net (note 5).....	231.6	(136.3)	190.6	(191.1)
Foreign currency transaction gains (losses), net.....	(218.2)	172.6	(162.6)	269.6
Losses on debt modification and extinguishment, net.....	—	(4.8)	—	(13.2)
Other income, net .....	2.2	1.6	4.6	5.0
	<u>(196.8)</u>	<u>(200.7)</u>	<u>(414.6)</u>	<u>(398.2)</u>
Loss from continuing operations before income taxes .....	(131.6)	(127.4)	(286.4)	(245.0)
Income tax expense (note 9) .....	(10.6)	(2.6)	(23.8)	(26.1)
Loss from continuing operations.....	<u>(142.2)</u>	<u>(130.0)</u>	<u>(310.2)</u>	<u>(271.1)</u>
Earnings from discontinued operations, net of taxes (note 4) .....	53.0	22.8	97.4	42.6
Net loss.....	<u>(89.2)</u>	<u>(107.2)</u>	<u>(212.8)</u>	<u>(228.5)</u>
Net earnings attributable to noncontrolling interests .....	(2.3)	(2.7)	(4.7)	(5.5)
Net loss attributable to parent entities.....	<u>€ (91.5)</u>	<u>€ (109.9)</u>	<u>€ (217.5)</u>	<u>€ (234.0)</u>

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

**The UPC Holding Group**  
**CONDENSED COMBINED STATEMENTS OF COMPREHENSIVE LOSS**  
**(unaudited)**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>in millions</b>			
Net loss.....	€ (89.2)	€ (107.2)	€ (212.8)	€ (228.5)
Other comprehensive earnings (loss), net of taxes:				
Continuing operations:				
Foreign currency translation adjustments .....	37.4	(8.1)	31.1	(21.2)
Other.....	(0.6)	(0.6)	(1.2)	(1.1)
Other comprehensive earnings (loss) from continuing operations .....	36.8	(8.7)	29.9	(22.3)
Other comprehensive earnings (loss) from discontinued operations .....	2.4	(0.7)	1.6	(1.1)
Other comprehensive earnings (loss).....	39.2	(9.4)	31.5	(23.4)
Comprehensive loss.....	(50.0)	(116.6)	(181.3)	(251.9)
Comprehensive earnings attributable to noncontrolling interests.....	(2.3)	(2.7)	(4.7)	(5.5)
Comprehensive loss attributable to parent entities .....	€ (52.3)	€ (119.3)	€ (186.0)	€ (257.4)

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

**The UPC Holding Group**  
**CONDENSED COMBINED STATEMENT OF EQUITY (DEFICIT)**  
**(unaudited)**

	Parent entities				
	Distributions and accumulated losses in excess of contributions	Accumulated other comprehensive earnings, net of taxes	Total combined equity (deficit) attributable to parent entities	Non-controlling interests	Total combined equity (deficit)
	in millions				
Balance at January 1, 2018, before effect of accounting change .....	€ (7,772.9)	€ 715.0	€ (7,057.9)	€ 20.1	€ (7,037.8)
Accounting change (note 2) .....	14.0	—	14.0	—	14.0
Balance at January 1, 2018, as adjusted for accounting change .....	(7,758.9)	715.0	(7,043.9)	20.1	(7,023.8)
Net loss .....	(217.5)	—	(217.5)	4.7	(212.8)
Other comprehensive earnings, net of taxes .....	—	31.5	31.5	—	31.5
Deemed contribution of technology-related services (note 10) .....	7.2	—	7.2	—	7.2
Share-based compensation (note 10) .....	5.9	—	5.9	—	5.9
Conversion of the Shareholder Loan to equity (note 10) .....	7,240.0	—	7,240.0	—	7,240.0
Distributions to noncontrolling interest owners .....	—	—	—	(5.7)	(5.7)
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10) .....	(1.8)	—	(1.8)	—	(1.8)
Other, net .....	1.4	—	1.4	—	1.4
Balance at June 30, 2018 .....	€ (723.7)	€ 746.5	€ 22.8	€ 19.1	€ 41.9

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

**The UPC Holding Group**  
**CONDENSED COMBINED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>in millions</b>	
Cash flows from operating activities:		
Net loss.....	€ (212.8)	€ (228.5)
Earnings from discontinued operations.....	97.4	42.6
Loss from continuing operations.....	(310.2)	(271.1)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities from continuing operations:		
Share-based compensation expense.....	4.8	3.7
Related-party fees and allocations, net.....	106.1	145.6
Depreciation and amortization.....	180.5	194.3
Impairment, restructuring and other operating items, net.....	4.7	1.5
Non-cash interest on related-party loans.....	312.3	312.7
Amortization of deferred financing costs and non-cash interest.....	3.5	3.5
Realized and unrealized losses (gains) on derivative instruments, net.....	(190.6)	191.1
Foreign currency transaction losses (gains), net.....	162.6	(269.6)
Losses on debt modification and extinguishment, net.....	—	13.2
Deferred income tax benefit.....	(2.2)	(3.9)
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions.....	(58.3)	(198.1)
Net cash provided by operating activities of continuing operations.....	213.2	122.9
Net cash provided by operating activities of discontinued operations.....	231.8	204.1
Net cash provided by operating activities.....	445.0	327.0
Cash flows from investing activities:		
Capital expenditures, net:		
Third-party payments.....	(224.3)	(185.8)
Proceeds received from transfers to related parties, including discontinued operations.....	52.9	227.8
Total capital expenditures, net.....	(171.4)	42.0
Other investing activities, net.....	1.7	(2.0)
Net cash provided (used) by investing activities of continuing operations.....	(169.7)	40.0
Net cash used by investing activities of discontinued operations.....	(111.4)	(120.3)
Net cash used by investing activities.....	€ (281.1)	€ (80.3)

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



**The UPC Holding Group**  
**CONDENSED COMBINED STATEMENTS OF CASH FLOWS — (Continued)**  
**(unaudited)**

	Six months ended June 30,	
	2018	2017
	in millions	
Cash flows from financing activities:		
Repayments and repurchases of third-party debt and capital lease obligations .....	€ (438.2)	€ (430.2)
Borrowings of third-party debt .....	85.0	721.5
Borrowings of related-party debt, net .....	191.5	374.8
Value-added taxes (VAT) paid on behalf of a related party .....	—	(152.0)
Net cash received (paid) related to derivative instruments .....	0.8	(139.4)
Payment of financing costs and debt premiums .....	(1.2)	(18.3)
Other financing activities, net .....	(2.4)	(2.9)
Net cash provided (used) by financing activities of continuing operations .....	(164.5)	353.5
Net cash used by financing activities of discontinued operations .....	(7.4)	(9.7)
Net cash provided (used) by financing activities .....	(171.9)	343.8
Effect of exchange rate changes on cash and cash equivalents and restricted cash:		
Continuing operations .....	(2.0)	0.4
Discontinued operations .....	—	(0.1)
Total .....	(2.0)	0.3
Net increase (decrease) in cash and cash equivalents and restricted cash:		
Continuing operations .....	(123.0)	516.8
Discontinued operations .....	113.0	74.0
Total .....	(10.0)	590.8
Cash and cash equivalents and restricted cash:		
Beginning of period .....	28.5	29.4
End of period .....	€ 18.5	€ 620.2
Cash paid for interest – third-party:		
Continuing operations .....	€ 124.2	€ 179.6
Discontinued operations .....	0.8	0.4
Total .....	€ 125.0	€ 180.0
Net cash paid (refunded) for taxes:		
Continuing operations .....	€ (3.8)	€ 72.6
Discontinued operations .....	10.3	8.2
Total .....	€ 6.5	€ 80.8
Details of end of period cash and cash equivalents and restricted cash:		
Cash and cash equivalents .....	€ 17.6	€ 19.2
Restricted cash included in other current assets and other assets, net .....	0.8	600.9
Restricted cash included in current assets of discontinued operations .....	0.1	0.1
Total cash and cash equivalents and restricted cash .....	€ 18.5	€ 620.2

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

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements**  
**June 30, 2018**  
**(unaudited)**

**(1) Basis of Presentation**

UPC Holding B.V. (**UPC Holding**) and UPC Broadband Slovakia s.r.o. (**UPC Slovakia**) are wholly-owned subsidiaries of Liberty Global plc (**Liberty Global**). The accompanying condensed combined financial statements include the historical financial information of UPC Holding and its subsidiaries and UPC Slovakia and its subsidiaries (**Slovakia**) (collectively, the **UPC Holding Group**). Prior to the fourth quarter of 2017, Slovakia was a wholly-owned subsidiary of UPC Holding. In connection with certain internal reorganization transactions completed by Liberty Global during the fourth quarter of 2017, Slovakia was acquired by another subsidiary of Liberty Global outside of the UPC Holding Group (the **Slovakia Transaction**). We accounted for the Slovakia Transaction as a common control transfer at historical cost. Following the Slovakia Transaction, Slovakia remains a restricted subsidiary for the purpose of the facilities agreement and bond indentures governing the debt of the UPC Holding Group. Accordingly, the accompanying financial statements are prepared on a combined basis as a result of this change in reporting entity. In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to the UPC Holding Group.

As of June 30, 2018, our continuing operations comprise businesses that provide (i) residential and business-to-business (**B2B**) communication services in Switzerland, Poland and Slovakia and (ii) mobile services in Switzerland and Poland. Our continuing operations also provide direct-to-home satellite (**DTH**) services to customers in the Czech Republic, Hungary, Romania and Slovakia through a Luxembourg-based organization that we refer to as “**UPC DTH**.”

In addition, (i) we currently provide residential and B2B communication services in Romania, Hungary and the Czech Republic and (ii) through July 31, 2018, we provided residential and B2B communication services in Austria. On May 9, 2018, we reached an agreement to sell our operations in Romania, Hungary and the Czech Republic (excluding UPC DTH), and on July 31, 2018, we completed the sale of our operations in Austria. In these condensed combined financial statements, the operations in each of these countries are reflected as discontinued operations for all periods presented. For additional information regarding these pending and completed dispositions, see note 4.

Unless otherwise noted, the amounts presented in these notes relate only to our continuing operations.

Our unaudited condensed combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**) and do not include all of the information required by U.S. GAAP for complete 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 combined financial statements should be read in conjunction with the combined financial statements and notes thereto included in our 2017 annual report.

The preparation of financial statements in conformity with U.S. GAAP 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, certain components of revenue, programming and copyright costs, deferred income taxes and related valuation allowances, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets, share-based compensation and actuarial liabilities associated with certain benefit plans. Actual results could differ from those estimates.

Unless otherwise indicated, ownership percentages and convenience translations into euros are calculated as of June 30, 2018.

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

These condensed combined financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through August 27, 2018, the date of issuance.

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
**June 30, 2018**  
**(unaudited)**

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

*Accounting Changes*

*ASU 2014-09*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services to customers. We adopted ASU 2014-09 effective January 1, 2018 by recording the cumulative effect of the adoption to our distributions and accumulated losses in excess of contributions. We applied the new standard to contracts that were not complete at January 1, 2018. The comparative information for the three and six months ended June 30, 2017 contained within these condensed combined financial statements and notes has not been restated and continues to be reported under the accounting standards in effect for such period. The implementation of ASU 2014-09 did not have a material impact on our combined financial statements.

The principal impacts of ASU 2014-09 on our revenue recognition policies relate to our accounting for (i) time-limited discounts and free service periods provided to our customers and (ii) certain upfront fees charged to our customers, as follows:

- When we enter into contracts to provide services to our customers, we often provide time-limited discounts or free service periods. Under previous accounting rules, we recognized revenue, net of discounts, during the promotional periods and did not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition for those contracts that contain substantive termination penalties is accelerated, as the impact of the discounts or free service periods is recognized uniformly over the contractual period. For contracts that do not have substantive termination penalties, we continue to record the impacts of partial or full discounts during the applicable promotional periods.
- When we enter into contracts to provide services to our customers, we often charge installation or other upfront fees. Under previous accounting rules, installation fees related to services provided over our cable networks were recognized as revenue during the period in which the installation occurred to the extent these fees were equal to or less than direct selling costs. Under ASU 2014-09, these fees are generally deferred and recognized as revenue over the contractual period, or longer if the upfront fee results in a material renewal right.

ASU 2014-09 also impacted our accounting for certain upfront costs directly associated with obtaining customer contracts. Under our previous policy, these costs were expensed as incurred unless the costs were in the scope of another accounting topic that allowed for capitalization. Under ASU 2014-09, certain upfront costs associated with contracts that have substantive termination penalties and a term of one year or more are recognized as assets and amortized to operating costs and expenses over the applicable period benefited.

For additional information regarding our adoption of ASU 2014-09, see note 3.

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
**June 30, 2018**  
**(unaudited)**

The cumulative effect of the adoption of ASU 2014-09 on our summary balance sheet information as of January 1, 2018 is as follows:

	<u>Balance at December 31, 2017</u>		<u>ASU 2014-09 Adjustments</u>		<u>Balance at January 1, 2018</u>
			<b>in millions</b>		
Assets:					
Other current assets .....	€ 41.6		14.9	€	56.5
Other assets, net .....	€ 119.3		4.4	€	123.7
Liabilities:					
Deferred revenue .....	€ 253.7		5.3	€	259.0
Combined equity (deficit):					
Distributions and accumulated losses in excess of contributions .....	€ (7,772.9)		14.0	€	(7,758.9)

The impact of our adoption of ASU 2014-09 on our condensed combined balance sheet as of June 30, 2018 was not materially different from the impacts set forth in the above January 1, 2018 summary balance sheet information. Similarly, the adoption of ASU 2014-09 did not have a material impact on our condensed combined statement of operations for the three and six months ended June 30, 2018.

#### *ASU 2017-07*

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of the Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)*, which changes the presentation of periodic benefit cost components. Under ASU 2017-07, we continue to present the service component of our net benefit cost as a component of operating income but present the other components of our net benefit cost, which can include credits, within non-operating income (expense) in our combined statements of operations. We adopted ASU 2017-07 on January 1, 2018 on a retrospective basis, which resulted in the reclassification of credits from SG&A expenses to other income, net, of €3.8 million in our condensed combined statement of operations for the six months ended June 30, 2018.

#### *ASU 2016-18*

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash (ASU 2016-18)*, which requires the change in restricted cash to be included together with the change in cash and cash equivalents in our combined statement of cash flows. We adopted ASU 2016-18 on January 1, 2018 on a retrospective basis.

### ***Recent Accounting Pronouncements***

#### *ASU 2016-02*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing right-of-use assets and lease liabilities on the balance sheet and additional disclosures. ASU 2016-02, as amended by ASU No. 2018-11, *Targeted Improvements*, requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using one of two modified retrospective approaches. A number of optional practical expedients may be applied in transition. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We will adopt ASU 2016-02 on January 1, 2019 by recording the cumulative effect of adoption to our accumulated equity (deficit).

Although we are currently evaluating the effect that ASU 2016-02 will have on our combined financial statements, the main impact of the adoption of this standard will be the recognition of right-of-use assets and lease liabilities in our combined balance sheet for those leases classified as operating leases under current U.S. GAAP. We do not intend to recognize right-of-use assets

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**Notes to Condensed Combined Financial Statements — (Continued)**  
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or lease liabilities for leases with a term of 12 months or less, as permitted by the short-term lease practical expedient in the standard. We also do not plan to apply the practical expedient that permits a lessee to account for lease and non-lease components in a contract as a single lease component and, accordingly, we will continue to account for these components separately. In transition, we plan to apply the practical expedients that permit us not to reassess (i) whether expired or existing contracts contain a lease under the new standard, (ii) the lease classification for expired or existing leases or (iii) whether previously-capitalized initial direct costs would qualify for capitalization under the new standard. In addition, we do not intend to use hindsight during transition.

For a summary of our undiscounted future minimum lease payments under non-cancellable operating leases as of June 30, 2018, see note 11. We currently do not expect ASU 2016-02 to have a significant impact on our combined statements of operations or cash flows.

**(3) Revenue Recognition and Related Costs**

***Policies***

Our revenue recognition and certain other accounting policies, as revised to reflect the impacts of our adoption of ASU 2014-09, are set forth below.

*Service Revenue — Cable Networks.* We recognize revenue from the provision of video, broadband internet and fixed-line telephony services over our cable network to customers in the periods the related services are provided, with the exception of revenue recognized pursuant to certain contracts that contain promotional discounts, as described below. Installation fees related to services provided over our cable network are generally deferred and recognized as revenue over the contractual period, or longer if the upfront fee results in a material renewal right.

*Sale of Multiple Products and Services.* We sell video, broadband internet, fixed-line telephony and, in some of our markets, mobile services to our customers in bundled packages at a rate lower than if the customer purchased each product on a standalone basis. Revenue from bundled packages generally is allocated proportionally to the individual products or services based on the relative standalone selling price for each respective product or service.

*Mobile Revenue.* Consideration from mobile contracts is allocated to the airtime service component and the handset component based on the relative standalone selling prices of each component. In markets where we offer handsets and airtime services in separate contracts entered into at the same time, we account for these contracts as a single contract. We recognize revenue from mobile services in the periods in which the related services are provided. Revenue from the sale of handsets is recognized at the point in which the goods have been transferred to the customer.

*B2B Revenue.* We defer upfront installation and certain nonrecurring fees received on B2B contracts where we maintain ownership of the installed equipment. The deferred fees are amortized into revenue on a straight-line basis, generally over the longer of the term of the arrangement or the expected period of performance.

*Contract Costs.* Incremental costs to obtain a contract with a customer, such as incremental sales commissions, are generally recognized as assets and amortized to SG&A expenses over the applicable period benefited, which generally is the contract life. If, however, the amortization period is less than one year, we expense such costs in the period incurred.

*Promotional Discounts.* For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognized uniformly over the contractual period if the contract has substantive termination penalties. If a contract does not have substantive termination penalties, revenue is recognized only to the extent of the discounted monthly fees charged to the subscriber, if any.

*Subscriber Advance Payments.* Payments received in advance for the services we provide are deferred and recognized as revenue when the associated services are provided.

*Sales, Use and Other VAT.* Revenue is recorded net of applicable sales, use and other value-added taxes.

For a disaggregation of our revenue by major category and by reportable and geographic segment, see note 12.

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
**June 30, 2018**  
**(unaudited)**

***Contract Balances***

The timing of revenue recognition may differ from the timing of invoicing our customers. We record a trade receivable when we have transferred goods or services to a customer but have not yet received payment. Our trade receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated €7.8 million and €8.9 million at June 30, 2018 and January 1, 2018, respectively.

If we transfer goods or services to a customer but do not have an unconditional right to payment, we record a contract asset. Contract assets typically arise from the uniform recognition of introductory promotional discounts over the contract period and accrued revenue for handset sales. Our contract assets were €1.6 million and €2.6 million as of June 30, 2018 and January 1, 2018, respectively. The current- and long-term portions of our contract asset balance at June 30, 2018 are included within other current assets and other assets, net, respectively, in our condensed combined balance sheet.

We record deferred revenue when we receive payment prior to transferring goods or services to a customer. We primarily defer revenue for (i) installation and other upfront services and (ii) other services that are invoiced prior to when services are provided. Our deferred revenue balances were €179.5 million and €261.1 million as of June 30, 2018 and January 1, 2018, respectively. The decrease in deferred revenue for the six months ended June 30, 2018 is primarily due to €138.6 million of revenue recognized that was included in our deferred revenue balance at January 1, 2018, partially offset by advanced billings recorded in the period. The current- and long-term portions of our deferred revenue balance at June 30, 2018 are included within deferred revenue and other long-term liabilities, respectively, in our condensed combined balance sheet.

***Contract Costs***

Our aggregate assets associated with incremental costs to obtain and fulfill our contracts were €14.3 million and €15.8 million at June 30, 2018 and January 1, 2018, respectively. The current- and long-term portions of our assets related to contract costs at June 30, 2018 are included within other current assets and other assets, net, respectively, in our condensed combined balance sheet. We amortized €4.8 million and €9.7 million to operating costs and expenses during the three and six months ended June 30, 2018, respectively, related to these assets.

***Unsatisfied Performance Obligations***

A large portion of our revenue is derived from customers who are not subject to contracts. Revenue from customers who are subject to contracts is generally recognized over the term of such contracts, which is typically 12 months for our residential service, one to three years for our mobile contracts and one to five years for our B2B contracts.

**(4) Dispositions**

***Pending and Completed Dispositions***

***Vodafone Disposal Group***

On May 9, 2018, Liberty Global and certain of its subsidiaries entered into a sale and purchase agreement (the **Vodafone Agreement**) with Vodafone Group plc (**Vodafone**) and certain of its subsidiaries, pursuant to which Liberty Global will sell its ownership interest in certain of its operations, including its interest in our operations in Romania, Hungary and the Czech Republic (excluding UPC DTH) to Vodafone. The operations of Romania, Hungary and the Czech Republic are collectively referred to herein as the “**Vodafone Disposal Group**.”

Closing of the transaction is subject to various conditions, including regulatory approval, which is not expected until mid-2019. The Vodafone Agreement contains certain termination rights for both Liberty Global and Vodafone, including if closing has not occurred by November 9, 2019, or May 9, 2020 in certain limited circumstances. Pursuant to the Vodafone Agreement, we will retain all cash generated from the Vodafone Disposal Group through the closing of the transaction.

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*UPC Austria*

On July 31, 2018, Liberty Global Europe Holdco 2 BV (**LGE Holdco 2**) completed the sale of its Austrian operations, “**UPC Austria**,” to Deutsche Telekom AG (**Deutsche Telekom**) for a total enterprise value of approximately €1.9 billion. Just prior to completion of the sale of UPC Austria, UPC Austria and LGE Holdco 2 were distributed out of the UPC Holding Group to another subsidiary of Liberty Global and therefore are no longer included within the UPC borrowing group. The distribution will be accounted for at carryover basis as a transaction under common control. Upon completion of the sale of UPC Austria, a portion of the net proceeds received by LGE Holdco 2 were loaned to the UPC Holding Group and were used to repay or redeem an aggregate €842.6 million (equivalent based on the applicable June 30, 2018 exchange rates) principal amount of our outstanding debt, including (i) the repayment of €782.6 million (equivalent) principal amount under the UPC Holding Bank Facility and (ii) the redemption of €60.0 million principal amount of the UPCB SPE Notes. For additional information, see note 8.

**Presentation of Discontinued Operations**

Effective with the signing of the Vodafone Agreement, we began presenting the Vodafone Disposal Group as discontinued operations and, accordingly, we no longer depreciate or amortize the long-lived assets of such group. From December 22, 2017, the date we reached an agreement to sell UPC Austria, through the signing of the Vodafone Agreement, we accounted for UPC Austria as held for sale but did not present such entity as a discontinued operation as this disposal was not considered to be a strategic shift that would have a major effect on our operations and financial results. We ceased to depreciate or amortize the long-lived assets of UPC Austria on December 22, 2017. Effective with the signing of the Vodafone Agreement and in consideration of the additional disposals contemplated therein, we began presenting UPC Austria as a discontinued operation. Accordingly, UPC Austria and the Vodafone Disposal Group are presented as discontinued operations in our condensed combined balance sheets, statements of operations and cash flows for all periods presented. No debt, interest or derivative instruments of the UPC Holding Group, other than amounts that are direct obligations of the entities to be disposed, has been allocated to discontinued operations. As discussed above, a portion of the proceeds from the disposition of UPC Austria was used to pay down the debt of the UPC Holding Group. In addition, we expect that a portion of the proceeds from the disposition of the Vodafone Disposal Group will be used to pay down the debt of the UPC Holding Group.

The carrying amounts of the major classes of assets and liabilities of UPC Austria and the Vodafone Disposal Group as of June 30, 2018 and December 31, 2017 are summarized in the following tables. These amounts exclude intercompany assets and liabilities that are eliminated within our condensed combined balance sheets.

	<u>UPC Austria</u>	<u>Vodafone Disposal Group</u>	<u>Total</u>
		in millions	
<i>June 30, 2018</i>			
Assets:			
Current assets other than cash .....	€ 32.6	€ 45.4	€ 78.0
Property and equipment, net.....	410.7	638.4	1,049.1
Goodwill.....	604.6	603.7	1,208.3
Other assets, net.....	2.8	30.0	32.8
Total assets.....	<u>€ 1,050.7</u>	<u>€ 1,317.5</u>	<u>€ 2,368.2</u>
Liabilities:			
Current portion of debt and capital lease obligations.....	€ 0.6	€ 52.1	€ 52.7
Other accrued and current liabilities .....	69.7	118.5	188.2
Long-term debt and capital lease obligations.....	1.1	4.9	6.0
Other long-term liabilities .....	72.9	14.6	87.5
Total liabilities .....	<u>€ 144.3</u>	<u>€ 190.1</u>	<u>€ 334.4</u>

**The UPC Holding Group**  
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	<u>UPC Austria</u>	<u>Vodafone Disposal Group</u> in millions	<u>Total</u>
<i>December 31, 2017</i>			
Assets:			
Current assets other than cash .....	€ 33.6	€ 46.3	€ 79.9
Property and equipment, net.....	375.9	636.7	1,012.6
Goodwill .....	604.6	621.0	1,225.6
Other assets, net.....	2.7	33.8	36.5
Total assets .....	<u>€ 1,016.8</u>	<u>€ 1,337.8</u>	<u>€ 2,354.6</u>
Liabilities:			
Current portion of debt and capital lease obligations .....	€ 0.7	€ 48.8	€ 49.5
Other accrued and current liabilities .....	82.5	141.2	223.7
Long-term debt and capital lease obligations .....	1.2	4.5	5.7
Other long-term liabilities .....	63.5	14.4	77.9
Total liabilities .....	<u>€ 147.9</u>	<u>€ 208.9</u>	<u>€ 356.8</u>

The operating results of UPC Austria and the Vodafone Disposal Group for the three and six months ended June 30, 2018 and 2017, which are classified as discontinued operations, are summarized in the following tables. These amounts exclude intercompany revenue and expenses that are eliminated within our condensed combined statement of operations.

	<u>UPC Austria</u>	<u>Vodafone Disposal Group</u> in millions	<u>Total</u>
<i>Three months ended June 30, 2018</i>			
Revenue .....	€ 91.3	€ 138.0	€ 229.3
Operating income.....	<u>€ 36.5</u>	<u>€ 28.9</u>	<u>€ 65.4</u>
Earnings before income taxes .....	36.4	27.2	63.6
Income tax expense.....	(8.3)	(2.3)	(10.6)
Net earnings .....	28.1	24.9	53.0
Net earnings attributable to noncontrolling interests .....	1.5	—	1.5
Net earnings attributable to parent entities .....	<u>€ 26.6</u>	<u>€ 24.9</u>	<u>€ 51.5</u>

	<u>UPC Austria</u>	<u>Vodafone Disposal Group</u> in millions	<u>Total</u>
<i>Six months ended June 30, 2018</i>			
Revenue .....	€ 180.5	€ 276.4	€ 456.9
Operating income.....	<u>€ 72.1</u>	<u>€ 47.7</u>	<u>€ 119.8</u>
Earnings before income taxes .....	72.0	45.5	117.5
Income tax expense.....	(16.0)	(4.1)	(20.1)
Net earnings .....	56.0	41.4	97.4
Net earnings attributable to noncontrolling interests .....	3.0	—	3.0
Net earnings attributable to parent entities .....	<u>€ 53.0</u>	<u>€ 41.4</u>	<u>€ 94.4</u>



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	<b>UPC Austria</b>	<b>Vodafone Disposal Group in millions</b>	<b>Total</b>
<i>Three months ended June 30, 2017</i>			
Revenue .....	€ 87.4	€ 133.1	€ 220.5
Operating income.....	€ 15.3	€ 11.4	€ 26.7
Earnings before income taxes .....	15.3	11.4	26.7
Income tax expense.....	(2.7)	(1.2)	(3.9)
Net earnings .....	12.6	10.2	22.8
Net earnings attributable to noncontrolling interests.....	1.5	—	1.5
Net earnings attributable to parent entities .....	€ 11.1	€ 10.2	€ 21.3

	<b>UPC Austria</b>	<b>Vodafone Disposal Group in millions</b>	<b>Total</b>
<i>Six months ended June 30, 2017</i>			
Revenue .....	€ 174.2	€ 261.0	€ 435.2
Operating income.....	€ 31.0	€ 19.4	€ 50.4
Earnings before income taxes .....	30.9	19.3	50.2
Income tax expense.....	(5.3)	(2.3)	(7.6)
Net earnings .....	25.6	17.0	42.6
Net earnings attributable to noncontrolling interests.....	3.0	—	3.0
Net earnings attributable to parent entities .....	€ 22.6	€ 17.0	€ 39.6

**(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, particularly with respect to borrowings that are denominated in a currency other than the functional currency of the borrowing entity. In this regard, through our combined entities, we have entered into various derivative instruments to manage interest rate exposure and foreign currency exposure primarily with respect to the United States (U.S.) dollar (\$), the euro (€) the Swiss franc (CHF), the Czech koruna (CZK), the Hungarian forint (HUF), the Polish zloty (PLN) and the Romanian lei (RON). 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 combined statements of operations.

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

	June 30, 2018			December 31, 2017		
	Current	Long-term	Total	Current	Long-term	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (a).....	€ 102.8	€ 471.3	€ 574.1	€ 109.9	€ 347.9	€ 457.8
Foreign currency forward and option contracts.....	1.3	—	1.3	4.2	—	4.2
Other.....	0.1	—	0.1	0.3	0.3	0.6
Total.....	<u>€ 104.2</u>	<u>€ 471.3</u>	<u>€ 575.5</u>	<u>€ 114.4</u>	<u>€ 348.2</u>	<u>€ 462.6</u>
Liabilities:						
Cross-currency and interest rate derivative contracts (a).....	€ 131.6	€ 446.6	€ 578.2	€ 93.8	€ 538.2	€ 632.0
Foreign currency forward and option contracts.....	3.4	—	3.4	1.7	—	1.7
Other.....	—	0.1	0.1	—	—	—
Total.....	<u>€ 135.0</u>	<u>€ 446.7</u>	<u>€ 581.7</u>	<u>€ 95.5</u>	<u>€ 538.2</u>	<u>€ 633.7</u>

- (a) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. 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 (€15.0 million) and €16.1 million during the three months ended June 30, 2018 and 2017, respectively, and a net gain (loss) of (€7.6 million) and €10.7 million during the six months ended June 30, 2018 and 2017. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed combined statements of operations. For further information regarding our fair value measurements, see note 6.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	in millions			
Cross-currency and interest rate derivative contracts.....	€ 234.0	€ (137.9)	€ 192.7	€ (192.0)
Foreign currency forward and option contracts.....	(1.9)	1.6	(1.5)	0.5
Other.....	(0.5)	—	(0.6)	0.4
Total.....	<u>€ 231.6</u>	<u>€ (136.3)</u>	<u>€ 190.6</u>	<u>€ (191.1)</u>

**The UPC Holding Group**  
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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 combined 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. The following table sets forth the classification of the net cash inflows (outflows) of our derivative instruments:

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>in millions</b>	
Operating activities .....	€ 24.8	€ 17.9
Financing activities .....	0.8	(139.4)
Total.....	<u>€ 25.6</u>	<u>€ (121.5)</u>

***Counterparty Credit Risk***

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At June 30, 2018, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of €141.6 million.

**Details of our Derivative Instruments**

In the following tables, we present the details of the various categories of our derivative instruments, all of which are held by our subsidiary, UPC Broadband Holding B.V. (**UPC Broadband Holding**).

***Cross-currency Derivative Contracts***

As noted above, we are exposed to foreign currency exchange rate risk in situations where our debt is denominated in a currency other than the functional currency of the operations whose cash flows support our ability to repay or refinance such debt. Although we generally seek to match the denomination of our borrowings with the functional currency of the operations that are supporting the respective borrowings, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in the functional currency of the underlying operations (unmatched debt). Our policy is generally to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At June 30, 2018, substantially all of our debt was either directly or synthetically matched to the applicable functional currencies of the underlying operations. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at June 30, 2018 (in millions, except weighted average remaining life):

<b>Notional amount due from counterparty</b>		<b>Notional amount due to counterparty</b>		<b>Weighted average remaining life</b>
				<b>in years</b>
\$	2,765.0	€	2,276.7	6.3
\$	1,200.0	CHF	1,107.5 (a)	6.7
€	2,521.2	CHF	2,901.0 (a)	5.5
€	418.5	CZK	11,521.8	2.0
€	488.0	HUF	138,437.5	3.5
€	851.6	PLN	3,604.5	3.2
€	225.9	RON	650.0	3.6

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
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- (a) Includes certain derivative instruments that are “forward-starting,” such that the initial exchange occurs at a date subsequent to June 30, 2018. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

***Interest Rate Swap Contracts***

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. The following table sets forth the total euro equivalents of the notional amount and the related weighted average remaining contractual life of our interest rate swap contracts at June 30, 2018:

Pay fixed rate (a)			Receive fixed rate		
Notional amount	Weighted average remaining life		Notional amount	Weighted average remaining life	
in millions	in years		in millions	in years	
€	4,938.4	5.1	€	2,918.8	7.3

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- (a) Includes forward-starting derivative instruments.

***Interest Rate Swap Options***

We have entered into various interest rate swap options (**swaptions**), which give us the right, but not the obligation, to enter into certain interest rate swap contracts at set dates in the future, with each such contract having a life of no more than three years. At the transaction date, the strike rate of each of these contracts was above the corresponding market rate. The following table sets forth certain information regarding our swaptions at June 30, 2018:

Notional amount	Underlying swap currency	Weighted average option expiration period (a)	Weighted average strike rate (b)
in millions		in years	
€	1,137.5	CHF	0.6
			1.22%

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- (a) Represents the weighted average period until the date on which we have the option to enter into the interest rate swap contracts.
- (b) Represents the weighted average interest rate that we would pay if we exercised our option to enter into the interest rate swap contracts.

***Basis Swaps***

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At June 30, 2018, the total euro equivalent of the notional amounts due from the counterparty was €1,691.4 million and the related weighted average remaining contractual lives of our basis swap contracts are 0.5 years.

**The UPC Holding Group**  
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***Interest Rate Collar***

We enter into interest rate collar agreements that lock in a maximum interest rate if variable rates rise, but also allow our company to benefit, to a limited extent, from declines in market rates. At June 30, 2018, the total euro equivalent of the notional amount of our interest rate collar was €567.5 million.

***Impact of Derivative Instruments on Borrowing Costs***

Excluding forward-starting instruments and swaptions, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was a decrease of 2 basis points to our borrowing costs as of June 30, 2018.

***Foreign Currency Forwards and Options***

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of June 30, 2018, the total euro equivalent of the notional amount of foreign currency forward and option contracts was €249.3 million.

**(6) Fair Value Measurements**

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of June 30, 2018 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

U.S. GAAP provides for 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 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 credit risk valuation adjustments with respect to our cross-currency and interest rate swaps are quantified and further explained in note 5.

At June 30, 2018 and December 31, 2017, all of our derivative instruments fell under Level 2 of the fair value hierarchy, with the exception of our Level 3 swaptions, which had net liability positions of €3.1 million and €1.9 million, respectively.

For additional information concerning our fair value measurements, see note 7 to the combined financial statements included in our annual report.

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**(7) Long-lived Assets**

***Property and Equipment, Net***

The details of our property and equipment and the related accumulated depreciation are set forth below:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<b>in millions</b>	
Distribution systems .....	€ 2,767.9	€ 2,698.4
Customer premises equipment .....	662.7	655.8
Support equipment, buildings and land .....	269.5	265.8
Total property and equipment, gross	3,700.1	3,620.0
Accumulated depreciation .....	(2,146.2)	(2,057.9)
Total property and equipment, net .....	<u>€ 1,553.9</u>	<u>€ 1,562.1</u>

During the six months ended June 30, 2018 and 2017, we recorded non-cash increases to our property and equipment related to (i) certain vendor financing arrangements of €186.0 million and €408.3 million, respectively, which exclude related VAT of €23.2 million and €47.0 million, respectively, that was also financed by our vendors under these arrangements and (ii) assets acquired under capital leases of €0.2 million and €48.6 million, respectively. Furthermore, during the six months ended June 30, 2017, we recorded a non-cash increase to our property and equipment of €13.1 million related to assets acquired on our behalf pursuant to vendor financing and capital lease arrangements of Liberty Global B.V. (**LG B.V.**), a subsidiary of Liberty Global that is outside of the UPC Holding Group. For additional information, see note 8.

***Goodwill***

Changes in the carrying amount of our goodwill during the six months ended June 30, 2018 are set forth below:

	<b>January 1, 2018</b>	<b>Foreign currency translation adjustments</b>	<b>June 30, 2018</b>
	<b>in millions</b>		
Switzerland.....	€ 2,438.4	€ 25.5	€ 2,463.9
Central and Eastern Europe.....	504.9	(20.6)	484.3
Total.....	<u>€ 2,943.3</u>	<u>€ 4.9</u>	<u>€ 2,948.2</u>

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.

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

The details of our intangible assets subject to amortization, which are included in other assets, net, in our condensed combined balance sheet, are set forth below:

	June 30, 2018			December 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships.....	€ 201.0	€ (155.2)	€ 45.8	€ 208.0	€ (147.9)	€ 60.1

**(8) Debt and Capital Lease Obligations**

The euro equivalents of the components of our combined third-party debt are as follows:

	June 30, 2018					
	Weighted average interest rate (a)	Unused borrowing capacity (b)	Estimated fair value (c)		Principal amount	
			June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
	in millions					
Parent entities – UPC Holding Senior Notes.....	4.57%	€ —	€ 1,013.6	€ 1,058.5	€ 1,106.0	€ 1,092.5
Combined entities:						
UPCB SPE Notes.....	4.51%	—	2,118.9	2,195.0	2,176.2	2,148.4
UPC Holding Bank Facility.....	4.16%	990.1	2,171.7	2,143.2	2,191.3	2,142.8
Vendor financing (d).....	2.94%	—	504.1	645.0	504.1	645.0
Total third-party debt before deferred financing costs and discounts.....	4.26%	€ 990.1	€ 5,808.3	€ 6,041.7	€ 5,977.6	€ 6,028.7

The following table provides a reconciliation of total third-party debt before deferred financing costs and discounts to total debt and capital lease obligations:

	June 30, 2018	December 31, 2017
	in millions	
Total third-party debt before deferred financing costs and discounts.....	€ 5,977.6	€ 6,028.7
Deferred financing costs and discounts, net.....	(42.7)	(43.9)
Total carrying amount of third-party debt.....	5,934.9	5,984.8
Capital lease obligations.....	69.0	74.0
Total third-party debt and capital lease obligations.....	6,003.9	6,058.8
Related-party debt (note 10).....	—	6,700.5
Total debt and capital lease obligations.....	6,003.9	12,759.3
Current maturities of debt and capital lease obligations.....	(444.1)	(615.4)
Long-term debt and capital lease obligations.....	€ 5,559.8	€ 12,143.9

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
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- (a) Represents the weighted average interest rate in effect at June 30, 2018 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do 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 deferred financing costs, our weighted average interest rate on our aggregate third-party variable-and fixed-rate indebtedness was 4.40% at June 30, 2018. For information regarding our derivative instruments, see note 5.
- (b) Unused borrowing capacity represents the maximum availability under the UPC Holding Bank Facility at June 30, 2018 without regard to covenant compliance calculations or other conditions precedent to borrowing. At June 30, 2018, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the full €990.1 million of unused borrowing capacity was available to be borrowed and there were no restrictions on our ability to make loans or distributions from this availability. Upon completion of the relevant June 30, 2018 compliance reporting requirements and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, without considering any actual or potential changes to our borrowing levels subsequent to June 30, 2018, we expect that the full amount of unused borrowing capacity will continue to be available to be borrowed and that there will be no restrictions with respect to loans or distributions from this availability.
- (c) The estimated fair values of our debt instruments are generally 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.
- (d) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and, to a lesser extent, certain of our operating expenses. These obligations are generally due within one year and include VAT that was paid on our behalf by the vendor. At June 30, 2018 and December 31, 2017, the amounts owed pursuant to these arrangements include €0.4 million and €3.7 million, respectively, related to third-party capital-related vendor financing obligations for which we and LG B.V. are co-obligors. We expect to cash settle the co-obligor obligations with LG B.V. in advance of when we and LG B.V. are required to settle the obligations with the applicable third parties. Our cash payments to LG B.V. will be reflected as cash capital expenditures in our condensed combined statements of cash flows and any cash payments made prior to the settlement of the related co-obligor obligation will be reflected in our related-party accounts receivable from LG B.V. in our condensed combined balance sheets. Repayments of vendor financing obligations, other than the co-obligor obligations, are included in repayments and repurchases of third-party debt and capital lease obligations in our condensed combined statements of cash flows.

***Financing Transactions***

Subsequent to June 30, 2018, a portion of the proceeds that LGE Holdco 2 received in connection with its sale of UPC Austria were loaned to the UPC Holding Group and were used to (i) repay \$330.0 million (€282.6 million) of the \$1,975.0 million (€1,691.3 million) principal amount under UPC Facility AR, (ii) repay in full the €500.0 million principal amount under UPC Facility AS, and (iii) redeem €60.0 million of the €600.0 million original principal amount under UPC Facility AK, together with accrued and unpaid interest and the related prepayment premiums, which was owed to UPCB Finance IV and, in turn, UPCB Finance IV used such proceeds to redeem €60.0 million of the €600.0 million original principal amount of the UPCB Finance IV Euro Notes. For additional information on the sale of UPC Austria, see note 4.



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***Maturities of Debt and Capital Lease Obligations***

Maturities of our debt and capital lease obligations as of June 30, 2018 are presented below and such amounts represent euro equivalents based on June 30, 2018 exchange rates:

	<b>Third-party debt (a)</b>	<b>Capital lease obligations</b>	<b>Total</b>
		<b>in millions</b>	
Year ending December 31:			
2018 (remainder of year) .....	€ 241.4	€ 6.6	€ 248.0
2019.....	197.2	12.8	210.0
2020.....	18.4	13.0	31.4
2021.....	18.9	13.4	32.3
2022.....	16.3	10.9	27.2
2023.....	11.8	9.9	21.7
Thereafter .....	5,473.6	17.4	5,491.0
Total debt maturities .....	5,977.6	84.0	6,061.6
Deferred financing costs and discounts, net.....	(42.7)	—	(42.7)
Amounts representing interest.....	—	(15.0)	(15.0)
Total .....	€ 5,934.9	€ 69.0	€ 6,003.9
Current portion .....	€ 435.2	€ 8.9	€ 444.1
Noncurrent portion .....	€ 5,499.7	\$ 60.1	€ 5,559.8

- (a) Amounts include certain senior secured notes issued by special purpose financing entities that are included in the UPC Holding Group's combined financial statements.

***Non-cash Refinancing Transactions***

During the six months ended June 30, 2017, certain of our refinancing transactions included non-cash borrowings and repayments of debt aggregating €2,606.9 million.

**(9) Income Taxes**

Income tax expense attributable to our loss from continuing operations before income taxes differs from the amounts computed using the Dutch income tax rate of 25.0%, as a result of the following factors:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>in millions</b>			
Computed "expected" tax benefit.....	€ 32.9	€ 31.9	€ 71.6	€ 61.3
Change in valuation allowances .....	(27.3)	(24.7)	(61.4)	(44.4)
Non-deductible or non-taxable interest and other expenses.....	(10.2)	(2.9)	(25.2)	(32.1)
Other, net .....	(6.0)	(6.9)	(8.8)	(10.9)
Total income tax expense.....	€ (10.6)	€ (2.6)	€ (23.8)	€ (26.1)

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On February 22, 2018, the European Court of Justice ruled that certain aspects of the Dutch fiscal unity regime violate the European Union (E.U.) freedom of establishment. In June 2018, the State Secretary for Finance of the Netherlands submitted a bill to the House of Representatives of the Netherlands containing certain emergency remedial measures that would adjust the fiscal unity regime. In the absence of further guidance and regulation, the impact of this ruling and the submitted bill is unclear at this point. However, we currently do not expect that this ruling and the submitted bill will materially impact our effective tax rate.

**(10) Related-party Transactions**

Our related-party transactions are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	in millions			
Credits (charges) included in:				
Revenue.....	€ 0.9	€ 0.1	€ 1.0	€ 0.2
Programming and other direct cost of services.....	(1.8)	(1.4)	(2.4)	(3.2)
Other operating .....	(0.7)	—	(0.6)	(0.4)
SG&A.....	(0.6)	—	(0.8)	(0.8)
Allocated share-based compensation expense .....	(2.5)	(2.8)	(4.8)	(3.7)
Fees and allocations, net:				
Operating and SG&A (exclusive of depreciation and share-based compensation) .....	(10.1)	(26.2)	(23.5)	(43.9)
Depreciation .....	(22.7)	(23.1)	(44.7)	(38.8)
Share-based compensation .....	(5.2)	(1.4)	(5.9)	(5.7)
Management fee .....	(16.6)	(25.3)	(32.0)	(57.2)
Total fees and allocations, net .....	(54.6)	(76.0)	(106.1)	(145.6)
Included in operating income.....	(59.3)	(80.1)	(113.7)	(153.5)
Interest expense.....	(143.9)	(155.8)	(312.3)	(312.7)
Included in net loss .....	€ (203.2)	€ (235.9)	€ (426.0)	€ (466.2)
Property and equipment transfers, net	€ (109.4)	€ (167.5)	€ (224.9)	€ (365.4)

*General.* The UPC Holding Group charges fees and allocates costs and expenses to certain other Liberty Global subsidiaries and certain Liberty Global subsidiaries outside of the UPC Holding Group charge fees and allocate costs and expenses to the UPC Holding Group. 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 combined statements of operations are reflective of the costs that we would incur on a standalone basis.

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*Revenue.* Amounts primarily relate to B2B related services and network maintenance services provided to certain affiliates outside of the UPC Holding Group.

*Programming and other direct costs of services.* Amounts represent certain cash settled charges from other Liberty Global subsidiaries and affiliates to the UPC Holding Group for programming-related services and interconnect services provided to our company.

*Other operating expenses.* Amounts represent certain cash settled charges between Liberty Global subsidiaries and the UPC Holding Group, primarily for network-related services and other items.

*SG&A expenses.* Amounts represent certain cash settled charges between Liberty Global subsidiaries and the UPC Holding Group, primarily for information technology-related services and software maintenance services.

*Allocated share-based compensation expense.* Amounts are allocated to our company by Liberty Global subsidiaries and represent share-based compensation expense associated with the Liberty Global share-based incentive awards held by certain employees of our combined entities. Share-based compensation expense is included in SG&A expenses in our condensed combined statements of operations.

*Fees and allocations, net.* These amounts, which are based on our company's estimated share of the applicable costs (including personnel-related and other costs associated with the services provided) incurred by Liberty Global subsidiaries, represent the aggregate net effect of charges between our company and various Liberty Global subsidiaries that are outside of our company. These charges generally relate to management, finance, legal, technology and other services that support our company's operations. The categories of our fees and allocations, net, are as follows:

- *Operating and SG&A (exclusive of depreciation and share-based compensation).* The amounts included in this category, which are generally loan settled, represent our estimated share of certain centralized technology, management, marketing, finance and other operating and SG&A expenses of Liberty Global subsidiaries, 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 subsidiaries, 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 loan 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 subsidiaries, 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 subsidiaries, without a mark-up.
- *Management fee.* The amounts included in this category, which are generally loan settled, represent our estimated allocable share of (i) operating 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 six months ended June 30, 2018, our proportional share of the technology-based costs of €68.7 million was €7.2 million more than the actual amount charged under the royalty-based method. Accordingly, this excess amount has been reflected as a deemed contribution of technology-related services in our condensed combined statement of equity (deficit). Any excess of these charges over our estimated proportionate share of the underlying technology-based costs will be classified as management fees and added back to arrive at Covenant EBITDA.

*Interest expense.* Amounts primarily include interest accrued on the Shareholder Loan (as defined and described below). Interest expense is accrued and included in other long-term liabilities during the year and then added to the Shareholder Loan balance at the end of the year.

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*Property and equipment transfers, net.* These amounts, which are generally cash settled, represent the net carrying values related to (i) customer premises equipment that is centrally procured by an entity that is a part of the UPC Holding Group and subsequently transferred to other Liberty Global subsidiaries and affiliates outside of the UPC Holding Group and (ii) used customer premises and network-related equipment acquired from or transferred to other Liberty Global subsidiaries, including LG B.V. During all periods presented, the carrying values of the equipment transferred out of the UPC Holding Group exceed the carrying values of the equipment transferred into the UPC Holding Group. The net cash received in connection with these transfers is reflected as a reduction to capital expenditures, net, within our condensed combined statements of cash flows. Certain of these transfers relate to third-party purchases of property and equipment initially made by our company under vendor financing arrangements and, accordingly, these purchases are not reported as capital expenditures.

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	<u>in millions</u>	
<b>Assets:</b>		
Current receivables (a).....	€ 152.7	€ 130.6
Long-term receivables (b).....	€ 75.4	€ 5.7
<b>Liabilities:</b>		
Accounts payable.....	€ 118.4	€ 144.9
Accrued liabilities.....	84.3	145.1
Deferred revenue.....	1.4	—
Shareholder Loan (c).....	—	6,700.5
Other long-term liabilities (d).....	29.0	—
Total.....	€ 233.1	€ 6,990.5

- (a) Primarily represents (i) €36.0 million and €36.6 million, respectively, of receivables from LG B.V. and (ii) €60.6 million and €38.7 million, respectively, of receivables due from other Liberty Global subsidiaries related to centrally-procured property and equipment purchased by our company on behalf of these other Liberty Global subsidiaries. These receivables are non-interest bearing and may be cash or loan settled.
- (b) The June 30, 2018 amount includes €65.1 million of long-term receivables from Liberty Global Europe Financing B.V. (**LGE Financing**).
- (c) UPC Holding has an unsecured shareholder loan (the **Shareholder Loan**) with LGE Financing, which, as amended, matures in 2030 and is subordinated in right of payment to the prior payment in full of the UPC Holding Senior Notes in the event of (i) a total or partial liquidation, dissolution or winding up of UPC Holding, (ii) a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to UPC Holding or its property, (iii) an assignment for the benefit of creditors or (iv) any marshaling of UPC Holding's assets or liabilities. The interest rate on the Shareholder Loan is a fixed rate of 9.79% and accrued interest is included in other long-term liabilities until it is transferred to the loan balance at the end of each year. During the 2018 period ended June 15, 2018, changes in the Shareholder Loan included (a) cash advances of €1,323.7 million, (b) cash payments of €1,132.2 million, (c) additions of €285.8 million in non-cash accrued interest, representing the interest accrued from January 1, 2018 through May 31, 2018, and (d) a €62.2 million non-cash increase related to the settlement of certain related-party amounts. On June 15, 2018, we non-cash settled the €7,240.0 million outstanding balance of the Shareholder Loan by converting this balance to equity. During the six months ended June 30, 2018 and 2017, none of our Shareholder Loan repayments represented payments of interest.
- (d) Primarily includes interest accrued on the Shareholder Loan from June 1, 2018 through June 15, 2018, which is included in other long-term liabilities until it is transferred to the loan balance at the end of each year. As described above, the balance of the Shareholder Loan, including interest accrued through May 31, 2018, was non-cash settled on June 15, 2018.

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During the six months ended June 30, 2018, we recorded an aggregate capital charge of €1.8 million in our condensed combined statement of equity (deficit) in connection with the exercise of Liberty Global share appreciation rights and the vesting of Liberty Global restricted share awards and performance-based restricted share units held by employees of our combined entities. 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.

**(11) 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 purchases of customer premises and other equipment and services, programming commitments, network and connectivity commitments, non-cancellable operating leases and other items. The following table sets forth the euro equivalents of such commitments for our continuing operations as of June 30, 2018. The commitments included in this table do not reflect any liabilities that are included in our June 30, 2018 condensed combined balance sheet:

		<b>Payments due during:</b>								
	<b>Remainder of 2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>	<b>Total</b>		
									<b>in millions</b>	
Purchase commitments (a) ....	€ 100.8	€ 124.9	€ 49.6	€ 13.1	€ 12.3	€ 11.9	€ 30.6	€ 343.2		
Programming commitments.....	51.3	89.6	82.9	49.2	21.7	—	—	294.7		
Network and connectivity commitments.....	43.5	46.0	28.6	13.5	9.2	8.0	12.1	160.9		
Operating leases.....	12.4	21.6	18.7	15.7	12.4	10.5	51.4	142.7		
Total .....	<u>€ 208.0</u>	<u>€ 282.1</u>	<u>€ 179.8</u>	<u>€ 91.5</u>	<u>€ 55.6</u>	<u>€ 30.4</u>	<u>€ 94.1</u>	<u>€ 941.5</u>		

(a) Includes €1.9 million of related-party purchase obligations due during the remainder of 2018.

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 information technology and maintenance services.

Programming commitments consist of obligations associated with certain of our programming and sports rights 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 sports services. Programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, 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 total programming and copyright costs aggregated €92.8 million and €95.4 million during the six months ended June 30, 2018 and 2017, respectively.

Network and connectivity commitments include commitments associated with (i) network maintenance commitments, (ii) satellite carriage services provided to our company, (iii) commitments associated with our mobile virtual network operator (MVNO) agreements, (iv) fiber leasing agreements and (v) certain operating costs associated with our leased networks. The amounts reflected in the above table with respect to certain of our MVNO commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly less than the actual amounts we ultimately pay in these periods.

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In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, 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 six months ended June 30, 2018 and 2017, see note 5.

We also have commitments pursuant to agreements with, and obligations imposed by, franchise authorities and municipalities, which may include obligations in certain markets to move aerial cable to underground ducts or to upgrade, rebuild or extend portions of our broadband communication systems. Such amounts are not included in the above table because they are not fixed or determinable.

***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.

*Other Regulatory Issues.* Video distribution, broadband internet, fixed-line telephony, mobile and content businesses are regulated in each of the countries in which we operate. The scope of regulation varies from country to country, although in some significant respects regulation in European markets is harmonized under the regulatory structure of the E.U. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property and equipment additions. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

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.

**(12) Segment Reporting**

We generally identify our reportable segments as those operating entities that represent 10% or more of our revenue, Segment OCF (as defined below) or total assets. In certain cases, we may elect to include an operating segment in our segment disclosure that does not meet the above-described criteria for a reportable segment. We evaluate performance and make decisions about allocating resources to our operating segments based on financial measures such as revenue and Segment OCF. In addition, we review non-financial measures such as subscriber growth, as appropriate.

Segment OCF is the primary measure used by our chief operating decision maker to evaluate segment operating performance and is also a key factor that is used by our internal decision makers to (i) determine how to allocate resources to segments and (ii) evaluate the effectiveness of our management for purposes of annual and other incentive compensation plans. As we use the term, “**Segment OCF**” is defined as operating income before depreciation and amortization, share-based compensation, related-party fees and allocations, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items. Other operating items include (a) gains and losses on the disposition of long-lived assets, (b) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (c) other acquisition-related items, such as gains and losses on the settlement of contingent consideration. Our internal decision makers believe Segment OCF is a meaningful measure because it represents a transparent view of our recurring operating performance that is unaffected by our capital structure and allows management to (1) readily view operating trends, (2) perform analytical comparisons and benchmarking between segments and (3) identify strategies to improve operating

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performance in the different countries in which we operate. A reconciliation of Segment OCF from continuing operations to loss from continuing operations before income taxes is presented below.

As of June 30, 2018, our reportable segments are as follows:

- Switzerland
- Central and Eastern Europe

Segment information for all periods has been retrospectively revised to present our operating segments in Austria, Hungary, the Czech Republic and Romania as discontinued operations. As a result, (i) our former Switzerland/Austria reportable segment now only includes our operations in Switzerland and (ii) our Central and Eastern Europe segment now only includes (a) our broadband communications operations in Poland and Slovakia and (b) UPC DTH, which provides DTH services to customers in the Czech Republic, Hungary, Romania and Slovakia.

We present only the reportable segments of our continuing operations in the tables below.

***Performance Measures of Our Reportable Segments***

		Revenue			
		Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
		in millions			
Switzerland .....	€	278.5	€ 308.0	€ 559.1	€ 619.0
Central and Eastern Europe .....		128.1	129.0	258.7	256.0
Intersegment eliminations.....		(0.4)	—	(0.4)	(0.1)
Total .....	€	406.2	€ 437.0	€ 817.4	€ 874.9

  

		Segment OCF			
		Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
		in millions			
Switzerland .....	€	158.6	€ 193.5	€ 310.4	€ 385.8
Central and Eastern Europe .....		56.8	58.8	115.3	113.7
Central and Corporate and intersegment eliminations (a) .....		(1.1)	(0.4)	(1.4)	(1.2)
Total .....	€	214.3	€ 251.9	€ 424.3	€ 498.3

- (a) Includes amounts related to transactions between our continuing and discontinued operations, which eliminations will no longer be recorded subsequent to the respective disposals of UPC Austria and the Vodafone Disposal Group.

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The following table provides a reconciliation of total Segment OCF from continuing operations to loss from continuing operations before income taxes:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>in millions</b>			
Total Segment OCF from continuing operations.....	€ 214.3	€ 251.9	€ 424.3	€ 498.3
Share-based compensation expense.....	(2.5)	(2.8)	(4.8)	(3.7)
Related-party fees and allocations, net .....	(54.6)	(76.0)	(106.1)	(145.6)
Depreciation and amortization.....	(89.9)	(99.0)	(180.5)	(194.3)
Impairment, restructuring and other operating items, net.....	(2.1)	(0.8)	(4.7)	(1.5)
Operating income .....	<u>65.2</u>	<u>73.3</u>	<u>128.2</u>	<u>153.2</u>
Interest expense:				
Third-party.....	(68.5)	(78.0)	(134.9)	(155.8)
Related-party .....	(143.9)	(155.8)	(312.3)	(312.7)
Realized and unrealized gains (losses) on derivative instruments, net .....	231.6	(136.3)	190.6	(191.1)
Foreign currency transaction gains (losses), net .....	(218.2)	172.6	(162.6)	269.6
Losses on debt modification and extinguishment, net.....	—	(4.8)	—	(13.2)
Other income, net.....	2.2	1.6	4.6	5.0
Loss from continuing operations before income taxes.....	<u>€ (131.6)</u>	<u>€ (127.4)</u>	<u>€ (286.4)</u>	<u>€ (245.0)</u>



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***Property and Equipment Additions of our Reportable Segments***

The property and equipment additions of our reportable segments (including capital additions financed under vendor financing or capital lease arrangements) are presented below and reconciled to the capital expenditure amounts included in our condensed combined statements of cash flows. For additional information concerning capital additions financed under vendor financing and capital lease arrangements, see note 8.

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>in millions</b>	
Switzerland.....	€ 86.9	€ 88.9
Central and Eastern Europe.....	59.2	108.4
Total segment property and equipment additions.....	146.1	197.3
Other (a) .....	16.1	20.1
Total property and equipment additions.....	162.2	217.4
Assets acquired under capital-related vendor financing arrangements.....	(186.0)	(408.3)
Assets contributed by parent entities .....	—	(13.1)
Assets acquired under capital leases .....	(0.2)	(48.6)
Changes in current liabilities related to capital expenditures (including related-party amounts) (b).....	195.4	210.6
Total capital expenditures, net.....	€ 171.4	€ (42.0)
Capital expenditures, net:		
Third-party payments.....	€ 224.3	€ 185.8
Proceeds received from transfers to related parties, including discontinued operations (c).....	(52.9)	(227.8)
Total capital expenditures, net.....	€ 171.4	€ (42.0)

- (a) Primarily relates to inventory build-up of centrally-procured customer premises equipment. This equipment is ultimately transferred to certain of Liberty Global's operating subsidiaries and affiliates, including entities within the UPC Holding Group. Equipment transferred outside of the UPC Holding Group is reflected as a reduction to the UPC Holding Group's property and equipment additions in the period in which the equipment is transferred. For additional information, see note 10.
- (b) Includes cash received for property and equipment transfers outside of the UPC Holding Group. For additional information, see note 10.
- (c) Primarily relates to transfers of centrally-procured property and equipment to our discontinued operations and certain of Liberty Global's operating subsidiaries and affiliates outside of the UPC Holding Group

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
**June 30, 2018**  
**(unaudited)**

**Revenue by Major Category**

Our revenue by major category is set forth below.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	in millions			
Residential revenue:				
Residential cable revenue (a):				
Subscription revenue (b):				
Video.....	€ 195.7	€ 219.0	€ 396.7	€ 436.5
Broadband internet.....	97.9	106.0	195.8	214.8
Fixed-line telephony .....	28.5	33.7	57.4	68.9
Total subscription revenue.....	322.1	358.7	649.9	720.2
Non-subscription revenue .....	20.1	23.0	44.8	47.7
Total residential cable revenue.....	342.2	381.7	694.7	767.9
Residential mobile revenue (c):				
Subscription revenue (b) .....	10.6	7.9	20.1	15.2
Non-subscription revenue .....	3.2	2.9	6.2	5.5
Total residential mobile revenue.....	13.8	10.8	26.3	20.7
Total residential revenue .....	356.0	392.5	721.0	788.6
B2B revenue (d):				
Subscription revenue .....	10.5	9.2	20.4	17.7
Non-subscription revenue.....	39.3	35.3	75.2	68.6
Total B2B revenue.....	49.8	44.5	95.6	86.3
Other revenue.....	0.4	—	0.8	—
Total .....	€ 406.2	€ 437.0	€ 817.4	€ 874.9

- (a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services. Residential cable non-subscription revenue includes, among other items, channel carriage fees, late fees and revenue from the sale of equipment. As described in note 2, we adopted ASU 2014-09 on January 1, 2018 using the cumulative effect transition method. For periods subsequent to our adoption of ASU 2014-09, installation revenue is generally deferred and recognized over the contractual period as residential cable subscription revenue. For periods prior to the adoption of ASU 2014-09, installation revenue is included in residential cable non-subscription revenue.
- (b) Residential 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) Residential mobile subscription revenue includes amounts received from subscribers for ongoing services. Residential mobile non-subscription revenue includes, among other items, interconnect revenue and revenue from sales of mobile handsets and other devices.

**The UPC Holding Group**  
**Notes to Condensed Combined Financial Statements — (Continued)**  
**June 30, 2018**  
**(unaudited)**

- (d) B2B subscription revenue represents revenue from 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. B2B non-subscription revenue includes business broadband internet, video, fixed-line telephony, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.

***Geographic Segments***

The revenue of our geographic segments is set forth below:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	in millions			
Switzerland.....	€ 278.5	€ 308.0	€ 559.1	€ 619.0
Poland.....	92.5	92.5	186.9	182.6
Slovakia.....	13.3	13.4	26.7	26.8
Other, including intersegment eliminations (a).....	21.9	23.1	44.7	46.5
Total.....	€ 406.2	€ 437.0	€ 817.4	€ 874.9

- (a) Includes revenue from DTH services provided to customers in the Czech Republic, Hungary, and Romania.

## 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 combined financial statements and the discussion and analysis included in our 2017 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 and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and six months ended June 30, 2018 and 2017.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity, condensed combined statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our condensed combined financial statements. In the following text, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to UPC Holding or the UPC Holding Group.

Unless otherwise indicated, convenience translations into euros are calculated as of June 30, 2018.

### 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, foreign currency and finance strategies, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, foreign currency risks, target leverage levels, our future projected contractual commitments and cash flows 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 following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we operate;
- the competitive environment in the industries in the countries in which we operate, 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 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 the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions (including the disposition of the Vodafone Disposal Group) 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 have acquired or that we expect to acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in countries in which we operate;
- 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 providers under our MVNO arrangements) 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 any planned network extensions;
- 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 and joint venturers; 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

### *General*

We are an international provider of video, broadband internet, fixed-line telephony, mobile and other communications services to residential customers and businesses in Europe. We provide residential and B2B communication services in Switzerland, Poland and Slovakia. We also provide DTH services to customers in the Czech Republic, Hungary, Romania and Slovakia through UPC DTH.

As further described in note 4 to our condensed combined financial statements, we (i) completed the sale of our operations in Austria on July 31, 2018 and (ii) reached an agreement to sell our operations in Romania, Hungary and the Czech Republic on May 9, 2018. Accordingly, our operations in Austria, Romania, Hungary, and the Czech Republic are reflected as discontinued operations for all periods presented herein. In the following discussion and analysis, the operating statistics, results of operations, cash flows and financial condition that we present and discuss are those of our continuing operations unless otherwise indicated.

### *Operations*

At June 30, 2018, our continuing operations owned and operated networks that passed 6,320,100 homes and served 6,565,900 revenue generating units (**RGUs**), consisting of 3,289,600 video subscribers, 2,017,100 broadband internet subscribers and 1,259,200 fixed-line telephony subscribers. In addition, at June 30, 2018, our continuing operations served 132,900 mobile subscribers.

### *Competition and Other External Factors*

We are experiencing significant competition from incumbent telecommunications operators, DTH operators and/or other providers in all of our markets. The significant competition we are experiencing, together with macroeconomic and regulatory factors, has adversely impacted our revenue, RGUs and/or average monthly subscription revenue per average cable RGU or mobile subscriber, as applicable (**ARPU**), particularly in Switzerland. For additional information regarding the revenue impact of changes in the RGUs and ARPU of our reportable segments, see *Discussion and Analysis of our Reportable Segments* below.

In addition to competition, our operations are subject to macroeconomic, political and other risks that are outside of our control. For example, on June 23, 2016, the 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**.” Brexit is currently scheduled to occur on March 29, 2019. The potential impacts, if any, of the uncertainty relating to Brexit or the resulting terms of Brexit on the free movement of goods, services, people and capital between the U.K. and the E.U., customer behavior, economic conditions, interest rates, currency exchange rates, availability of capital or other matters are unclear. The effects of Brexit could adversely affect our business, results of operations, financial condition and liquidity.

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

Changes in foreign currency exchange rates have a significant impact on our reported operating results as most of our operating segments have functional currencies other than the euro. Our primary exposure to foreign exchange (**FX**) risk during the three months ended June 30, 2018 was to the Swiss franc and other local currencies in Europe as 91.3% of our euro revenue during the period was derived from our combined entities whose functional currencies are those other than the euro. The portions of the changes in the various components of our results of operations that are attributable to changes in FX are highlighted under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Combined Operating Results* below.

As further described in note 2 to our condensed combined financial statements, we adopted ASU 2014-09 on January 1, 2018 using the cumulative effect transition method. As such, the comparative information for the three and six months ended June 30, 2017 included in our condensed combined financial statements and notes thereto has not been restated and continues to be reported under the accounting standards in effect for such periods. In order to provide more meaningful comparisons, in the following discussion and analysis of our results of operations, we present our revenue, other operating expenses, SG&A expenses and Segment OCF for the three and six months ended June 30, 2017 on a pro forma basis that gives effect to the adoption of ASU 2014-09 as if such adoption had occurred on January 1, 2017.

The following table presents (i) the impact of the adoption of ASU 2014-09 on the revenue and Segment OCF of our reportable segments for the three and six months ended June 30, 2018 and (ii) the pro forma impact of the adoption of ASU 2014-09 on the revenue and Segment OCF of our combined reportable segments for the three and six months ended June 30, 2017 as if such adoption had occurred on January 1, 2017.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017 (a)	2018	2017 (a)
	in millions			
Decrease to revenue:				
Switzerland.....	€ (0.3)	€ (0.3)	€ (0.7)	€ (1.1)
Central and Eastern Europe.....	—	(0.2)	(0.1)	(0.7)
Total decrease to revenue .....	€ (0.3)	€ (0.5)	€ (0.8)	€ (1.8)
Increase (decrease) to Segment OCF:				
Switzerland.....	€ (0.9)	€ (0.5)	€ (1.4)	€ (1.5)
Central and Eastern Europe.....	(0.3)	0.1	(0.3)	—
Total decrease to Segment OCF .....	€ (1.2)	€ (0.4)	€ (1.7)	€ (1.5)

(a) Amounts are presented on a pro forma basis that gives effect to the adoption of ASU 2014-09 as if such adoption had occurred on January 1, 2017.

## Discussion and Analysis of our Reportable Segments

### General

Our reportable segments derive their revenue primarily from residential and B2B communications services, including video, broadband internet, fixed-line telephony and mobile services. For detailed information regarding the composition of our reportable segments and how we define and categorize our revenue components, see note 12 to our condensed combined financial statements.

The tables presented below in this section provide the details of the revenue and Segment OCF of our combined reportable segments for the three and six months ended June 30, 2018 and 2017. As discussed above, the amounts for the three and six months ended June 30, 2017 are presented on a pro forma basis that gives effect to the adoption of ASU 2014-09 as if such adoption had occurred on January 1, 2017. These tables present (i) the amounts reported for the current and comparative periods, (ii) the reported euro and percentage change from period to period and (iii) the organic percentage change from period to period. The comparisons that exclude FX assume that exchange rates remained constant at the prior-year rate during the comparative periods that are included in each table. We also provide a table showing the Segment OCF margins of our combined reportable segments for the three and six months ended June 30, 2018 and 2017 at the end of this section.

All of our revenue is derived from jurisdictions that administer 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 costs and expenses and corresponding declines in our Segment OCF and Segment OCF margins 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 and, in very limited cases, we could experience retroactive changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our Segment OCF would be dependent on the call or text messaging patterns that are subject to the changed termination rates.

We are subject to inflationary pressures with respect to certain costs and foreign currency exchange risk with respect to costs and expenses that are denominated in currencies other than the respective functional currencies of our combined reportable segments (**non-functional currency expenses**). 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.

### *Revenue of our Reportable Segments*

*General.* While not specifically discussed in the below explanations of the changes in the revenue of our reportable segments, we are experiencing significant competition in all of our markets. This competition has an adverse impact on our ability to increase or maintain our RGUs and/or ARPU.

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 ARPU. Changes in ARPU can be attributable to (a) changes in prices, (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 within a segment 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.

	Three months ended June 30,		Increase (decrease)		Organic decrease
	2018	2017	€	%	%
<b>pro forma</b> in millions, except percentages					
Switzerland.....	€ 278.5	€ 307.7	€ (29.2)	(9.5)	(1.9)
Central and Eastern Europe.....	128.1	128.8	(0.7)	(0.5)	0.3
Intersegment eliminations .....	(0.4)	—	(0.4)	100.0	N.M.
Total .....	€ 406.2	€ 436.5	€ (30.3)	(6.9)	(1.2)
	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
<b>pro forma</b> in millions, except percentages					
Switzerland.....	€ 559.1	€ 617.9	€ (58.8)	(9.5)	(1.6)
Central and Eastern Europe.....	258.7	255.3	3.4	1.3	0.7
Intersegment eliminations .....	(0.4)	(0.1)	(0.3)	300.0	N.M.
Total .....	€ 817.4	€ 873.1	€ (55.7)	(6.4)	(1.0)



*Switzerland.* The details of the pro forma changes in Switzerland's revenue during the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017, are set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Decrease in residential cable subscription revenue due to change in:						
Average number of RGUs (a).....	€ (8.3)	€ —	€ (8.3)	€ (12.1)	€ —	€ (12.1)
ARPU (b).....	(13.0)	—	(13.0)	(29.9)	—	(29.9)
Increase in residential cable non-subscription revenue (c) .....	—	3.6	3.6	—	11.6	11.6
Total increase (decrease) in residential cable revenue .....	(21.3)	3.6	(17.7)	(42.0)	11.6	(30.4)
Increase in residential mobile revenue (d).....	3.6	0.7	4.3	6.7	1.2	7.9
Increase in B2B revenue (e).....	0.4	6.6	7.0	0.7	10.6	11.3
Increase in other revenue .....	—	0.4	0.4	—	0.8	0.8
Total organic increase (decrease) .....	(17.3)	11.3	(6.0)	(34.6)	24.2	(10.4)
Impact of FX .....	(18.7)	(4.5)	(23.2)	(39.1)	(9.3)	(48.4)
Total .....	€ (36.0)	€ 6.8	€ (29.2)	€ (73.7)	€ 14.9	€ (58.8)

- (a) The decreases in residential cable subscription revenue related to changes in the average number of RGUs are attributable to the net effect of (i) declines in the average number of video and broadband internet RGUs and (ii) increases in the average number of fixed-line telephony RGUs.
- (b) The decreases in residential cable subscription revenue related to changes in ARPU are primarily attributable to decreases due to lower ARPU from video, fixed-line telephony and broadband internet services, including, for the six-month comparison, the reversal during the first quarter of 2018 of €3.7 million of revenue in Switzerland that was recognized during prior-year periods.
- (c) The increases in residential cable non-subscription revenue are primarily attributable to the net effect of (i) increases in distribution revenue of €5.9 million and €17.0 million, respectively, associated with the September 2017 launch of our Swiss sports channels and (ii) decreases of €2.4 million and €5.9 million, respectively, due to the impact of unclaimed customer credit accruals that were released during the 2017 periods.
- (d) The increases in residential mobile subscription revenue are primarily due to increases in the average number of mobile subscribers.
- (e) The increases in B2B non-subscription revenue are primarily due to (i) increases in interconnect revenue and (ii) higher revenue from fixed-line telephony and data services.

*Central and Eastern Europe.* The details of the pro forma changes in Central and Eastern Europe's revenue during the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017 are set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Decrease in residential cable subscription revenue due to change in:						
Average number of RGUs (a).....	€ (0.5)	€ —	€ (0.5)	€ (1.7)	€ —	€ (1.7)
ARPU (b).....	(1.1)	—	(1.1)	(0.6)	—	(0.6)
Increase (decrease) in residential cable non-subscription revenue .....	—	0.4	0.4	—	(0.1)	(0.1)
Total increase (decrease) in residential cable revenue .....	(1.6)	0.4	(1.2)	(2.3)	(0.1)	(2.4)
Increase in B2B revenue (c) .....	1.2	0.4	1.6	2.4	1.6	4.0
Total organic increase (decrease) .....	(0.4)	0.8	0.4	0.1	1.5	1.6
Impact of FX .....	(0.9)	(0.2)	(1.1)	1.8	—	1.8
Total .....	€ (1.3)	€ 0.6	€ (0.7)	€ 1.9	€ 1.5	€ 3.4

- (a) The decreases in residential cable subscription revenue related to changes in the average number of RGUs are primarily attributable to the net effect of (i) decreases in the average number of video RGUs, primarily in UPC DTH and Poland, and (ii) increases in the average number of broadband internet RGUs.
- (b) The decreases in residential cable subscription revenue related to changes in ARPU are primarily attributable to the net effect of (i) lower ARPU from fixed-line telephony services, primarily in Poland, and (ii) for the six-month comparison, (a) higher ARPU from video services, primarily in Poland and UPC DTH, and (b) lower ARPU from broadband internet services, primarily in Poland.
- (c) The increases in B2B subscription revenue are attributable to increases in the average number of broadband internet SOHO subscribers.

### ***Programming and Other Direct Costs of Services of our Reportable Segments***

Programming and other direct costs of services include programming and copyright costs, interconnect and access costs, costs of mobile handsets and other devices and other direct costs related to our operations. Programming and copyright costs, which represent a significant portion of our operating 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.

	Three months ended June 30,		Increase (decrease)		Organic increase
	2018	2017	€	%	%
	pro forma				
	in millions, except percentages				
Switzerland .....	€ 51.9	€ 39.6	€ 12.3	31.1	42.0
Central and Eastern Europe .....	35.7	33.4	2.3	6.9	7.0
Central and Corporate and intersegment eliminations .....	(0.2)	—	(0.2)	N.M	N.M
Total .....	€ 87.4	€ 73.0	€ 14.4	19.7	25.9

	Six months ended June 30,		Increase (decrease)		Organic increase
	2018	2017	€	%	%
	<b>pro forma</b>				
	<b>in millions, except percentages</b>				
Switzerland .....	€ 108.9	€ 78.6	€ 30.3	38.5	50.6
Central and Eastern Europe .....	70.2	66.7	3.5	5.2	4.4
Central and Corporate and intersegment eliminations.....	(0.2)	(0.1)	(0.1)	N.M	N.M
Total .....	€ 178.9	€ 145.2	€ 33.7	23.2	29.4

N.M. — Not Meaningful.

Our programming and other direct costs of services increased €14.4 million or 19.7% and €33.7 million or 23.2% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our programming and other direct costs of services increased €18.9 million or 25.9% and €42.7 million or 29.4% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases include the following factors:

- Increases in programming and copyright costs of €9.3 million or 19.8% and €25.3 million or 27.2%, respectively, primarily due to increases in Switzerland. These increases are primarily due to (i) higher costs for certain premium and/or basic content, including higher costs for sports rights in Switzerland, and (ii) higher costs in UPC DTH due to a €2.4 million accrual during the second quarter of 2018 following the reassessment of an operational contingency. The cost for sports rights increased by €8.5 million and €26.5 million, respectively, due to the acquisition of the rights to carry live sporting events in connection with the September 2017 launch of our Swiss sports channels. Approximately half of the annual programming costs and the operating and capital costs associated with the production of the related Swiss sports channels are recovered from the revenue earned from the distribution of these sports channels to other cable operators; and
- Increases in interconnect and access costs of €9.7 million or 63.8% and €14.4 million or 49.6%, respectively, primarily due to (i) higher interconnect and roaming costs in Switzerland and (ii) higher MVNO costs in Switzerland.

### Other Operating Expenses of our Reportable Segments

Other operating expenses include network operations, customer operations, customer care and other costs related to our operations.

	Three months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
	pro forma				
	in millions, except percentages				
Switzerland.....	€ 31.3	€ 38.0	€ (6.7)	(17.6)	(10.3)
Central and Eastern Europe.....	18.5	17.9	0.6	3.4	6.0
Central and Corporate and intersegment eliminations .....	0.2	0.2	—	N.M.	N.M.
Total .....	€ 50.0	€ 56.1	€ (6.1)	(10.9)	(5.7)

  

	Six months ended June 30,		Decrease		Organic decrease
	2018	2017	€	%	%
	pro forma				
	in millions, except percentages				
Switzerland.....	€ 67.0	€ 77.0	€ (10.0)	(13.0)	(5.6)
Central and Eastern Europe.....	38.1	38.7	(0.6)	(1.6)	(1.2)
Central and Corporate and intersegment eliminations .....	0.1	0.3	(0.2)	N.M.	N.M.
Total .....	€ 105.2	€ 116.0	€ (10.8)	(9.3)	(4.7)

N.M. — Not Meaningful.

Our other operating expenses decreased €6.1 million or 10.9% and €10.8 million or 9.3% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our other operating expenses decreased €3.2 million or 5.7% and €5.4 million or 4.7% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These decreases include the following factors:

- For the six-month comparison, a decrease in core network and information technology-related costs of €1.5 million or 6.9%, primarily due to a decrease in network maintenance costs in Switzerland and Poland;
- Decreases in personnel costs of €0.7 million or 4.2% and €1.2 million or 3.1%, respectively, primarily due to the net effect of (i) for the six-month comparison, a higher average cost per employee in Switzerland and (ii) decreased staffing levels in Switzerland; and
- Net decreases resulting from individually insignificant changes in other operating expense categories.

## SG&A Expenses of our Reportable Segments

SG&A expenses include human resources, information technology, general services, management, finance, legal, sales and marketing, share-based compensation and other general expenses. We do not include share-based compensation in the following discussion and analysis of the SG&A expenses of our reportable segments as share-based compensation expense is not included in the performance measures of our reportable segments. Share-based compensation expense is discussed below.

	Three months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
<b>pro forma</b>					
<b>in millions, except percentages</b>					
Switzerland.....	€ 36.7	€ 37.1	€ (0.4)	(1.1)	7.1
Central and Eastern Europe.....	17.1	18.6	(1.5)	(8.1)	(6.5)
Central and Corporate and intersegment eliminations .....	0.7	0.2	0.5	250.0	N.M
Total SG&A expenses excluding share-based compensation expense.....	54.5	55.9	(1.4)	(2.5)	3.0
Share-based compensation expense .....	2.5	2.8	(0.3)	(10.7)	
Total .....	€ 57.0	€ 58.7	€ (1.7)	(2.9)	

  

	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
<b>pro forma</b>					
<b>in millions, except percentages</b>					
Switzerland.....	€ 72.8	€ 78.0	€ (5.2)	(6.7)	1.5
Central and Eastern Europe.....	35.1	36.2	(1.1)	(3.0)	(3.6)
Central and Corporate and intersegment eliminations .....	1.1	0.9	0.2	22.2	N.M
Total SG&A expenses excluding share-based compensation expense.....	109.0	115.1	(6.1)	(5.3)	0.1
Share-based compensation expense .....	4.8	3.7	1.1	29.7	
Total .....	€ 113.8	€ 118.8	€ (5.0)	(4.2)	

N.M. — Not Meaningful.

Our SG&A expenses (exclusive of share-based compensation expense) decreased €1.4 million or 2.5% and €6.1 million or 5.3% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our SG&A expenses increased €1.7 million or 3.0% and €0.1 million or 0.1% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases include the following factors:

- Increases in personnel costs of €3.0 million or 11.1% and €1.2 million or 2.2%, respectively, primarily due to the net effect of (i) increased staffing levels, primarily in Poland and Switzerland, (ii) the net effect of a lower average cost per employee in Poland and a higher average cost per employee in Switzerland and (iii) for the six-month comparison, lower incentive compensation costs in Switzerland; and
- Decreases in business service costs of €0.6 million or 11.2% and €1.2 million or 11.1%, respectively, primarily due to lower consulting costs in Switzerland.

### Segment OCF of our Reportable Segments

Segment OCF is the primary measure used by our chief operating decision maker to evaluate segment operating performance. For the definition of this performance measure and for a reconciliation of total Segment OCF from continuing operations to loss from continuing operations before income taxes, see note 12 to our condensed combined financial statements.

	Three months ended June 30,		Decrease		Organic decrease
	2018	2017	€	%	%
	pro forma				
	in millions, except percentages				
Switzerland .....	€ 158.6	€ 193.0	€ (34.4)	(17.8)	(11.0)
Central and Eastern Europe .....	56.8	58.9	(2.1)	(3.6)	(2.5)
Central and Corporate and intersegment eliminations.....	(1.1)	(0.4)	(0.7)	(175.0)	N.M.
Total.....	€ 214.3	€ 251.5	€ (37.2)	(14.8)	(8.3)

  

	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
	pro forma				
	in millions, except percentages				
Switzerland .....	€ 310.4	€ 384.3	€ (73.9)	(19.2)	(12.3)
Central and Eastern Europe .....	115.3	113.7	1.6	1.4	0.8
Central and Corporate and intersegment eliminations.....	(1.4)	(1.2)	(0.2)	(16.7)	N.M.
Total.....	€ 424.3	€ 496.8	€ (72.5)	(14.6)	(8.4)

N.M. — Not Meaningful.

### Segment OCF Margin

The following table sets forth the Segment OCF margins (Segment OCF divided by revenue) of each of our reportable segments:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	pro forma		pro forma	
Switzerland .....	56.9%	62.7%	55.5%	62.2%
Central and Eastern Europe .....	44.4%	45.7%	44.6%	44.6%
Total, including other.....	52.8%	57.6%	51.9%	56.9%

For discussion of the factors contributing to the changes in the Segment OCF margins of our reportable segments, see the above analyses of the revenue and expenses of our reportable segments.

## Discussion and Analysis of our Combined Operating Results

### General

For more detailed explanations of the changes in our revenue see the *Discussion and Analysis of our Reportable Segments* above.

### Revenue

Our revenue by major category is set forth below:

	Three months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
	pro forma				
	in millions, except percentages				
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Video .....	€ 195.7	€ 221.2	€ (25.5)	(11.5)	(7.0)
Broadband internet .....	97.9	107.4	(9.5)	(8.8)	(2.8)
Fixed-line telephony .....	28.5	34.9	(6.4)	(18.3)	(12.6)
Total subscription revenue .....	322.1	363.5	(41.4)	(11.4)	(6.3)
Non-subscription revenue .....	20.1	17.6	2.5	14.2	22.2
Total residential cable revenue .....	342.2	381.1	(38.9)	(10.2)	(5.0)
Residential mobile revenue (c):					
Subscription revenue (b) .....	10.6	7.9	2.7	34.2	45.6
Non-subscription revenue .....	3.2	2.9	0.3	10.3	24.1
Total residential mobile revenue .....	13.8	10.8	3.0	27.8	39.8
Total residential revenue .....	356.0	391.9	(35.9)	(9.2)	(3.8)
B2B revenue (d):					
Subscription revenue .....	10.5	9.2	1.3	14.1	16.3
Non-subscription revenue .....	39.3	35.4	3.9	11.0	20.3
Total B2B revenue .....	49.8	44.6	5.2	11.7	19.5
Other revenue .....	0.4	—	0.4	100.0	N.M.
Total .....	€ 406.2	€ 436.5	€ (30.3)	(6.9)	(1.2)

	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	€	%	%
<b>pro forma</b>					
<b>in millions, except percentages</b>					
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Video .....	€ 396.7	€ 440.6	€ (43.9)	(10.0)	(5.8)
Broadband internet.....	195.8	217.3	(21.5)	(9.9)	(4.2)
Fixed-line telephony .....	57.4	71.3	(13.9)	(19.5)	(13.5)
Total subscription revenue.....	649.9	729.2	(79.3)	(10.9)	(6.1)
Non-subscription revenue.....	44.8	36.6	8.2	22.4	31.4
Total residential cable revenue .....	694.7	765.8	(71.1)	(9.3)	(4.3)
Residential mobile revenue (c):					
Subscription revenue (b).....	20.1	15.2	4.9	32.2	44.1
Non-subscription revenue.....	6.2	5.8	0.4	6.9	20.7
Total residential mobile revenue .....	26.3	21.0	5.3	25.2	37.6
Total residential revenue.....	721.0	786.8	(65.8)	(8.4)	(3.2)
B2B revenue (d):					
Subscription revenue.....	20.4	17.8	2.6	14.6	17.4
Non-subscription revenue .....	75.2	68.5	6.7	9.8	17.8
Total B2B revenue.....	95.6	86.3	9.3	10.8	17.7
Other revenue .....	0.8	—	0.8	100.0	N.M.
Total .....	€ 817.4	€ 873.1	€ (55.7)	(6.4)	(1.0)

N.M. — Not Meaningful.

- (a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services and the recognition of deferred installation revenue over the associated contract period. Residential cable non-subscription revenue includes, among other items, channel carriage fees, late fees and revenue from the sale of equipment.
- (b) Residential 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) Residential mobile subscription revenue includes amounts received from subscribers for ongoing services. Residential mobile non-subscription revenue includes, among other items, interconnect revenue and revenue from sales of mobile handsets and other devices. Residential mobile interconnect revenue was €1.2 million and €1.0 million during the three months ended June 30, 2018 and 2017, respectively, and €2.2 million and €2.0 million during the six months ended June 30, 2018 and 2017, respectively.
- (d) B2B subscription revenue represents revenue from 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. A portion of the increases in our B2B subscription revenue is attributable to the conversion of certain residential subscribers to SOHO subscribers. B2B non-subscription revenue includes revenue from business broadband internet, video, fixed-line telephony, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.



**Total revenue.** Our combined revenue decreased €30.3 million and €55.7 million during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our combined revenue decreased €5.6 million or 1.2% and €8.8 million or 1.0% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017.

**Residential revenue.** The details of the pro forma decreases in our combined residential revenue for the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017, are as follows:

	<b>Three-month period</b>	<b>Six-month period</b>
	<b>in millions</b>	
Increase (decrease) in residential cable subscription revenue due to change in:		
Average number of RGUs .....	€ (5.6)	€ (9.9)
ARPU .....	(17.3)	(34.4)
Increase in residential cable non-subscription revenue .....	4.0	11.5
Total decrease in residential cable revenue .....	(18.9)	(32.8)
Increase in residential mobile subscription revenue .....	3.6	6.7
Increase in residential mobile non-subscription revenue .....	0.7	1.2
Total organic decrease in residential revenue .....	(14.6)	(24.9)
Impact of FX .....	(21.3)	(40.9)
Total decrease in residential revenue .....	<u>€ (35.9)</u>	<u>€ (65.8)</u>

On an organic basis, our combined residential cable subscription revenue decreased €22.9 million or 6.3% and €44.3 million or 6.1% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These decreases are primarily due to (i) decreases from video services of €15.5 million or 7.0% and €25.6 million or 5.8%, respectively, attributable to decreases in the average number of video RGUs and lower ARPU, (ii) decreases from fixed-line telephony services of €4.4 million or 12.6% and €9.6 million or 13.5%, respectively, attributable to the net effect of lower ARPU and increases in the average number of RGUs, and (iii) decreases from broadband internet services of €3.0 million or 2.8% and €9.1 million or 4.2%, respectively, attributable to the net effect of lower ARPU and increases in the average number of RGUs.

On an organic basis, our combined residential cable non-subscription revenue increased €4.0 million or 22.2% and €11.5 million or 31.4% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases are primarily due to increases in Switzerland.

On an organic basis, our combined residential mobile subscription revenue increased €3.6 million or 45.6% and €6.7 million or 44.1% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases are primarily due to increases in Switzerland.

On an organic basis, our combined residential mobile non-subscription revenue increased €0.7 million or 24.1% and €1.2 million or 20.7% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases are primarily due to increases in Switzerland.

**B2B revenue.** On an organic basis, our combined B2B subscription revenue increased €1.6 million or 16.3% and €3.1 million or 17.4% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases are primarily due to increases in SOHO revenue in Poland.

On an organic basis, our combined B2B non-subscription revenue increased €7.0 million or 20.3% and €12.2 million or 17.8% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases are primarily due to increases in Switzerland and Poland.

For additional information concerning the changes in our residential and B2B revenue, see *Discussion and Analysis of our Reportable Segments* above.

#### *Programming and other direct costs of services*

Our programming and other direct costs of services increased €14.4 million and €33.7 million on a pro forma basis during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our programming and other direct costs of services increased €18.9 million or 25.9% and €42.7 million or 29.4%, during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. For additional information regarding the changes in our programming and other direct costs of services, see *Discussion and Analysis of our Reportable Segments — Programming and Other Direct Costs of Services of our Reportable Segments* above.

#### *Other operating expenses*

Our other operating expenses decreased €6.1 million and €10.8 million on a pro forma basis during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our other operating expenses decreased €3.2 million or 5.7% and €5.4 million or 4.7%, respectively, during the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017. For additional information regarding the changes in our other operating expenses, see *Discussion and Analysis of our Reportable Segments — Other Operating Expenses of our Reportable Segments* above.

#### *SG&A expenses*

Our SG&A expenses decreased €1.7 million and €5.0 million on a pro forma basis during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. Our SG&A expenses include share-based compensation expense, which increased (decreased) (€0.3 million) and €1.1 million during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. Excluding share-based compensation, on an organic basis our SG&A expenses increased €1.7 million or 3.0% and €0.1 million or 0.1% during the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods in 2017. For additional information regarding the changes in our SG&A expenses, see *Discussion and Analysis of our Reportable Segments — SG&A Expenses of our Reportable Segments* above.

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

We recorded related-party fees and allocations, net, related to our estimated share of the applicable costs incurred by Liberty Global subsidiaries of €54.6 million and €76.0 million during the three months ended June 30, 2018 and 2017, respectively, and €106.1 million and €145.6 million during the six months ended June 30, 2018 and 2017, respectively. These charges generally relate to management, finance, legal, technology and other corporate and administrative services provided to or by our combined entities. For additional information, see note 10 to our condensed combined financial statements.

#### *Depreciation and amortization expense*

Our depreciation and amortization expense was €89.9 million and €99.0 million for the three months ended June 30, 2018 and 2017, respectively, and €180.5 million and €194.3 million for the six months ended June 30, 2018 and 2017, respectively. Excluding the effects of FX, depreciation and amortization expense decreased €3.9 million or 4.3% and €4.2 million or 2.3%, respectively, primarily due to the net effect of (i) a decrease associated with certain assets becoming fully depreciated, primarily in Switzerland and (ii) an increase associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, primarily in Switzerland and Poland.

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

We recognized impairment, restructuring and other operating items, net, of €2.1 million and €0.8 million during the three months ended June 30, 2018 and 2017, respectively, and €4.7 million and €1.5 million during the six months ended June 30, 2018 and 2017, respectively. These amounts are primarily related to employee severance and termination costs related to certain reorganization activities in Switzerland.

#### *Interest expense — third-party*

Our third-party interest expense decreased €9.5 million and €20.9 million during the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017. This decrease is primarily attributable to the net effect of (i) a lower weighted average interest rate and (ii) a lower average outstanding third-party debt balance. For additional information regarding our outstanding indebtedness, see note 8 to our condensed combined 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 combined financial statements, we use derivative instruments to manage our interest rate risks.

In July 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Currently, it is not possible to predict the exact transitional arrangements for calculating applicable reference rates that may be made in the U.K., the U.S., the Eurozone or elsewhere given that a number of outcomes are possible, including the cessation of the publication of one or more reference rates. Our loan documents contain provisions that contemplate alternative calculations of the base rate applicable to our LIBOR-indexed debt to the extent LIBOR is not available, which alternative calculations we do not anticipate will be materially different from what would have been calculated under LIBOR. Additionally, no mandatory prepayment or redemption provisions would be triggered under our loan documents in the event that the LIBOR rate is not available. It is possible, however, that any new reference rate that applies to our LIBOR-indexed debt could be different than any new reference rate that applies to our LIBOR-indexed derivative instruments. We anticipate managing this difference and any resulting increased variable-rate exposure through modifications to our debt and/or derivative instruments, however future market conditions may not allow immediate implementation of desired modifications and/or the company may incur significant associated costs.

#### *Interest expense — related-party*

Our related-party interest expense primarily relates to interest expense on the Shareholder Loan. Our related-party interest expense decreased €11.9 million and €0.4 million during the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017. These decreases are primarily due to the non-cash settlement of the Shareholder Loan on June 15, 2018. For additional information, see note 10 to our condensed combined financial statements.

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

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>in millions</b>			
Cross-currency and interest rate derivative contracts (a) .....	€ 234.0	€ (137.9)	€ 192.7	€ (192.0)
Foreign currency forward and option contracts .....	(1.9)	1.6	(1.5)	0.5
Other .....	(0.5)	—	(0.6)	0.4
Total .....	<u>€ 231.6</u>	<u>€ (136.3)</u>	<u>€ 190.6</u>	<u>€ (191.1)</u>

(a) The gains during the 2018 periods are primarily attributable to the net effect of (i) net gains associated with changes in the relative value of certain currencies and (ii) net losses associated with changes in certain market interest rates. In addition, the gains during the 2018 periods include net losses of €15.0 million and €7.6 million, respectively, resulting from changes in our credit risk valuation adjustments. The losses during the 2017 periods are primarily attributable to the net effect of (a) net losses associated with changes in the relative value of certain currencies and (b) net gains associated with changes in certain market interest rates. In addition, the losses during the 2017 periods include net gains of €16.1 million and €10.7 million, respectively, resulting from changes in our credit risk valuation adjustments.

(b) For additional information regarding our derivative instruments, see notes 5 and 6 to our condensed combined financial statements.

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

Our foreign currency transaction gains or losses primarily result from the remeasurement of monetary assets and liabilities that are denominated in currencies other than the underlying functional currency of the applicable entity. Unrealized foreign currency transaction gains or losses are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled. The details of our foreign currency transaction gains (losses), net, are as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>in millions</b>			
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a).....	€ (135.0)	€ 55.0	€ (117.1)	€ 130.9
U.S. dollar-denominated debt issued by euro functional currency entities.....	(80.8)	116.2	(45.1)	138.9
Cash and restricted cash denominated in a currency other than the entity's functional currency .....	(0.9)	0.5	(1.7)	0.1
Other.....	(1.5)	0.9	1.3	(0.3)
Total.....	<u>€ (218.2)</u>	<u>€ 172.6</u>	<u>€ (162.6)</u>	<u>€ 269.6</u>

- (a) Amounts primarily relate to (i) loans between certain of our non-operating and operating entities, which generally are denominated in the currency of the applicable operating entity, and (ii) loans between certain of our non-operating entities.

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

We recognized net losses on debt modification and extinguishment of nil and €4.8 million during the three months ended June 30, 2018 and 2017, respectively, and nil and €13.2 million during the six months ended June 30, 2018 and 2017, respectively.

The losses during the three and six months ended June 30, 2017 are attributable to the write-off of unamortized deferred financing costs and discounts.

### *Income tax expense*

We recognized income tax expense of €10.6 million and €2.6 million during the three months ended June 30, 2018 and 2017, respectively.

The income tax expense during the three months ended June 30, 2018 and 2017 differs from the expected income tax benefit of €32.9 million and €31.9 million, respectively (based on the Dutch 25.0% income tax rate) primarily due to the negative impact of (i) a net increase in valuation allowances and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items.

We recognized income tax expense of €23.8 million and €26.1 million during the six months ended June 30, 2018 and 2017, respectively.

The income tax expense during the six months ended June 30, 2018 and 2017 differs from the expected income tax benefit of €71.6 million and €61.3 million, respectively (based on the Dutch 25.0% income tax rate) primarily due to the negative impact of (i) a net increase in valuation allowances and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items.

For additional information concerning our income taxes, see note 9 to our condensed combined financial statements.

### *Loss from continuing operations*

During the three months ended June 30, 2018 and 2017, we reported net losses of €142.2 million and €130.0 million, respectively, including (i) operating income of €65.2 million and €73.3 million, respectively, (ii) non-operating expense of €196.8 million and €200.7 million, respectively, and (iii) income tax expense of €10.6 million and €2.6 million, respectively.

During the six months ended June 30, 2018 and 2017, we reported net losses of €310.2 million and €271.1 million, respectively, including (i) operating income of €128.2 million and €153.2 million, respectively, (ii) non-operating expense of €414.6 million and €398.2 million, respectively, and (iii) income tax expense of €23.8 million and €26.1 million, 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 from operations is largely dependent on our ability to increase our aggregate Segment OCF to a level that more than offsets the aggregate amount of our (a) share-based compensation expense, (b) related-party fees and allocations, net, (c) depreciation and amortization, (d) impairment, restructuring and other operating items, (e) interest expense, (f) other non-operating expenses and (g) income tax expenses.

Subject to the limitations included in our various debt instruments, we expect that Liberty Global will cause our company to maintain our debt at current levels relative to our Covenant EBITDA. As a result, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information concerning our expectations with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion under *Overview* above. For information concerning the reasons for changes in specific line items in our condensed combined statements of operations, see the discussion under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Combined Operating Results* above.

### *Earnings from discontinued operations*

We reported earnings from discontinued operations, net of taxes, of €53.0 million and €22.8 million during the three months ended June 30, 2018 and 2017, respectively, and €97.4 million and €42.6 million during the six months ended June 30, 2018 and 2017, respectively, related to the operations of UPC Austria and the Vodafone Disposal Group. For additional information, see note 4 to our condensed combined financial statements.

### *Net earnings attributable to noncontrolling interests*

Net earnings attributable to noncontrolling interests includes the noncontrolling interests share of the results of our continuing and discontinued operations. Net earnings attributable to noncontrolling interests remained relatively unchanged during the three and six months ended June 30, 2018, as compared to the corresponding periods in 2017.

## Material Changes in Financial Condition

### *Sources and Uses of Cash*

The UPC Holding Group's primary assets are its investments in its combined entities, and the majority of our operating entities are owned by UPC Broadband Holding. Although our combined operating entities generate cash from operating activities, the terms of the instruments governing the indebtedness of UPC Broadband Holding may restrict our ability to access the liquidity of these entities. These entities accounted for substantially all of our €17.6 million of combined cash and cash equivalents at June 30, 2018. In addition, our ability to access the liquidity of these and other combined entities may be limited by tax and legal considerations, the presence of noncontrolling interests and other factors.

#### *Corporate Liquidity of the UPC Holding Group*

As the UPC Holding Group typically does not hold significant amounts of cash and cash equivalents at the corporate level, the UPC Holding Group's primary source of corporate liquidity is proceeds received from UPC Broadband Holding (and indirectly from UPC Broadband Holding's combined entities) in the form of loans or distributions. As noted above, various factors may limit the ability of the UPC Holding Group's combined entities to loan or distribute cash. From time to time, the UPC Holding Group may also supplement its sources of corporate liquidity with net proceeds received in connection with the issuance of debt instruments and/or loans or contributions from LGE Financing (and ultimately Liberty Global and other Liberty Global subsidiaries). No assurance can be given that any external funding would be available on favorable terms, or at all.

The UPC Holding Group's corporate liquidity requirements include (i) corporate general and administrative expenses and (ii) interest payments on the UPC Holding Senior Notes. From time to time, UPC Holding may also require cash in connection with (a) the repayment of third-party and related-party debt (including the repurchase or exchange of outstanding debt securities in the open market or privately-negotiated transactions and net repayments to LGE Financing pursuant to the Shareholder Loan, as described in note 10 to our condensed combined financial statements), (b) the funding of loans or distributions to LGE Financing (and ultimately Liberty Global and other Liberty Global subsidiaries), (c) the satisfaction of contingent liabilities, (d) acquisitions, (e) other investment opportunities or (f) income tax payments.

#### *Liquidity of Combined Operating Entities*

In addition to cash and cash equivalents, the primary sources of liquidity of our combined operating entities are cash provided by operations and, in the case of UPC Broadband Holding, borrowing availability under the UPC Holding Bank Facility. For the details of the borrowing availability under the UPC Holding Bank Facility at June 30, 2018, see note 8 to our condensed combined financial statements. Our combined operating entities' liquidity generally is used to fund property and equipment additions, debt service requirements and payments required by the UPC Holding Group's derivative instruments. From time to time, our combined operating entities may also require liquidity in connection with (i) acquisitions and other investment opportunities, (ii) loans to UPC Holding or other Liberty Global subsidiaries, (iii) capital distributions to UPC Holding or (iv) the satisfaction of contingent liabilities. No assurance can be given that any external funding would be available to our combined operating entities on favorable terms, or at all.

For additional information regarding our combined cash flows, see the discussion under *Condensed Combined Statements of Cash Flows* below.

### *Capitalization*

When it is cost effective, we generally seek to match the denomination of the borrowings of our combined entities with the functional currency of the operations that are supporting the respective borrowings. As further discussed in note 5 to our condensed combined financial statements, we also use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in the credit agreements and indentures of the UPC Holding Group is dependent primarily on our ability to maintain or increase the Covenant EBITDA of our operating entities and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in the UPC Holding Group's debt instruments. For example, if our Covenant EBITDA were to decline, our ability to obtain additional debt could be limited. 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. At June 30, 2018, the UPC Holding Group was in compliance with

its respective debt covenants. In addition, we do not anticipate any instances of non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

At June 30, 2018, the outstanding principal amount of our combined third-party debt, together with our capital lease obligations, aggregated €6,046.6 million, including €444.1 million that is classified as current in our condensed combined balance sheet and €5,488.9 million that is not due until 2024 or thereafter. For additional information regarding our debt maturities, see note 8 to our condensed combined financial statements.

Notwithstanding our negative working capital position at June 30, 2018, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. 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.

With the exception of the UPC Holding Senior Notes, all of our third-party debt and capital lease obligations had been borrowed or incurred by our combined entities at June 30, 2018.

For additional information regarding our debt and capital lease obligations, see note 8 to our condensed combined financial statements.

### ***Condensed Combined Statements of Cash Flows***

*General.* Our cash flows are subject to significant variations due to FX.

*Summary.* Our condensed combined statements of cash flows of our continuing operations for the six months ended June 30, 2018 and 2017 are summarized as follows:

	Six months ended June 30,		Change
	2018	2017	
	in millions		
Net cash provided by operating activities .....	€ 213.2	€ 122.9	€ 90.3
Net cash provided (used) by investing activities.....	(169.7)	40.0	(209.7)
Net cash provided (used) by financing activities .....	(164.5)	353.5	(518.0)
Effect of exchange rate changes on cash and cash equivalents and restricted cash...	(2.0)	0.4	(2.4)
Net increase (decrease) in cash and cash equivalents and restricted cash.....	€ (123.0)	€ 516.8	€ (639.8)

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

*Investing Activities.* The change in net cash provided (used) by our investing activities is primarily attributable to a decrease in cash of €213.4 million associated with higher capital expenditures. Net capital expenditures of (€171.4 million) during the first six months of 2018 is the result of the net effect of (i) €224.3 million of third-party payments and (ii) €52.9 million of proceeds received from transfers to related parties, including discontinued operations. Net capital expenditures of €42.0 million during the first six months of 2017 is the result of the net effect of (a) €227.8 million of proceeds received from transfers to related parties, including discontinued operations and (b) €185.8 million of third-party payments.

The capital expenditures that we report in our condensed combined statements of cash flows do not include (i) amounts that are financed under capital-related vendor financing or capital lease arrangements or (ii) purchased assets transferred to our company by another entity under the common control of Liberty Global in exchange for non-cash increases to the Shareholder Loan or non-cash contributions from our parent entities (non-cash related-party capital additions). Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and in the case of capital-related vendor financing and capital lease arrangements and non-cash related-party capital additions that are settled through increases to the Shareholder Loan, as repayments of debt when the principal is repaid. In this discussion, we refer to (a) our capital expenditures as reported in our condensed combined statements of cash flows, which exclude non-cash related-party capital additions and amounts financed under capital-related vendor financing or capital lease arrangements, and (b) our total property and equipment additions, which include our capital expenditures on an accrual basis, non-cash related-party capital additions and amounts financed under capital-related vendor financing or capital lease arrangements. For additional information, see notes 7 and 8 to our condensed combined financial statements. For further details on property and equipment additions, see note 12 to our condensed combined financial statements.

A reconciliation of our combined property and equipment additions to our combined capital expenditures, as reported in our combined statements of cash flows, is set forth below:

	Six months ended June 30,	
	2018	2017
	in millions	
Property and equipment additions .....	€ 162.2	€ 217.4
Assets acquired under capital-related vendor financing arrangements .....	(186.0)	(408.3)
Assets contributed by parent entities .....	—	(13.1)
Assets acquired under capital leases .....	(0.2)	(48.6)
Changes in current liabilities related to capital expenditures (including related-party amounts) .....	195.4	210.6
Capital expenditures, net .....	<u>€ 171.4</u>	<u>€ (42.0)</u>
Capital expenditures, net:		
Third-party payments .....	€ 224.3	€ 185.8
Proceeds received from transfers to related parties, including discontinued operations .....	(52.9)	(227.8)
Total capital expenditures, net .....	<u>€ 171.4</u>	<u>€ (42.0)</u>

Our property and equipment additions decreased during the six months ended June 30, 2018, as compared to the corresponding period in 2017, primarily attributable to the net effect of (i) an increase in local currency expenditures of our combined entities, primarily due to the net effect of (a) an increase in expenditures for new build and upgrade projects, (b) a decrease in baseline expenditures, including network improvements and expenditures for property and facilities and information technology systems, and (c) a decrease in expenditures for the purchase and installation of customer premises equipment, and (ii) a decrease due to FX.

*Financing Activities.* The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) a decrease in cash of €644.5 million due to lower net repayments of third-party debt and capital lease obligations, (ii) a decrease in cash of €183.3 million due to lower net borrowings of related-party debt, (iii) an increase in cash of €152.0 million related to VAT paid on behalf of a related party during the 2017 period and (iv) an increase in cash of €140.2 million due to higher cash receipts related to derivative instruments.



## Contractual Commitments

The euro equivalents of the commitments for our continuing operations as of June 30, 2018 are presented below:

	Payments due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	in millions							
Debt (excluding interest):								
Third-party .....	€ 241.4	€ 197.2	€ 18.4	€ 18.9	€ 16.3	€ 11.8	€ 5,473.6	€ 5,977.6
Capital leases (excluding interest) .....	4.7	9.6	10.3	11.2	9.2	8.7	15.3	69.0
Purchase commitments (a) ...	100.8	124.9	49.6	13.1	12.3	11.9	30.6	343.2
Programming commitments.....	51.3	89.6	82.9	49.2	21.7	—	—	294.7
Network and connectivity commitments.....	43.5	46.0	28.6	13.5	9.2	8.0	12.1	160.9
Operating leases .....	12.4	21.6	18.7	15.7	12.4	10.5	51.4	142.7
Total (b).....	€ 454.1	€ 488.9	€ 208.5	€ 121.6	€ 81.1	€ 50.9	€ 5,583.0	€ 6,988.1
Projected cash interest payments on third-party debt and capital lease obligations (c) .....	€ 142.1	€ 228.6	€ 256.9	€ 255.5	€ 243.5	€ 243.6	€ 794.7	€ 2,164.9

- (a) Includes €1.9 million of related-party purchase obligations due during the remainder of 2018.
- (b) The commitments included in this table do not reflect any liabilities that are included in our June 30, 2018 condensed combined balance sheet other than debt and capital lease obligations. Our liability for uncertain tax positions in the various jurisdictions in which we operate (€4.5 million at June 30, 2018) has been excluded from the table as the amount and timing of any related payments are not subject to reasonable estimation.
- (c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of June 30, 2018. 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, original issue premiums or discounts. Amounts associated with related-party debt are excluded from the table.

For information concerning our debt and capital lease obligations, see note 8 to our condensed combined financial statements. For information concerning our commitments, see note 11 to our condensed combined financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, 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 six months ended June 30, 2018 and 2017, see note 5 to our condensed combined 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 June 30, 2018. The euro equivalents presented below are based on interest rates and exchange rates that were in effect as of June 30, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 5 to our condensed combined financial statements.

	Payments (receipts) due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	in millions							
Projected derivative cash payments (receipts), net:								
Interest-related (a).....	€ (2.7)	€ 33.9	€ (0.2)	€ (3.3)	€ (32.0)	€ (42.9)	€ (94.4)	€ (141.6)
Principal-related (b) .....	—	—	66.1	(84.1)	(103.8)	67.4	(264.3)	(318.7)
Other.....	—	—	2.1	—	—	—	—	2.1
Total.....	<u>€ (2.7)</u>	<u>€ 33.9</u>	<u>€ 68.0</u>	<u>€ (87.4)</u>	<u>€ (135.8)</u>	<u>€ 24.5</u>	<u>€ (358.7)</u>	<u>€ (458.2)</u>

(a) Includes (i) the cash flows of our interest rate collar, swaptions and swap contracts and (ii) 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.