



unitymedia

**Condensed Consolidated Financial Statements
September 30, 2018**

**UNITYMEDIA GMBH
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50933 Cologne
Germany**

UNITYMEDIA GMBH
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UNITYMEDIA GMBH
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2018	December 31, 2017
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents.....	€ 4.6	€ 2.3
Trade receivables and unbilled revenue, net	88.0	100.9
Loans receivable – related-party (note 11).....	1,062.5	1,877.0
Other current assets (notes 3, 5 and 11)	143.5	84.6
Total current assets.....	1,298.6	2,064.8
Property and equipment, net (note 7).....	3,160.1	3,168.6
Goodwill.....	2,841.7	2,841.7
Intangible assets subject to amortization, net (notes 3 and 7).....	455.5	476.3
Loans receivable – related-party (note 11).....	2,297.2	513.0
Derivative instruments (note 5).....	85.3	82.7
Other noncurrent assets (note 3)	18.0	18.0
Total noncurrent assets.....	8,857.8	7,100.3
Total assets.....	€ 10,156.4	€ 9,165.1

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

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

	September 30, 2018	December 31, 2017
	in millions	
LIABILITIES AND OWNER'S DEFICIT		
Current liabilities:		
Accounts payable	€ 104.1	€ 60.4
Accrued liabilities	204.7	235.9
Accounts payable and accrued liabilities – related-party (note 11)	531.8	331.4
Deferred revenue (note 3)	143.6	76.7
Current portion of debt and finance lease obligations – third-party (note 9)	589.9	428.4
Corporate income taxes payable	200.3	140.4
Current provisions (note 8)	43.0	48.7
Other current liabilities (note 5)	67.2	65.2
Total current liabilities.....	<u>1,884.6</u>	<u>1,387.1</u>
Noncurrent debt and finance lease obligations:		
Third-party (note 9).....	7,303.1	6,939.6
Related-party (note 11).....	354.6	331.5
Deferred tax liabilities.....	406.6	411.0
Noncurrent provisions (note 8)	38.4	37.6
Other noncurrent liabilities (notes 3 and 5)	338.7	326.4
Total noncurrent liabilities.....	<u>8,441.4</u>	<u>8,046.1</u>
Total liabilities.....	<u>10,326.0</u>	<u>9,433.2</u>
Commitments and contingencies (notes 5, 8, 9, 10 and 12)		
Owner's deficit:		
Share capital.....	—	—
Additional paid-in capital.....	979.7	975.5
Accumulated deficit	(1,142.7)	(1,237.0)
Accumulated other comprehensive loss, net of taxes	(6.6)	(6.6)
Total owner's deficit.....	<u>(169.6)</u>	<u>(268.1)</u>
Total liabilities and owner's deficit	<u>€ 10,156.4</u>	<u>€ 9,165.1</u>

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

UNITYMEDIA GMBH
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	in millions			
Revenue (notes 3 and 4)	€ 614.2	€ 595.7	€ 1,862.1	€ 1,775.9
Operating costs and expenses:				
Operating (other than depreciation and amortization) (OpEx) (note 11)	146.6	154.1	464.5	462.0
Selling, general and administrative (other than depreciation and amortization) (including share-based compensation) (SG&A) (note 11)	65.4	62.6	197.1	197.6
Related-party fees and allocations, net (note 11)	59.0	55.3	193.7	171.9
Impairment, restructuring and other operating items, net	(2.3)	(0.3)	(0.4)	9.9
	<u>268.7</u>	<u>271.7</u>	<u>854.9</u>	<u>841.4</u>
Earnings before interest, taxes, depreciation and amortization (EBITDA)	345.5	324.0	1,007.2	934.5
Depreciation and amortization	196.5	190.1	578.9	603.0
Earnings before interest and taxes (EBIT)	<u>149.0</u>	<u>133.9</u>	<u>428.3</u>	<u>331.5</u>
Financial and other income (expense):				
Interest expense:				
Third-party	(85.7)	(92.5)	(247.5)	(280.9)
Related-party (note 11)	(6.9)	(6.3)	(20.6)	(18.8)
Foreign currency transaction gains (losses), net	(18.1)	71.6	(98.2)	253.3
Realized and unrealized gains (losses) on derivative instruments, net (note 5)	25.1	(83.5)	107.2	(217.6)
Losses on debt modification and extinguishment, net (note 9)	—	(19.0)	(11.5)	(26.3)
Other income, net (notes 6, 9 and 11)	30.5	15.9	75.9	45.0
Net financial and other expense	<u>(55.1)</u>	<u>(113.8)</u>	<u>(194.7)</u>	<u>(245.3)</u>
Earnings before income taxes	93.9	20.1	233.6	86.2
Income tax expense (note 10)	(39.7)	(16.9)	(113.1)	(60.2)
Net earnings / comprehensive earnings (a)	<u>€ 54.2</u>	<u>€ 3.2</u>	<u>€ 120.5</u>	<u>€ 26.0</u>
Further details of OpEx and SG&A:				
Direct cost of services (programming, interconnect, equipment sales)	€ 48.9	€ 58.0	€ 171.6	€ 167.3
Internal labor	50.0	46.7	152.1	151.1
Core network and IT	38.1	37.5	113.0	112.7
Customer services	23.8	26.4	74.5	72.9
Marketing and selling	23.6	21.5	67.7	70.6
Business services	12.3	12.7	37.4	38.3
Outsourced labor	7.8	6.8	22.6	21.9
Other indirect costs	7.5	7.1	22.7	24.8
	<u>€ 212.0</u>	<u>€ 216.7</u>	<u>€ 661.6</u>	<u>€ 659.6</u>
Further details of impairment, restructuring and other operating items, net:				
Restructuring charges	€ 6.7	€ 1.2	€ 10.7	€ 2.4
Gain on disposal of assets	(0.7)	(2.4)	(2.7)	(3.9)
Other	(8.3)	0.9	(8.4)	11.4
	<u>€ (2.3)</u>	<u>€ (0.3)</u>	<u>€ (0.4)</u>	<u>€ 9.9</u>

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

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

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

	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss, net of taxes</u>	<u>Total owner's deficit</u>
	in millions			
Balance at January 1, 2017	€ 970.9	€ (1,233.0)	€ (7.5)	€ (269.6)
Net earnings	—	26.0	—	26.0
Share-based compensation (note 11)	5.2	—	—	5.2
Capital charge in connection with the exercise of Liberty Global share-based incentive awards (note 11).....	(1.9)	—	—	(1.9)
Balance at September 30, 2017	<u>€ 974.2</u>	<u>€ (1,207.0)</u>	<u>€ (7.5)</u>	<u>€ (240.3)</u>
Balance at January 1, 2018, before effect of accounting changes.....	€ 975.5	€ (1,237.0)	€ (6.6)	€ (268.1)
Accounting changes (note 2)	—	(26.2)	—	(26.2)
Balance at January 1, 2018, as adjusted for accounting changes.....	975.5	(1,263.2)	(6.6)	(294.3)
Net earnings	—	120.5	—	120.5
Share-based compensation (note 11)	7.1	—	—	7.1
Capital charge in connection with the exercise of Liberty Global share-based incentive awards (note 11).....	(2.7)	—	—	(2.7)
Other	(0.2)	—	—	(0.2)
Balance at September 30, 2018	<u>€ 979.7</u>	<u>€ (1,142.7)</u>	<u>€ (6.6)</u>	<u>€ (169.6)</u>

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

UNITYMEDIA GMBH
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine months ended	
	September 30,	
	2018	2017
	in millions	
Cash flows from operating activities:		
Net earnings.....	€ 120.5	€ 26.0
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense.....	7.1	5.2
Impairment, restructuring and other operating items, net.....	(0.4)	9.9
Related-party fees and allocations, net.....	193.7	171.9
Depreciation and amortization.....	578.9	603.0
Amortization of deferred financing costs and non-cash interest accretion.....	4.0	4.5
Related-party interest expense.....	20.6	18.8
Foreign currency transaction losses (gains), net.....	98.2	(253.3)
Realized and unrealized losses (gains) on derivative instruments, net.....	(107.2)	217.6
Losses on debt modification and extinguishment, net.....	11.5	26.3
Deferred tax expense (benefit).....	7.7	(0.5)
Changes in operating assets and liabilities.....	64.5	(14.7)
Net cash provided by operating activities.....	<u>999.1</u>	<u>814.7</u>
Cash flows from investing activities:		
Advances to parent.....	(892.1)	(343.5)
Capital expenditures.....	(271.0)	(379.3)
Other investing activities.....	2.4	2.7
Net cash used by investing activities.....	<u>(1,160.7)</u>	<u>(720.1)</u>
Cash flows from financing activities:		
Repayments of third-party debt and finance lease obligations.....	(1,131.6)	(920.2)
Borrowings of third-party debt.....	1,306.7	824.0
Payment of financing costs and debt premiums.....	(11.8)	(28.6)
Net cash received related to derivative instruments.....	1.7	29.9
Other financing activities, net.....	(1.2)	(1.0)
Net cash provided (used) by financing activities.....	<u>163.8</u>	<u>(95.9)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash.....	2.2	(1.3)
Cash and cash equivalents and restricted cash:		
Beginning of period.....	4.0	4.4
End of period.....	<u>€ 6.2</u>	<u>€ 3.1</u>

UNITYMEDIA GMBH
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(unaudited)

	Nine months ended	
	September 30,	
	2018	2017
	in millions	
The following amounts are included in net cash provided by operating activities:		
Cash paid for interest (excluding payments related to derivative instruments)	€ 290.9	€ 349.3
Net cash paid for taxes	€ 15.3	€ 8.3
Details of end of period cash and cash equivalents and restricted cash:		
Cash and cash equivalents	€ 4.6	€ 1.5
Restricted cash included in other noncurrent assets	1.6	1.6
Total cash and cash equivalents and restricted cash	€ 6.2	€ 3.1

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

UNITYMEDIA GMBH
Notes to Condensed Consolidated Financial Statements
September 30, 2018
(unaudited)

(1) Basis of Presentation

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

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

Unitymedia is registered in Cologne, Germany with the commercial register of the local court of Cologne under HRB 68501.

On May 9, 2018, Liberty Global and certain of its subsidiaries entered into a sale and purchase 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 company, to Vodafone. Vodafone will be acquiring our company inclusive of our outstanding debt. As currently structured, upon closing, a change of control will be triggered with respect to our debt, and lenders and bondholders will have an option to put their debt to Vodafone. Closing of the transaction is subject to various conditions, including regulatory approval, which is not expected until mid-2019.

Our unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (**IAS**) 34 and do not include all of the information required by International Financial Reporting Standards (**IFRS**) as adopted by the European Union (**E.U.**) (**E.U.-IFRS**) for full annual financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with our 2017 consolidated financial statements and notes thereto included in our 2017 annual report, which include a description of the significant accounting policies followed in these financial statements.

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

The Unitymedia Notes (as defined and described in note 9) are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market, which is not a regulated market (as defined by Article 4 (14) of the Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004). For more information regarding the Unitymedia Notes, see note 9.

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of September 30, 2018.

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

These condensed consolidated financial statements were submitted to our supervisory board and approved for publication by the Managing Directors on November 20, 2018.

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Notes to Condensed Consolidated Financial Statements – (Continued)
September 30, 2018
(unaudited)

(2) Accounting Changes and Recent Pronouncements

First-time Application of Accounting Standards

The following new accounting standards and amendments to accounting standards have been initially applied:

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the E.U.
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	January 1, 2018 (a)	February 26, 2018
IFRS 9	Financial Instruments	January 1, 2018 (b)	November 22, 2016
IFRS 15	Revenue from Contracts with Customers	January 1, 2018 (c)	September 22, 2016
IFRS 15 (amendments)	Clarifications to IFRS 15 Revenue from Contracts with Customers	January 1, 2018 (c)	October 31, 2017

- (a) In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payments (IFRS 2)*, which includes new requirements for the accounting of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments to IFRS 2 require that certain transactions be classified as equity-settled share-based payment transactions. We adopted the amendments to IFRS 2 on January 1, 2018. The amendments to IFRS 2 did not have a material impact on our consolidated financial statements and related disclosures.
- (b) In July 2014, the IASB issued IFRS 9, *Financial Instruments (IFRS 9)*, which introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities, especially with regard to managing non-financial risks. IFRS 9 also requires entities to account for the modification of a financial liability that is not derecognized as a gain or loss through the statement of operations on the date of modification.

The adoption of this standard results in an adjustment to our trade receivables from applying the expected credit loss model and a reclassification of the portion of the change in fair value of certain derivative-related borrowing instruments for which we elect the fair value option that relates to the change in the instrument's credit risk. We adopted IFRS 9 effective January 1, 2018 on a retrospective basis under which we recorded a cumulative effect adjustment to owner's deficit on January 1, 2018. The application of IFRS 9 did not have a material impact on our consolidated financial statements and related disclosures.

- (c) In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers (IFRS 15)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services to customers. We adopted IFRS 15 effective January 1, 2018 by recording the cumulative effect of the adoption to our accumulated deficit. We applied the new standard to contracts that were not complete at January 1, 2018. The comparative information for the three and nine months ended September 30, 2017 contained within these condensed consolidated financial statements and notes has not been restated and continues to be reported under the accounting standards in effect for such periods. The implementation of IFRS 15 did not have a material impact on our consolidated financial statements.

The most significant impact of IFRS 15 on our revenue recognition policy relates to our accounting for certain upfront fees charged to our customers. 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 IFRS 15, 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.

For additional information regarding the impact of our adoption of IFRS 15, see note 3.

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Notes to Condensed Consolidated Financial Statements – (Continued)
September 30, 2018
(unaudited)

The cumulative effect of the adoption of IFRS 15 on our summary balance sheet information as of January 1, 2018 is as follows:

	Balance at December 31, 2017		IFRS 15 Adjustments		Balance at January 1, 2018
		in millions			
Assets:					
Trade receivables and unbilled revenue, net	€ 100.9	€	(16.6)	€	84.3
Other current assets	€ 84.6	€	10.8	€	95.4
Other noncurrent assets, net	€ 18.0	€	(1.5)	€	16.5
Liabilities:					
Deferred revenue	€ 76.7	€	22.0	€	98.7
Deferred tax liabilities	€ 411.0	€	(11.9)	€	399.1
Other noncurrent liabilities.....	€ 326.4	€	8.3	€	334.7
Equity:					
Accumulated deficit	€ (1,237.0)	€	(25.7)	€	(1,262.7)

The impact of our adoption of IFRS 15 on our condensed consolidated balance sheet as of September 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 IFRS 15 did not have a material impact on our condensed consolidated statements of operations for the three and nine months ended September 30, 2018.

New Accounting Standards, Not Yet Effective

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

Standard/ Interpretation	Title	Applicable for fiscal years beginning on or after	Date of endorsement by the E.U.
IFRS 16	Leases	January 1, 2019 (a)	October 31, 2017
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019 (b)	October 23, 2018

- (a) In January 2016, the IASB issued IFRS 16, *Leases (IFRS 16)*, which supersedes IAS 17 *Leases (IAS 17)*. IFRS 16 will result in lessees recognizing right-of-use assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. IFRS 16 also eliminates the classification of leases as either operating leases or finance leases by a lessee. IFRS 16 requires lessees and lessors to recognize and measure leases retrospectively to each prior reporting period presented (full retrospective approach) or retrospectively through a cumulative effect adjustment to equity on the effective date (modified retrospective approach). The modified retrospective approach also includes a number of optional practical expedients that may be applied. IFRS 16 also replaces the straight-line operating lease expense for those leases accounted for under IAS 17 with a depreciation charge for the lease asset and an interest expense on the lease liability. This change aligns the lease expense treatment for all leases. The new standard is effective for annual reporting periods beginning on or after January 1, 2019, while early adoption is permitted if IFRS 15 is applied.

We will adopt IFRS 16 on January 1, 2019 by using the modified retrospective approach. Although we are currently evaluating the effect that IFRS 16 will have on our consolidated financial statements and related disclosures, the main impacts of the adoption of this standard will be the recognition of right-of-use assets and lease liabilities in our consolidated balance sheets for leases previously accounted for as operating leases and the replacement of operating lease expense with a depreciation

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charge for right-of-use assets and interest expense on lease liabilities, resulting in a front-loaded total lease expense versus the straight-line operating lease expense and an increase to EBITDA. We 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 expedient that permits us not to reassess which existing contracts are or contain leases. In addition, we do not intend to use hindsight during transition.

For a summary of our undiscounted future minimum lease payments under operating leases as of September 30, 2018, see note 12. We expect that the impact of the adoption of IFRS 16 will increase cash flows from operating activities and decrease cash flows from financing activities on the consolidated statement of cash flows, as all principal payments on lease liabilities will be presented within financing activities.

- (b) We evaluated the impact of applying this accounting standard on our consolidated financial statements and do not believe the impact of the adoption of this standard to be material.

(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 IFRS 15, 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 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. We account for contracts with a customer that are entered into at the same time as a single contract. We recognize revenue from mobile services in the periods the related services are provided. Revenue from the sale of handsets is recognized at the point in time 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 intangible assets and amortized to depreciation and amortization expense 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.

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Notes to Condensed Consolidated Financial Statements – (Continued)
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Value-Added Taxes. Revenue is recorded net of applicable value-added tax (VAT).

For a disaggregation of our revenue by major category, see note 4.

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 €10.0 million and €13.1 million at September 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 €13.1 million and €13.2 million as of September 30, 2018 and January 1, 2018, respectively. The current and noncurrent portions of our contract asset balance at September 30, 2018 are included within other current assets and other noncurrent assets, respectively, in our condensed consolidated 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 services and other upfront services and (ii) other services that are invoiced prior to when services are provided. Our deferred revenue balances were €161.8 million and €115.8 million as of September 30, 2018 and January 1, 2018, respectively. The increase in deferred revenue for the nine months ended September 30, 2018 is primarily due to increased advanced billings, partially offset by €96.0 million of revenue recognized that was included in our deferred revenue balance at January 1, 2018. The current and noncurrent portions of our deferred revenue balance at September 30, 2018 are included within deferred revenue and other noncurrent liabilities, respectively, in our condensed consolidated balance sheet.

Contract Costs

Our aggregate assets associated with incremental costs to obtain our contracts were €97.5 million and €94.8 million at September 30, 2018 and January 1, 2018, respectively. The current and noncurrent portions of our assets related to contract costs at September 30, 2018 are included within intangible assets in our condensed consolidated balance sheet. We recorded amortization of €25.2 million and €75.1 million to operating costs and expenses during the three and nine months ended September 30, 2018, respectively, related to these assets.

Unsatisfied Performance Obligations

A large portion of our revenue is derived from customers who have completed their initial contract term and receive services on a rolling monthly basis without an extended contractual term. Revenue from contracts with residential customers is generally recognized over the term of such contracts, which is typically 12 to 24 months for our residential service and mobile contracts and one to five years for our B2B contracts.

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Notes to Condensed Consolidated Financial Statements – (Continued)
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(4) Segment Reporting

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

Our revenue by major category is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	in millions			
Residential revenue:				
Residential cable revenue (a):				
Subscription revenue (b):				
Video	€ 257.0	€ 259.8	€ 779.1	€ 779.4
Broadband internet.....	170.7	155.2	506.4	459.6
Fixed-line telephony	113.4	111.6	339.1	330.4
Total subscription revenue.....	541.1	526.6	1,624.6	1,569.4
Non-subscription revenue	39.1	34.4	128.1	112.8
Total residential cable revenue.....	580.2	561.0	1,752.7	1,682.2
Residential mobile revenue (c):				
Subscription revenue (b)	3.6	4.4	11.0	12.8
Non-subscription revenue	0.2	10.7	0.7	26.1
Total residential mobile revenue.....	3.8	15.1	11.7	38.9
Total residential revenue.....	584.0	576.1	1,764.4	1,721.1
Business-to-business (B2B) revenue (d):				
Subscription revenue	18.9	13.5	52.9	37.6
Non-subscription revenue.....	9.6	4.9	40.6	12.9
Total B2B revenue.....	28.5	18.4	93.5	50.5
Other revenue.....	1.7	1.2	4.2	4.3
Total.....	€ 614.2	€ 595.7	€ 1,862.1	€ 1,775.9

- (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, installation revenue, late fees and revenue from the sale of equipment. As described in note 2, we adopted IFRS 15 on January 1, 2018 using the cumulative effect transition method. For periods subsequent to our adoption of IFRS 15, installation revenue is generally deferred and recognized over the contractual period as residential cable subscription revenue. For periods prior to the adoption of IFRS 15, 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.

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- (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.

(5) Derivative Instruments

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

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

	September 30, 2018			December 31, 2017		
	Current (a)	Noncurrent (a)	Total	Current (a)	Noncurrent (a)	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (b)	€ 98.9	€ 85.3	€ 184.2	€ 67.8	€ 82.7	€ 150.5
Liabilities:						
Cross-currency and interest rate derivative contracts (b)	€ 31.9	€ 228.4	€ 260.3	€ 24.0	€ 256.8	€ 280.8

- (a) Our current derivative assets are included in other current assets in our condensed consolidated balance sheets. Our current and noncurrent derivative liabilities are included in other current liabilities and other noncurrent liabilities, respectively, in our condensed consolidated balance sheets.
- (b) 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 net gains (losses) of (€6.8 million) and €7.2 million during the three months ended September 30, 2018 and 2017, respectively, and (€16.7 million) and €35.8 million during the nine months ended September 30, 2018 and 2017, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 6.

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

	Nine months ended	
	September 30,	
	2018	2017
	in millions	
Operating activities.....	€ 51.3	€ 38.4
Financing activities.....	1.7	29.9
Total	€ 53.0	€ 68.3

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. In limited circumstances, we require certain counterparties to our derivative instruments to post cash collateral. In this regard, as of September 30, 2018, certain of our counterparties have posted cash collateral of €155.2 million, which is predominantly subject to return at the maturity of the underlying derivative instruments.

We have entered into derivative instruments under master agreements with each counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument. At September 30, 2018, our exposure to counterparty credit risk related to derivative assets (including certain derivative amounts classified as debt) with a net aggregate fair value of €12.3 million, comprising derivative assets of €38.9 million and derivative liabilities of €26.6 million. For additional information regarding our derivative-related debt, see note 9.

Details of our Derivative Instruments

Cross-currency Swap Contracts

Our borrowing arrangements are generally denominated in euros, which is our functional currency. However, when it is more cost effective, we may enter into borrowing arrangements that are denominated in currencies other than the euro. For these arrangements, we provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert the underlying debt into euros. At September 30, 2018, substantially all of our debt was either directly or synthetically matched to the euro. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at September 30, 2018:

	Notional amount due		Weighted average
	from counterparty	to counterparty	
	in millions		in years
Cross-currency swap contracts	\$ 3,855.0	€ 3,204.1	5.1

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Interest Rate Swap Contracts

The following table sets forth the euro equivalents of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts at September 30, 2018:

	Pays fixed rate (a)		Receives fixed rate	
	Notional amount	Weighted average remaining life	Notional amount	Weighted average remaining life
	in millions	in years	in millions	in years
Interest rate swap contracts.....	€ 7,179.6	3.6	€ 5,050.9	6.7

(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 the euro equivalent of our swaptions at September 30, 2018:

	Notional amount	Underlying swap currency	Weighted average option expiration period (a)	Weighted average strike rate (b)
	in millions		in years	
Interest rate swap options.....	€ 3,557.2	€	1.1	1.93%

(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 September 30, 2018, the euro equivalent of the notional amount of our basis swap contracts, which are forward starting, was €2,802.7 million and the related weighted average remaining contractual life was 0.7 years.

Impact of Derivative Instruments on Borrowing Costs

The impact of the derivative instruments that were in effect at September 30, 2018 (excluding forward-starting derivative instruments and swaptions) that mitigate our foreign currency and interest rate risk, as described above, was a decrease of 89 basis points to our borrowing costs at September 30, 2018.

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(6) Fair Value Measurements

We use the fair value method to account for (i) our derivative instruments and (ii) certain instruments that we classify as debt. The reported fair values of these instruments as of September 30, 2018 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these instruments, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

We use 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, interest rate swaps and certain of our debt are quantified and further explained in notes 5 and 9.

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

Category (a)	September 30, 2018		December 31, 2017		
	Carrying amount	Fair value	Carrying amount	Fair value	
in millions					
Assets carried at fair value — derivative financial instruments	III	€ 184.2	€ 184.2	€ 150.5	€ 150.5
Assets carried at cost or amortized cost:					
Loan receivable – related-party (b)	I	€ 3,359.7	€ 3,359.7	€ 2,390.0	€ 2,390.0
Trade receivables and unbilled revenue	I	88.0	88.0	104.7	104.7
Other current and noncurrent financial assets	I	30.0	30.0	7.4	7.4
Cash and cash equivalents	I	4.6	4.6	2.3	2.3
Restricted cash	I	1.6	1.6	1.6	1.6
Total assets carried at cost or amortized cost		€ 3,483.9	€ 3,483.9	€ 2,506.0	€ 2,506.0
Liabilities carried at fair value:					
Derivative financial instruments	III	€ 260.3	€ 260.3	€ 280.8	€ 280.8
Debt obligations – third-party (c)	II	32.4	32.4	32.6	32.6
Total liabilities carried at fair value		€ 292.7	€ 292.7	€ 313.4	€ 313.4
Liabilities carried at cost or amortized cost:					
Debt obligations – third-party	I	€ 7,847.8	€ 8,176.4	€ 7,326.8	€ 7,626.9
Loans payable – related-party (b)	I	354.6	354.6	331.5	331.5
Accrued liabilities (including related-party)	I	244.7	244.7	326.1	326.1
Accounts payable and other liabilities (including related-party accounts payable)	I	627.7	627.7	303.3	303.3
Finance lease obligations	I	12.8	12.8	8.7	8.7
Total liabilities carried at cost or amortized cost		€ 9,087.6	€ 9,416.2	€ 8,296.4	€ 8,596.5

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- (a) Pursuant to IFRS 9, category I refers to financial assets and liabilities measured at amortized cost, category II refers to financial assets and liabilities measured at fair value through other comprehensive income or loss and category III refers to financial assets and liabilities measured at fair value through profit or loss.
- (b) The fair value amounts presented for our related-party loans receivable and payable represent the principal amount of these loans. Due to the related-party nature of these loans, our parent company has the ability to set the underlying terms, including applicable interest rates, maturity dates and the form of settlement, and can modify such terms at its discretion. Accordingly, we do not believe there is a reliable basis for determining the extent to which the estimated fair values of these loans differs from their respective principal amounts.
- (c) We have elected the fair value option for certain derivative-related borrowing instruments. For further information regarding our derivative-related borrowing instruments, see note 9.

Pre-tax amounts recognized in our condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 related to our financial assets and liabilities are as follows:

	<u>Interest income (a)</u>	<u>Interest expense</u>	<u>Other statement of operations effects (b)</u>	<u>Impact on earnings before income taxes</u>
	in millions			
Three months ended September 30, 2018:				
Derivative assets carried at fair value through our condensed consolidated statement of operations.....	€ —	€ —	€ 41.1	€ 41.1
Assets carried at cost or amortized cost:				
Trade receivables (c).....	0.1	—	(2.5)	(2.4)
Loans receivable – related-party.....	30.4	—	—	30.4
Cash and cash equivalents.....	—	—	0.2	0.2
Derivative liabilities carried at fair value through our condensed consolidated statement of operations.....	—	—	(16.0)	(16.0)
Liabilities carried at fair value through our condensed consolidated statement of operations.....	—	—	0.3	0.3
Liabilities carried at cost or amortized cost.....	—	(92.6)	(18.3)	(110.9)
	<u>€ 30.5</u>	<u>€ (92.6)</u>	<u>€ 4.8</u>	<u>€ (57.3)</u>
Three months ended September 30, 2017:				
Derivative assets carried at fair value through our condensed consolidated statement of operations.....	€ —	€ —	€ (61.2)	€ (61.2)
Assets carried at cost or amortized cost:				
Trade receivables (c).....	—	—	(2.2)	(2.2)
Loans receivable – related-party.....	16.7	—	—	16.7
Cash and cash equivalents.....	—	—	(0.1)	(0.1)
Derivative liabilities carried at fair value through our condensed consolidated statement of operations.....	—	—	(22.3)	(22.3)
Liabilities carried at fair value through our condensed consolidated statement of operations.....	—	—	(0.7)	(0.7)
Liabilities carried at cost or amortized cost.....	—	(98.8)	52.7	(46.1)
	<u>€ 16.7</u>	<u>€ (98.8)</u>	<u>€ (33.8)</u>	<u>€ (115.9)</u>

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	<u>Interest income (a)</u>	<u>Interest expense</u>	<u>Other statement of operations effects (b)</u>	<u>Impact on earnings before income taxes</u>
	in millions			
Nine months ended September 30, 2018:				
Derivative assets carried at fair value through our condensed consolidated statement of operations	€ —	€ —	€ 106.0	€ 106.0
Assets carried at cost or amortized cost:				
Trade receivables (c)	0.1	—	(5.8)	(5.7)
Loans receivable – related-party	77.6	—	—	77.6
Cash and cash equivalents	—	—	0.3	0.3
Derivative liabilities carried at fair value through our condensed consolidated statement of operations	—	—	1.2	1.2
Liabilities carried at fair value through our condensed consolidated statement of operations	—	—	(1.1)	(1.1)
Liabilities carried at cost or amortized cost	—	(268.1)	(110.0)	(378.1)
	<u>€ 77.7</u>	<u>€ (268.1)</u>	<u>€ (9.4)</u>	<u>€ (199.8)</u>
Nine months ended September 30, 2017:				
Derivative assets carried at fair value through our condensed consolidated statement of operations	€ —	€ —	€ (160.7)	€ (160.7)
Assets carried at cost or amortized cost:				
Trade receivables (c)	—	—	(8.1)	(8.1)
Loans receivable – related-party	47.5	—	—	47.5
Cash and cash equivalents	—	—	0.3	0.3
Derivative liabilities carried at fair value through our condensed consolidated statement of operations	—	—	(56.9)	(56.9)
Liabilities carried at fair value through our condensed consolidated statement of operations	—	—	(3.1)	(3.1)
Liabilities carried at cost or amortized cost	—	(299.7)	226.7	(73.0)
	<u>€ 47.5</u>	<u>€ (299.7)</u>	<u>€ (1.8)</u>	<u>€ (254.0)</u>

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

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(7) **Long-lived Assets**

Property and Equipment, Net

Changes during the nine months ended September 30, 2018 in the carrying amounts of our property and equipment, net, are as follows:

	<u>Cable distribution systems</u>	<u>Customer premises equipment</u>	<u>Support equipment, buildings and land</u>	<u>Total</u>
	in millions			
Cost:				
January 1, 2018.....	€ 4,826.5	€ 609.9	€ 229.7	€ 5,666.1
Additions.....	263.8	105.3	39.6	408.7
Retirements and disposals.....	(122.0)	(66.9)	(20.2)	(209.1)
Transfers from (to) related party.....	1.3	(6.3)	—	(5.0)
Impairment.....	(1.1)	(0.8)	—	(1.9)
September 30, 2018.....	<u>€ 4,968.5</u>	<u>€ 641.2</u>	<u>€ 249.1</u>	<u>€ 5,858.8</u>
Accumulated depreciation:				
January 1, 2018.....	€ 2,132.4	€ 268.2	€ 96.9	€ 2,497.5
Depreciation.....	295.1	89.3	30.2	414.6
Retirements and disposals.....	(122.0)	(66.9)	(19.9)	(208.8)
Transfers from (to) related party.....	0.2	(4.8)	—	(4.6)
September 30, 2018.....	<u>€ 2,305.7</u>	<u>€ 285.8</u>	<u>€ 107.2</u>	<u>€ 2,698.7</u>
Property and equipment, net:				
September 30, 2018.....	<u>€ 2,662.8</u>	<u>€ 355.4</u>	<u>€ 141.9</u>	<u>€ 3,160.1</u>

During the nine months ended September 30, 2018 and 2017, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of €252.9 million and €152.5 million, respectively, which exclude related VAT of €36.0 million and €19.3 million, respectively, that was also financed by our vendors under these arrangements. In addition, during the nine months ended September 30, 2018 and 2017, we recorded non-cash increases to our property and equipment related to assets acquired under finance leases of €6.2 million and €3.2 million, respectively.

During the nine months ended September 30, 2018, no borrowing costs were capitalized.

Most of our property and equipment is pledged as security under our various debt instruments. For additional information, see note 9.

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Intangible Assets Subject to Amortization, Net

Changes during the nine months ended September 30, 2018 in the carrying amounts of our finite-lived intangible assets are as follows:

	<u>Customer relationships</u>	<u>Subscriber acquisition costs</u>	<u>Other (a)</u>	<u>Total</u>
	in millions			
Cost:				
January 1, 2018.....	€ 658.6	€ 189.5	€ 199.7	€ 1,047.8
Additions.....	—	78.4	65.7	144.1
Retirements and disposals.....	—	(72.6)	(30.9)	(103.5)
September 30, 2018.....	<u>€ 658.6</u>	<u>€ 195.3</u>	<u>€ 234.5</u>	<u>€ 1,088.4</u>
Accumulated amortization:				
January 1, 2018.....	€ 398.0	€ 94.7	€ 78.8	€ 571.5
Amortization.....	49.4	75.1	39.8	164.3
Retirements and disposals.....	—	(72.0)	(30.9)	(102.9)
September 30, 2018.....	<u>€ 447.4</u>	<u>€ 97.8</u>	<u>€ 87.7</u>	<u>€ 632.9</u>
Intangible assets subject to amortization, net:				
September 30, 2018.....	<u>€ 211.2</u>	<u>€ 97.5</u>	<u>€ 146.8</u>	<u>€ 455.5</u>

(a) Primarily includes computer software costs.

(8) Provisions

The details of our provisions are set forth as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	in millions	
Net pension liability.....	€ 35.9	€ 35.1
Restructuring liability.....	15.8	27.7
Other.....	29.7	23.5
Total provisions.....	<u>€ 81.4</u>	<u>€ 86.3</u>
Current portion.....	<u>€ 43.0</u>	<u>€ 48.7</u>
Noncurrent portion.....	<u>€ 38.4</u>	<u>€ 37.6</u>

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The following table shows the development of our provisions:

	<u>Net pension liability</u>	<u>Restructuring liability</u>	<u>Other</u>	<u>Total</u>
	in millions			
January 1, 2018	€ 35.1	€ 27.7	€ 23.5	€ 86.3
Additions	1.2	10.6	13.9	25.7
Releases	—	—	(1.0)	(1.0)
Cash payments	(0.4)	(22.5)	(6.7)	(29.6)
September 30, 2018.....	<u>€ 35.9</u>	<u>€ 15.8</u>	<u>€ 29.7</u>	<u>€ 81.4</u>

Our restructuring charges during the nine months ended September 30, 2018 relate to employee severance and termination costs associated with certain reorganization activities.

(9) Debt and Finance Lease Obligations

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

	<u>September 30, 2018</u>		<u>Estimated fair value (c)</u>		<u>Principal amount</u>	
	<u>Weighted average interest rate (a)</u>	<u>Unused borrowing capacity (b)</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	in millions					
Unitymedia Notes	4.68%	€ —	€ 4,515.8	€ 4,802.4	€ 4,254.0	€ 4,546.2
Unitymedia Credit Facilities	3.88%	500.0	2,904.5	2,244.7	2,895.8	2,243.3
Vendor financing (d).....	2.61%	—	526.4	319.1	526.4	319.1
Derivative-related debt instruments (e)	3.35%	—	205.7	191.8	187.6	192.1
Total third-party debt before deferred financing costs, discounts and accrued interest	<u>4.22%</u>	<u>€ 500.0</u>	<u>€ 8,152.4</u>	<u>€ 7,558.0</u>	<u>€ 7,863.8</u>	<u>€ 7,300.7</u>

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

	September 30, 2018	December 31, 2017
	in millions	
Total third-party debt before deferred financing costs, discounts and accrued interest.....	€ 7,863.8	€ 7,300.7
Deferred financing costs, discounts and accrued interest, net.....	16.4	58.6
Total carrying amount of third-party debt.....	7,880.2	7,359.3
Finance lease obligations.....	12.8	8.7
Total third-party debt and finance lease obligations.....	7,893.0	7,368.0
Related-party debt (note 10):		
Principal.....	334.0	306.3
Accrued interest.....	20.6	25.2
Total related-party debt.....	354.6	331.5
Total debt and finance lease obligations.....	8,247.6	7,699.5
Current portion of debt and finance lease obligations.....	(589.9)	(428.4)
Noncurrent portion of debt and finance lease obligations.....	€ 7,657.7	€ 7,271.1

- (a) Represents the weighted average interest rate in effect at September 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, the weighted average interest rate on our aggregate third-party variable- and fixed-rate indebtedness was 3.43% at September 30, 2018. For information regarding our derivative instruments, see note 5.
- (b) Unused borrowing capacity represents the maximum availability under the Unitymedia Credit Facilities at September 30, 2018 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2018, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, €372.6 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 September 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 or any amounts loaned or distributed subsequent to September 30, 2018, we expect that €415.7 million of unused borrowing capacity will 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) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on the market interest rates and estimated credit spreads of the applicable entity, to the extent available, and other relevant factors. 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, equipment and intangible asset additions and, to a lesser extent, certain of our operating expenses. These obligations are generally due within one year and include VAT that was paid on our behalf by the vendor. Our operating expenses for the nine months ended September 30, 2018 and 2017 include €207.8 million and €90.8 million, respectively, that were financed by an intermediary and are reflected as a hypothetical cash outflow within operating activities and a hypothetical cash inflow within financing activities in our condensed consolidated statements of cash flows. During the nine months ended September 30, 2018 and 2017, aggregate payments of €101.7 million and €39.8 million, respectively, were made under operating-related vendor financing arrangements. In addition, during the nine months ended September 30,

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2018 and 2017, aggregate payments of €188.3 million and €136.6 million, respectively, were made under capital-related vendor financing arrangements. Repayments of vendor financing obligations are included in repayments of third-party debt and finance lease obligations in our condensed consolidated statements of cash flows.

- (e) Represents amounts associated with certain derivative-related borrowing instruments, including €32.4 million and €32.5 million at September 30, 2018 and December 31, 2017, respectively, that are carried at fair value. These instruments mature at various dates through January 2023. The fair value of this debt has been reduced by credit risk valuation adjustments resulting in net gains (losses) of (€0.3 million) and (€0.7 million) during the three and nine months ended September 30, 2018, respectively, and €0.3 million and (€5.1 million) during the three and nine months ended September 30, 2017, respectively. These gains (losses) are included in other income, net, in our condensed consolidated statements of operations.

Financing Transactions

Below we provide summary descriptions of any financing transactions completed during the first nine months of 2018. Unless otherwise noted, the terms and conditions of any new notes and/or credit facilities are largely consistent with those of existing notes and credit facilities with regard to covenants, events of default and change of control provisions, among other items. For information regarding the general terms and conditions of our debt and capitalized terms not defined herein, see note 8 to the consolidated financial statements included in our 2017 annual report.

In May 2018, we entered into a \$700.0 million (€602.7 million) term loan facility (**UM Facility E**), which matures on June 1, 2023 and bears interest at a rate of LIBOR + 2.00% until June 2020 and LIBOR + 2.25% thereafter, in each case subject to a LIBOR floor of 0.0%. The net proceeds from UM Facility E were used (i) to redeem in full the €245.0 million outstanding principal amount under the April 2023 UM Senior Secured Notes, (ii) to redeem 10% of the €420.0 million original principal amount of the 2026 UM Senior Secured Notes, (iii) to redeem 10% of the €475.0 million original principal amount of the 2029 UM Senior Secured Notes and (iv) for general corporate purposes. In connection with this transaction, we recognized a loss on debt modification and extinguishment, net, of €11.5 million related to (a) the payment of €9.5 million of redemption premiums and (b) the write-off of €2.0 million of unamortized deferred financing costs and discounts.

Maturities of Debt and Finance Lease Obligations

The euro equivalents of the maturities of our debt and finance lease obligations as of September 30, 2018 are presented below:

	<u>Third-party debt</u>	<u>Related- party debt</u>	<u>Finance lease obligations</u>	<u>Total</u>
	in millions			
Year ending December 31:				
2018 (remainder of year).....	€ 117.9	€ —	€ 0.8	€ 118.7
2019	411.6	—	3.2	414.8
2020	3.0	—	2.9	5.9
2021	2.9	—	2.6	5.5
2022	2.8	—	2.1	4.9
2023	778.5	—	0.8	779.3
Thereafter	6,547.1	334.0	3.6	6,884.7
Total debt maturities	<u>7,863.8</u>	<u>334.0</u>	<u>16.0</u>	<u>8,213.8</u>
Deferred financing costs, discounts and accrued interest, net	16.4	20.6	—	37.0
Amounts representing interest	—	—	(3.2)	(3.2)
Total	<u>€ 7,880.2</u>	<u>€ 354.6</u>	<u>€ 12.8</u>	<u>€ 8,247.6</u>
Current portion	<u>€ 587.3</u>	<u>€ —</u>	<u>€ 2.6</u>	<u>€ 589.9</u>
Noncurrent portion	<u>€ 7,292.9</u>	<u>€ 354.6</u>	<u>€ 10.2</u>	<u>€ 7,657.7</u>

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(10) Income Taxes

The income tax expense attributable to our earnings before income taxes differs from the income tax expense computed by applying the German income tax rate of 32.47% for the 2018 periods and 32.78% for the 2017 periods as a result of the following:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	in millions			
Computed “expected” income tax expense	€ (30.5)	€ (6.6)	€ (75.9)	€ (28.3)
Non-deductible or non-taxable interest and other expenses	(6.0)	(10.3)	(34.2)	(26.6)
Changes in unrecognized net operating losses and interest carryforwards, net	(1.9)	(2.0)	(6.0)	(6.7)
Other, net	(1.3)	2.0	3.0	1.4
Total income tax expense	<u>€ (39.7)</u>	<u>€ (16.9)</u>	<u>€ (113.1)</u>	<u>€ (60.2)</u>

(11) Related-party Transactions

Our related-party transactions consist of the following:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	in millions			
Credits (charges) included in:				
OpEx	€ (0.8)	€ (1.2)	€ (2.4)	€ (2.8)
SG&A	(0.1)	—	(0.2)	(0.3)
Allocated share-based compensation expense	(3.3)	(0.9)	(7.1)	(5.2)
Fees and allocations, net:				
OpEx and SG&A (exclusive of depreciation and share-based compensation)	(9.3)	(11.2)	(37.4)	(44.4)
Depreciation	(21.6)	(12.6)	(77.0)	(42.4)
Share-based compensation	(5.9)	(2.4)	(18.0)	(12.5)
Management fee	(22.2)	(29.1)	(61.3)	(72.6)
Total fees and allocations, net	<u>(59.0)</u>	<u>(55.3)</u>	<u>(193.7)</u>	<u>(171.9)</u>
Included in EBIT	(63.2)	(57.4)	(203.4)	(180.2)
Interest expense	(6.9)	(6.3)	(20.6)	(18.8)
Interest income	30.4	16.7	77.6	47.5
Included in net earnings	<u>€ (39.7)</u>	<u>€ (47.0)</u>	<u>€ (146.4)</u>	<u>€ (151.5)</u>
Property, equipment and intangible asset additions, net	<u>€ (0.3)</u>	<u>€ 15.8</u>	<u>€ 4.8</u>	<u>€ 87.1</u>

General. We charge fees and allocate costs and expenses to certain other Liberty Global subsidiaries, and certain Liberty Global subsidiaries outside of our company charge fees and allocate costs and expenses to us. 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

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pool of entities that are charged fees and allocated costs, such that changes in any of these factors would likely result in changes to the amount of related-party fees and allocations that will be deducted to arrive at our Covenant EBITDA in future periods. For example, to the extent that a Liberty Global subsidiary borrowing group was to acquire (sell) an operating entity, and assuming no change in the total costs incurred by the allocating entities, the fees charged and the costs allocated to our company would decrease (increase). Although we believe that the related-party charges and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

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

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

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

Fees and allocations, 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, marketing and other services that support our company's operations, including the use of the UPC trademark. The categories of our fees and allocations, net are as follows:

- *OpEx and SG&A (exclusive of depreciation and share-based compensation).* The amounts included in this category, which are generally cash settled, represent our estimated share of certain centralized technology, management, marketing, finance and other OpEx and SG&A expenses of Liberty Global 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. The amounts presented are net of charges to Liberty Global of €0.3 million and €2.1 million for the three months ended September 30, 2018 and 2017, respectively, and €0.9 million and €6.4 million for the nine months ended September 30, 2018 and 2017, respectively, for certain centrally-managed technology services provided by our company.
- *Depreciation.* The amounts included in this category, which are generally cash settled, represent our estimated share of depreciation of assets not owned by our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global 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) OpEx and SG&A expenses related to stewardship services provided by certain Liberty Global subsidiaries and (ii) the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company. The amounts presented are net of charges to Liberty Global of €0.1 million and €0.1 million for the three months ended September 30, 2018 and 2017, respectively, and €0.1 million and €0.4 million for the nine months ended September 30, 2018 and 2017, respectively, for the mark-up related to certain centrally-managed technology services provided by our company.

Liberty Global charges technology-based fees to our company using a royalty-based method. For the nine months ended September 30, 2018 and 2017, our proportional share of the technology-based costs was €116.7 million and €81.4 million,

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respectively. The excess of these charges over our estimated proportionate share of the underlying technology-based costs is classified as a management fee and added back to arrive at Covenant EBITDA.

Interest expense. These amounts relate to (i) our shareholder loans payable to UPC Germany, including (a) the 2010 Shareholder Loan (as defined and described below) and (b) the 2012 Shareholder Loan, which was settled during the fourth quarter of 2015, and (ii) the UMI Loan (as defined and described below), which was settled during the first quarter of 2017. The “**2012 Shareholder Loan**” represented a loan payable to our shareholder, UPC Germany, issued in May 2012. The 2012 Shareholder Loan bore interest at an agreed upon rate (9.625% per annum during all periods that the loan was outstanding).

Interest income. These amounts primarily relate to our loans receivable from UPC Germany, including (a) the 2012 UPC Germany Loan Receivable, (b) the 2015 UPC Germany Loan Receivable and (c) the 2016 UPC Germany Loan Receivable (each as defined and described below). Interest income is included in other income, net, in our condensed consolidated statements of operations.

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

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

	September 30, 2018	December 31, 2017
	in millions	
Related-party assets:		
Current loans receivable – related-party (a).....	€ 1,062.5	€ 1,877.0
Other current assets (b).....	15.3	15.5
Noncurrent loans receivable – related-party (c).....	2,297.2	513.0
Total.....	<u>€ 3,375.0</u>	<u>€ 2,405.5</u>
Related-party liabilities:		
Accounts payable and accrued liabilities – related-party (d).....	€ 531.8	€ 331.4
Shareholder Loan (e).....	334.0	306.1
Other noncurrent liabilities.....	—	0.2
Total.....	<u>€ 865.8</u>	<u>€ 637.7</u>

(a) Represents (i) the current portion (principal amount of €1,000.1 million at September 30, 2018) and accrued interest associated with our loan receivable from UPC Germany (the **2012 UPC Germany Loan Receivable**), which originated in May 2012, and (ii) accrued interest associated with the 2016 UPC Germany Loan Receivable and the 2015 UPC Germany Loan Receivable (each as defined and described below). Amounts loaned to UPC Germany pursuant to the 2012 UPC Germany Loan Receivable agreement are subject to certain restrictions contained in the instruments governing our indebtedness. The interest rate on the current portion of this loan was 1.32% as of September 30, 2018, and is subject to adjustment. The principal balance of the 2012 UPC Germany Loan Receivable decreased during the nine months ended September 30, 2018 due to (a) cash advances of €3,345.0 million, (b) cash repayments of €2,452.9 million, (c) the transfer of €45.1 million in non-cash accrued interest to the 2012 UPC Germany Loan Receivable balance and (d) a €19.9 million non-cash increase related to the settlement of aggregate amounts due under the 2015 UPC Germany Loan Receivable and the 2016 UPC Germany Loan Receivable. In addition, in connection with an April 2018 amendment to the agreement, €1,784.2 million of the September 30, 2018 outstanding principal balance of the 2012 UPC Germany Loan Receivable is reflected as noncurrent.

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

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- (c) Represents (i) the noncurrent portion of the 2012 UPC Germany Loan Receivable (principal amount of €1,784.2 million at September 30, 2018), which is due on January 1, 2028, (ii) principal (€283.0 million at September 30, 2018) associated with our loan receivable from UPC Germany (the **2016 UPC Germany Loan Receivable**), which originated in June 2016 and matures on January 15, 2023, and (iii) principal (€230.0 million at September 30, 2018) associated with our loan receivable from UPC Germany (the **2015 UPC Germany Loan Receivable**), which originated in December 2015 and matures on February 15, 2026. Amounts loaned to UPC Germany pursuant to the 2016 UPC Germany Loan Receivable and the 2015 UPC Germany Loan Receivable agreements are subject to certain restrictions contained in the instruments governing our indebtedness. The interest rate on the noncurrent portion of the 2012 UPC Germany Loan Receivable is fixed at 4.89% throughout the term of the agreement. The interest rates on the 2016 UPC Germany Loan Receivable and 2015 UPC Germany Loan Receivable, which are subject to adjustment, were 4.90% and 5.25%, respectively, as of September 30, 2018.
- (d) Represents various non-interest bearing related-party payables that may be cash or loan settled.
- (e) Represents a loan payable to our shareholder, UPC Germany, that originated in December 2010 (the **Shareholder Loan**). The Shareholder Loan bears interest at 8.125% per annum and accrued interest is generally transferred to the loan balance annually on January 1. All principal and accrued interest on this loan (collectively €354.6 million at September 30, 2018) is due and payable on January 1, 2030. The net increase in the principal amount during the nine months ended September 30, 2018 includes (i) the transfer of €25.2 million in non-cash accrued interest to the loan balance and (ii) a non-cash increase of €2.7 million related to the settlement of related-party payables.

Equity transactions. In connection with the exercise of Liberty Global share appreciation rights and the vesting of Liberty Global restricted share awards held by certain employees of our subsidiaries, we recorded aggregate capital charges of €2.7 million and €1.9 million during the nine months ended September 30, 2018 and 2017, respectively, in our condensed consolidated statements of changes in owner's deficit. We and Liberty Global have agreed that these capital charges will be based on the fair value of the underlying Liberty Global shares associated with share-based incentive awards that vest or are exercised during the period, subject to any reduction that is necessary to ensure that the capital charge does not exceed the amount of share-based compensation expense recorded by our company with respect to Liberty Global share-based incentive awards.

(12) Commitments and Contingencies

Commitments

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

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Our network and connectivity commitments, purchase commitments, operating leases, programming obligations and other commitments as of September 30, 2018 are set forth in the following table. The commitments included in this table do not reflect liabilities that are included in our September 30, 2018 condensed consolidated balance sheet.

	Payments due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	in millions							
Network and connectivity commitments	€ 33.2	€ 100.5	€ 88.2	€ 87.4	€ 85.3	€ 84.5	€ 566.2	€ 1,045.3
Purchase commitments (a).....	114.6	32.9	32.1	—	—	—	—	179.6
Operating leases.....	3.8	14.9	13.6	11.0	9.7	8.0	20.0	81.0
Programming commitments....	8.5	34.0	14.1	—	—	—	—	56.6
Other commitments	—	0.1	0.1	0.1	0.1	—	—	0.4
Total	€ 160.1	€ 182.4	€ 148.1	€ 98.5	€ 95.1	€ 92.5	€ 586.2	€ 1,362.9

(a) Includes €17.9 million of related-party purchase obligations due during the remainder of 2018.

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

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

Programming commitments consist of obligations associated with certain of our programming and copyright contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems or (iii) whether we discontinue our premium 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 third-party programming and copyright costs aggregated €118.0 million and €110.7 million during the nine months ended September 30, 2018 and 2017, respectively.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2018 and 2017, see note 5.

Guarantees and Other Credit Enhancements

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

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Legal and Regulatory Proceedings and Other Contingencies

Telekom Deutschland Litigation. On December 28, 2012, we filed a lawsuit against Telekom Deutschland GmbH (**Telekom Deutschland**), a subsidiary of Deutsche Telekom, in which we assert that we pay excessive prices for the co-use of Telekom Deutschland's cable ducts in our footprint. The Federal Network Agency approved rates for the co-use of certain ducts of Telekom Deutschland in March 2011. Based in part on these approved rates, we initially sought a reduction of the annual lease fees (approximately €76 million for 2017) by approximately two-thirds and have subsequently increased our claim to seek a reduction by approximately five-sixths. In addition, we are seeking the return of similarly calculated overpayments from 2009 through the ultimate settlement date, plus accrued interest. In October 2016, the first instance court dismissed this action, and in March 2018, the court of appeal dismissed our appeal of the first instance court's decision and did not grant permission to appeal further to the Federal Court of Justice. We have filed a motion with the Federal Court of Justice to grant permission to appeal. The resolution of this matter may take several years and no assurance can be given that our claims will be successful. If this matter is settled subsequent to the completion of the sale of our company to Vodafone, Liberty Global is entitled to 50% of any amounts recovered, plus 50% of the net present value of certain cost savings in future periods that are attributable to the favorable resolution of this matter, less 50% of associated legal or other third-party fees paid post-completion of the sale of our company to Vodafone.

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

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

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2017 annual report, is intended to assist in providing an understanding of our results of operations and financial condition and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and nine months ended September 30, 2018 and 2017.
- *Material Changes in Financial Condition.* This section provides an analysis of our parent and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Forward-looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product and finance strategies in 2018, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, liquidity and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties in the following list, and those described herein, as some of but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Germany;
- the competitive environment in Germany, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;

- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Germany and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would impact our contractual relationships with housing associations and third parties that operate and administer in-building networks on behalf of housing associations or would open our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan, with respect to the businesses we may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in Germany;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors (including our third-party wireless network provider under our mobile virtual network operator (**MVNO**) arrangement) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our planned new build and upgrade activities;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in the nature of key relationships with Telekom Deutschland and certain of its affiliates for the access and operation of a significant portion of our network;
- our ability to successfully interact with labor councils and unions; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband distribution and mobile service industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein,

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

Overview

General

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

Operations

As of September 30, 2018, we served 13,214,300 revenue generating units (RGUs), consisting of 6,301,200 video RGUs (including 1,627,200 enhanced video RGUs), 3,573,800 broadband internet RGUs and 3,339,300 fixed-line telephony RGUs over a broadband communications network that passed 13,083,200 homes. In addition, at September 30, 2018, we served 285,500 mobile subscribers.

Competition and Other External Factors

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

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

On June 23, 2016, the United Kingdom (**U.K.**) held a referendum in which U.K. citizens voted in favor of, on an advisory basis, an exit from the E.U., commonly referred to as “**Brexit**.” Failing the implementation of an agreed extension, the U.K. will leave the E.U. on March 29, 2019. The potential impacts, if any, of the considerable 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.

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

Material Changes in Results of Operations

General

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

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

As further described in note 2 to our condensed consolidated financial statements, we adopted IFRS 15 on January 1, 2018 using the cumulative effect transition method. As such, the comparative information for the three and nine months ended September 30, 2017 contained within our condensed consolidated financial statements and notes thereto has not been restated and continues to be reported under the accounting standards in effect for such period. In order to provide a more meaningful comparison, in the following discussion and analysis of our results of operations, we present our revenue for the three and nine months ended September 30, 2017 on a pro forma basis that gives effect to the adoption of IFRS 15 as if such adoption had occurred on January 1, 2017.

The following table presents (i) the impact of the adoption of IFRS 15 on revenue and Adjusted Segment EBITDA for the three and nine months ended September 30, 2018 and (ii) the pro forma impact of the adoption of IFRS 15 on revenue and Adjusted Segment EBITDA for the three and nine months ended September 30, 2017 as if such adoption had occurred on January 1, 2017.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
Increase (decrease) to revenue and Adjusted Segment EBITDA.....	€ 0.1	€ (1.1)	€ (0.2)	€ (3.8)

Revenue

Our revenue is derived primarily from residential and B2B communications services, including video, broadband internet, fixed-line telephony and mobile services. Variances in the subscription revenue that we receive from our customers are a function of (i) changes in the number of RGUs or mobile subscribers outstanding during the period and (ii) changes in average monthly subscription revenue per average RGUs or mobile subscribers, as applicable (**ARPU**). Changes in ARPU can be attributable to (a) 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 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.

Our revenue by major category is set forth below.

	Three months ended September 30,		Increase (decrease)	
	2018	2017	€	%
		pro forma in millions		
Residential revenue:				
Residential cable revenue (a):				
Subscription revenue (b):				
Video.....	€ 257.0	€ 265.1	€ (8.1)	(3.1)
Broadband internet.....	170.7	160.7	10.0	6.2
Fixed-line telephony	113.4	111.8	1.6	1.4
Total subscription revenue.....	541.1	537.6	3.5	0.7
Non-subscription revenue	39.1	22.3	16.8	75.3
Total residential cable revenue.....	580.2	559.9	20.3	3.6
Residential mobile revenue (c):				
Subscription revenue (b)	3.6	4.4	(0.8)	(18.2)
Non-subscription revenue	0.2	10.7	(10.5)	(98.1)
Total residential mobile revenue.....	3.8	15.1	(11.3)	(74.8)
Total residential revenue	584.0	575.0	9.0	1.6
B2B revenue (d):				
Subscription revenue	18.9	13.9	5.0	36.0
Non-subscription revenue.....	9.6	4.5	5.1	113.3
Total B2B revenue.....	28.5	18.4	10.1	54.9
Other revenue.....	1.7	1.2	0.5	41.7
Total.....	€ 614.2	€ 594.6	€ 19.6	3.3

	Nine months ended September 30,		Increase (decrease)	
	2018	2017	€	%
	pro forma			
	in millions			
Residential revenue:				
Residential cable revenue (a):				
Subscription revenue (b):				
Video	€ 779.1	€ 794.6	€ (15.5)	(2.0)
Broadband internet.....	506.4	475.5	30.9	6.5
Fixed-line telephony	339.1	331.0	8.1	2.4
Total subscription revenue.....	1,624.6	1,601.1	23.5	1.5
Non-subscription revenue	128.1	77.0	51.1	66.4
Total residential cable revenue.....	1,752.7	1,678.1	74.6	4.4
Residential mobile revenue (c):				
Subscription revenue (b)	11.0	12.8	(1.8)	(14.1)
Non-subscription revenue	0.7	26.1	(25.4)	(97.3)
Total residential mobile revenue	11.7	38.9	(27.2)	(69.9)
Total residential revenue.....	1,764.4	1,717.0	47.4	2.8
B2B revenue (d):				
Subscription revenue	52.9	38.8	14.1	36.3
Non-subscription revenue.....	40.6	11.9	28.7	241.2
Total B2B revenue.....	93.5	50.7	42.8	84.4
Other revenue	4.2	4.4	(0.2)	(4.5)
Total	€ 1,862.1	€ 1,772.1	€ 90.0	5.1

- (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, installation revenue, 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.
- (d) B2B subscription revenue represents revenue from services to certain SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. 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 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.

The details of the pro forma increase in our revenue during the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017, are set forth below:

	Three-month period			Nine-month period		
	Subscription revenue (a)	Non-subscription revenue	Total	Subscription revenue (a)	Non-subscription revenue	Total
	in millions					
Increase (decrease) in residential cable subscription revenue due to change in:						
Average number of RGUs (b).....	€ 4.9	€ —	€ 4.9	€ 15.8	€ —	€ 15.8
ARPU (c)	(1.4)	—	(1.4)	7.7	—	7.7
Increase in residential cable non-subscription revenue (d).....	—	16.8	16.8	—	51.1	51.1
Total increase in residential cable revenue	3.5	16.8	20.3	23.5	51.1	74.6
Decrease in residential mobile revenue (e) ...	(0.8)	(10.5)	(11.3)	(1.8)	(25.4)	(27.2)
Increase in B2B revenue (f).....	5.0	5.1	10.1	14.1	28.7	42.8
Increase (decrease) in other revenue	—	0.5	0.5	—	(0.2)	(0.2)
Total.....	€ 7.7	€ 11.9	€ 19.6	€ 35.8	€ 54.2	€ 90.0

- (a) Residential cable subscription revenue includes revenue from multi-year bulk agreements with landlords or housing associations or with third parties that operate and administer the in-building networks on behalf of housing associations. These bulk agreements, which generally allow for the procurement of the basic video signals at volume-based discounts, provide access to approximately two-thirds of our video subscribers. Our bulk agreements are, to a significant extent, medium- and long-term contracts. As of September 30, 2018, bulk agreements covering approximately 34% of the video subscribers that we serve expire by the end of 2019 or are terminable on 30-days notice. During the three months ended September 30, 2018, our 20 largest bulk agreement accounts generated approximately 9% of our total revenue (including estimated amounts billed directly to the building occupants for digital video, broadband internet and fixed-line telephony services). No assurance can be given that our bulk agreements will be renewed or extended on financially equivalent terms, or at all.
- (b) The increases in residential cable subscription revenue related to changes in the average number of RGUs are attributable to the net effect of (i) increases in the average number of broadband internet and fixed-line telephony RGUs and (ii) decreases in the average number of video RGUs.
- (c) The changes in residential cable subscription revenue related to changes in ARPU are attributable to (i) improvements in RGU mix and (ii) the net effect of (a) higher ARPU from broadband internet services and (b) lower ARPU from video and fixed-line telephony services.
- (d) The increases in residential cable non-subscription revenue are primarily due to increases in carriage fee revenue, including (i) for the nine-month comparison, a €31.2 million benefit related to the settlement of prior-year fees in connection with the execution of a new carriage fee contract during the first quarter of 2018, (ii) an €11.7 million benefit related to the settlement of prior-period fees in connection with the execution of a new carriage fee contract during the third quarter of 2018 and (iii) for the nine-month comparison, a decrease of €9.7 million attributable to the June 2017 discontinuation of our analog video services. Channel carriage revenue relates to fees received for the carriage of certain channels included in our basic and enhanced video offerings. This channel carriage fee revenue is subject to contracts that expire or are otherwise terminable by either party on various dates ranging from 2018 through 2028. Excluding the impact of the settlement mentioned above, the aggregate amount of revenue related to these channel carriage contracts represented approximately 6% of our total revenue during the three months ended September 30, 2018. No assurance can be given that these contracts will be renewed or extended on financially equivalent terms, or at all.
- (e) The decreases in residential mobile non-subscription revenue are primarily due to decreases in mobile handset sales as a

result of the transfer of our wholesale handset program to another subsidiary within Liberty Global's central and corporate operations effective January 1, 2018.

- (f) The increases in B2B subscription revenue are primarily attributable to increases in the average number of broadband internet and fixed-line telephony SOHO subscribers. The increases in B2B non-subscription revenue are primarily due to increases in interconnect revenue related to wholesale telephony services, which typically generate relatively low margins.

OpEx

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

The details of our OpEx costs are as follows:

	Three months ended		Increase (decrease)	
	September 30,		€	%
	2018	2017		
	in millions			
Direct costs (programming and copyright, interconnect and other).....	€ 48.9	€ 58.0	€ (9.1)	(15.7)
Core network and IT	39.7	38.4	1.3	3.4
Customer service costs.....	23.7	26.7	(3.0)	(11.2)
Personnel costs.....	20.2	19.7	0.5	2.5
Outsourced labor.....	7.8	6.8	1.0	14.7
Business services.....	5.1	3.7	1.4	37.8
Other indirect costs.....	1.2	0.8	0.4	50.0
Total.....	€ 146.6	€ 154.1	€ (7.5)	(4.9)

	Nine months ended		Increase (decrease)	
	September 30,		€	%
	2018	2017		
	in millions			
Direct costs (programming and copyright, interconnect and other).....	€ 171.6	€ 167.3	€ 4.3	2.6
Core network and IT	109.1	109.4	(0.3)	(0.3)
Customer service costs.....	74.3	72.6	1.7	2.3
Personnel costs.....	64.3	67.5	(3.2)	(4.7)
Outsourced labor.....	22.6	21.9	0.7	3.2
Business services.....	14.5	12.8	1.7	13.3
Other indirect costs.....	8.1	10.5	(2.4)	(22.9)
Total.....	€ 464.5	€ 462.0	€ 2.5	0.5

Our total OpEx increased (decreased) (€7.5 million) or (4.9%) and €2.5 million or 0.5% during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These changes include the following factors:

- An increase (decrease) in direct costs of (€9.1 million) or (15.7%) and €4.3 million or 2.6%, respectively, primarily due to the net effect of (i) decreases in mobile handset and other device costs as a result of the transfer of our wholesale handset program, as described above, (ii) increases in interconnect and access costs, primarily attributable to higher interconnect call volumes, and (iii) for the nine-month comparison, an €8.3 million increase associated with the settlement of prior-year amounts in connection with the execution of a new programming agreement;
- An increase (decrease) in personnel costs of €0.5 million or 2.5% and (€3.2 million) or (4.7%), respectively, largely due to the net effect of (i) decreases in temporary personnel costs and (ii) higher incentive compensation costs; and
- An increase (decrease) in customer service costs of (€3.0 million) or (11.2%) and €1.7 million or 2.3%, respectively, largely due to the net effect of (i) an increase for the nine-month comparison and a decrease for the three-month comparison in third-party call center costs and (ii) for the three-month comparison, a decrease in customer premises equipment refurbishment costs.

SG&A

SG&A expenses include human resources, information technology, general services, management, finance, legal, external sales and marketing costs, share-based compensation and other general expenses. As noted above under OpEx, we are subject to inflationary pressures with respect to our staff-related and other costs.

The details of our SG&A expenses are as follows:

	Three months ended September 30,		Increase (decrease)	
	2018	2017	€	%
	in millions			
Personnel costs	€ 29.8	€ 27.0	€ 2.8	10.4
Marketing and selling	23.6	21.5	2.1	9.8
Business services	7.2	9.0	(1.8)	(20.0)
Core network and IT	(1.6)	(0.9)	(0.7)	77.8
Customer service costs	0.1	(0.3)	0.4	(133.3)
Other indirect costs	6.3	6.3	—	—
Total	€ 65.4	€ 62.6	€ 2.8	4.5
	Nine months ended September 30,		Increase (decrease)	
	2018	2017	€	%
	in millions			
Personnel costs	€ 87.8	€ 83.6	€ 4.2	5.0
Marketing and selling	67.7	70.6	(2.9)	(4.1)
Business services	22.9	25.5	(2.6)	(10.2)
Core network and IT	3.9	3.3	0.6	18.2
Customer service costs	0.2	0.3	(0.1)	(33.3)
Other indirect costs	14.6	14.3	0.3	2.1
Total	€ 197.1	€ 197.6	€ (0.5)	(0.3)

Our total SG&A expense increased (decreased) €2.8 million or 4.5% and (€0.5 million) or (0.3%) during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These changes include the following factors:

- Increases in personnel costs of €2.8 million or 10.4% and €4.2 million or 5.0%, respectively, largely due to the net effect of (i) higher staffing levels, (ii) decreases in temporary personnel costs and (iii) increases in share-based compensation expense;
- An increase (decrease) in external sales and marketing costs of €2.1 million or 9.8% and (€2.9 million) or (4.1%), respectively, largely due to changes in costs associated with advertising campaigns; and
- Decreases in business service and certain other costs of €1.8 million or 20.0% and €2.6 million and 10.2%, respectively, largely due to lower consulting costs.

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 €59.0 million and €55.3 million during the three months ended September 30, 2018 and 2017, respectively, and €193.7 million and €171.9 million during the nine months ended September 30, 2018 and 2017, respectively. These charges generally relate to management, finance, legal, technology, marketing and other corporate and administrative services that support our company's operations, including the use of the UPC trademark. For additional information, see note 11 to our condensed consolidated financial statements.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of (€2.3 million) and (€0.3 million) during the three months ended September 30, 2018 and 2017, respectively, and (€0.4 million) and €9.9 million during the nine months ended September 30, 2018 and 2017, respectively. The 2018 amounts include (i) restructuring charges of €6.7 million and €10.7 million, respectively, (ii) the third quarter 2018 release of a provision for legal contingencies of €9.9 million and (iii) gains on disposal of assets of €0.7 million and €2.7 million, respectively. The 2017 amounts include (a) provisions for legal contingencies of nil and €9.9 million, respectively, (b) gains on disposal of assets of €2.4 million and €3.9 million, respectively, and (c) restructuring charges of €1.2 million and €2.4 million, respectively.

Depreciation and amortization expense

Our depreciation and amortization expense increased (decreased) €6.4 million or 3.4% and (€24.1 million) or (4.0%) during the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017. These changes are primarily due to the net effect of (i) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) decreases associated with certain assets becoming fully depreciated and (iii) for the nine-month comparison, lower amortization of customer relationships.

Net financial and other expense

Our net financial and other expense primarily includes interest expense, interest income, foreign currency transaction gains or losses, realized and unrealized gains or losses on derivative instruments, losses on debt modification and extinguishment and other income, net. As further described below, we recorded net financial and other expense of €55.1 million and €113.8 million during the three months ended September 30, 2018 and 2017, respectively, and €194.7 million and €245.3 million during the nine months ended September 30, 2018 and 2017, respectively.

Interest expense – third-party

Our third-party interest expense increased €6.8 million or 7.4% and €33.4 million or 11.9% during the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017, primarily due to lower weighted average interest

rates. We have completed various financing transactions that have lowered average interest rates and extended debt maturities. For additional information regarding our outstanding indebtedness, see note 9 to our condensed consolidated financial statements.

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

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 increased €0.6 million or 9.5% and €1.8 million or 9.6% during the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017, primarily due to (i) for the nine-month comparison, higher weighted average interest rates and (ii) higher average outstanding related-party debt balances. Our related-party interest expense primarily relates to the Shareholder Loan. For additional information, see note 11 to our condensed consolidated financial statements.

Foreign currency transaction gains (losses), net

We recognized foreign currency transaction gains (losses), net, of (€18.1 million) and €71.6 million during the three months ended September 30, 2018 and 2017, respectively, and (€98.2 million) and €253.3 million during the nine months ended September 30, 2018 and 2017, respectively. These amounts primarily relate to the remeasurement of our U.S. dollar-denominated indebtedness.

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

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

Our realized and unrealized gains (losses) on derivative instruments, net, were €25.1 million and (€83.5 million) during the three months ended September 30, 2018 and 2017, respectively, and €107.2 million and (€217.6 million) during the nine months ended September 30, 2018 and 2017, respectively. The gains during the three and nine months ended September 30, 2018 are attributable to the net effect of (i) net gains associated with changes in the relative value of the U.S. dollar and the euro and (ii) net losses associated with changes in certain market interest rates. In addition, the gains during the 2018 periods include net losses of €6.8 million and €16.7 million, respectively, resulting from changes in our credit risk valuation adjustments. The losses during the three and nine months ended September 30, 2017 are attributable to the net effect of (a) net losses associated with changes in the relative value of the U.S. dollar and the euro and (b) a loss for the three-month comparison and a gain for the nine-month comparison associated with changes in certain market interest rates. In addition, the losses during the 2017 periods include net gains of €7.2 million and €35.8 million, respectively, resulting from changes in our credit risk valuation adjustments.

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

Losses on debt modification and extinguishment, net

We recognized losses on debt modification and extinguishment, net, of nil and €11.5 million during the three and nine months ended September 30, 2018, respectively, attributable to (i) the payment of €9.5 million of redemption premiums and (ii) the write-off of €2.0 million of unamortized discounts and deferred financing costs.

We recognized losses on debt modification and extinguishment, net, of €19.0 million and €26.3 million during the three and nine months ended September 30, 2017, respectively, attributable to (i) the payment of €14.5 million and €20.7 million, respectively, of redemption premiums and (ii) the write-off of €4.5 million and €5.6 million, respectively, of unamortized discounts and deferred financing costs.

For additional information, see note 8 to our condensed consolidated financial statements

Other income, net

We recognized other income, net, of €30.5 million and €75.9 million during the three and nine months ended September 30, 2018 and €15.9 million and €45.0 million during the three and nine months ended September 30, 2017, respectively. These amounts primarily include interest income of €30.5 million and €77.7 million during the 2018 periods, respectively, and €16.7 million and €47.5 million during the 2017 periods, respectively.

Income tax expense

We recognized income tax expense of €39.7 million and €16.9 million during the three months ended September 30, 2018 and 2017, respectively.

The income tax expense during the three months ended September 30, 2018 and 2017 differs from the expected income tax expense of €30.5 million and €6.6 million, respectively, (based on the German group income tax rate of 32.47% and 32.78% for the 2018 and 2017 periods, respectively) primarily due to the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

We recognized income tax expense of €113.1 million and €60.2 million during the nine months ended September 30, 2018 and 2017, respectively.

The income tax expense during the nine months ended September 30, 2018 and 2017 differs from the expected income tax expense of €75.9 million and €28.3 million, respectively, (based on the German group income tax rate of 32.47% and 32.78% for the 2018 and 2017 periods, respectively) primarily due to the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

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

Net earnings

We reported net earnings of €54.2 million and €3.2 million during the three months ended September 30, 2018 and 2017, respectively, and €120.5 million and €26.0 million during the nine months ended September 30, 2018 and 2017, respectively.

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

Subject to the limitations included in our various debt instruments, we expect that Liberty Global will continue to cause our company to maintain our debt at current levels relative to our Covenant EBITDA. As a result, we expect that we will continue to

report significant levels of interest expense for the foreseeable future. For information regarding 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 regarding the reasons for changes in specific line items in our condensed consolidated statements of operations, see the above discussion.

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

Although our consolidated operating subsidiaries generate cash from operating activities, the terms of our subsidiaries' debt instruments restrict our ability to access the liquidity of these subsidiaries. At September 30, 2018, substantially all of our consolidated cash and cash equivalents was held by our subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal considerations or other factors.

Liquidity of Unitymedia

Our sources of liquidity at the parent level include (i) our cash and cash equivalents, (ii) amounts due under the 2012 UPC Germany Loan Receivable, the 2015 UPC Germany Loan Receivable and the 2016 UPC Germany Loan Receivable, (iii) funding from UPC Germany (and ultimately from Liberty Global or other Liberty Global subsidiaries) in the form of loans or contributions, as applicable, and (iv) subject to certain restrictions as noted above, proceeds in the form of distributions or loans from Unitymedia Hessen, Unitymedia NRW GmbH (**Unitymedia NRW**), Unitymedia BW GmbH (**KBW**) or other subsidiaries.

Our corporate liquidity requirements include (i) corporate general and administrative expenses and (ii) interest payments on outstanding debt. From time to time, we may also require cash in connection with (a) the repayment of our debt, (b) the satisfaction of contingent liabilities or (c) acquisitions and other investment opportunities. No assurance can be given that funding from UPC Germany (and ultimately from Liberty Global or other Liberty Global subsidiaries), our subsidiaries or external sources would be available on favorable terms, or at all.

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

In addition to cash and cash equivalents, the primary sources of liquidity of Unitymedia Hessen, Unitymedia NRW, KBW and our other operating subsidiaries is cash provided by operations and, in the case of Unitymedia Hessen and Unitymedia NRW, any borrowing availability under the Unitymedia Credit Facilities. At September 30, 2018, we had aggregate borrowing capacity of €500.0 million under the Unitymedia Credit Facilities. For information regarding our borrowing availability under the Unitymedia Credit Facilities, see note 9 to our condensed consolidated financial statements.

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

Capitalization

At September 30, 2018, our outstanding consolidated third-party debt before deferred financing costs and accrued interest, together with our finance lease obligations, aggregated €7,876.6 million, substantially all of which is not due until 2024 or thereafter. For additional information regarding our debt maturities, see note 9 to our condensed consolidated financial statements.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our Covenant EBITDA and to achieve adequate returns on our property, equipment and intangible asset additions and acquisitions. Our ability to maintain or increase cash from our operations will depend on our future

operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. In addition, our ability to obtain additional debt financing is limited by the incurrence-based leverage covenants contained in our and our subsidiaries' various debt instruments. In this regard, 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.

We believe that our cash and cash equivalents, together with our other sources of liquidity described above, will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. However, as our maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 are summarized as follows:

	Nine months ended September 30,		Change
	2018	2017	
	in millions		
Net cash provided by operating activities	€ 999.1	€ 814.7	€ 184.4
Net cash used by investing activities	(1,160.7)	(720.1)	(440.6)
Net cash provided (used) by financing activities	163.8	(95.9)	259.7
Net increase (decrease) in cash and cash equivalents and restricted cash	<u>€ 2.2</u>	<u>€ (1.3)</u>	<u>€ 3.5</u>

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

Investing Activities. The increase in net cash used by our investing activities is primarily attributable to the net effect of (i) an increase in cash used of €548.6 million to fund advances to UPC Germany and (ii) a decrease in cash used of €108.3 million associated with lower capital expenditures.

The capital expenditures that we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or finance lease arrangements. Instead, these amounts are reflected as non-cash additions to our property, equipment and intangible assets when the underlying assets are delivered and as repayments of debt when the principal is repaid. In this discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude amounts financed under capital-related vendor financing or finance lease arrangements, and (ii) our total property, equipment and intangible asset additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or finance lease arrangements. For further details regarding our property, equipment and intangible asset additions and our debt, see notes 7 and 9, respectively, to our condensed consolidated financial statements. A reconciliation of our consolidated property, equipment and intangible asset additions to our consolidated capital expenditures as reported in our condensed consolidated statements of cash flows is set forth below:

	Nine months ended September 30,	
	2018	2017
	in millions	
Property, equipment and intangible asset additions	€ 552.4	€ 523.3
Assets acquired under capital-related vendor financing arrangements and finance lease obligations	(259.1)	(155.7)
Changes in liabilities related to capital expenditures (including related-party amounts)	(22.3)	11.7
Capital expenditures.....	<u>€ 271.0</u>	<u>€ 379.3</u>

The increase in our property, equipment and intangible asset additions is primarily due to (i) expenditures for new build and upgrade projects to expand services, (ii) expenditures for the purchase and installation of customer premises equipment, (iii) expenditures for maintenance and support projects and (iv) capitalized expenditures related to third-party commissions. In terms of the composition of our property, equipment and intangible asset additions during the nine months ended September 30, 2018, (a) 38% relates to the rebuild and upgrade of our distribution network, (b) 19% relates to the purchase and installation of customer premises equipment, (c) 17% relates to general maintenance and support systems, (d) 14% relates to capitalized third-party commissions and (e) the remainder relates to other expenditures, including product innovation.

Financing Activities. The change in net cash provided (used) by our financing activities is primarily attributable to an increase in cash of €271.3 million due to higher net borrowings of third-party debt.

Debt Maturities and Contractual Commitments

The euro equivalents of our contractual commitments as of September 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	€ 117.9	€ 411.6	€ 3.0	€ 2.9	€ 2.8	€ 778.5	€ 6,547.1	€ 7,863.8
Related-party	—	—	—	—	—	—	334.0	334.0
Finance leases (excluding interest).....	0.7	2.6	2.4	2.2	1.8	0.6	2.5	12.8
Network and connectivity commitments	33.2	100.5	88.2	87.4	85.3	84.5	566.2	1,045.3
Purchase commitments (a)....	114.6	32.9	32.1	—	—	—	—	179.6
Operating leases.....	3.8	14.9	13.6	11.0	9.7	8.0	20.0	81.0
Programming commitments	8.5	34.0	14.1	—	—	—	—	56.6
Other commitments	—	0.1	0.1	0.1	0.1	—	—	0.4
Total (b)	<u>€ 278.7</u>	<u>€ 596.6</u>	<u>€ 153.5</u>	<u>€ 103.6</u>	<u>€ 99.7</u>	<u>€ 871.6</u>	<u>€ 7,469.8</u>	<u>€ 9,573.5</u>
Projected cash interest payments on third-party debt and finance lease obligations (c)	<u>€ 17.9</u>	<u>€ 314.3</u>	<u>€ 325.2</u>	<u>€ 324.8</u>	<u>€ 324.7</u>	<u>€ 309.2</u>	<u>€ 741.1</u>	<u>€ 2,357.2</u>

- (a) Includes €17.9 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 September 30, 2018 condensed consolidated balance sheet other than debt and finance lease obligations.
- (c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of September 30, 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 or original issue premiums or discounts. Amounts associated with related-party debt are excluded from the table.

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

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2018 and 2017, see note 5 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected cash flows associated with our derivative instruments at September 30, 2018. The euro equivalents presented below are based on interest rates and exchange rates that were in effect as of September 30, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash paid or received in future periods. For additional information regarding our derivative instruments, see note 5 to our condensed consolidated financial statements.

	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)	€ (22.7)	€ (35.8)	€ (68.7)	€ (48.9)	€ (54.6)	€ (48.7)	€ (108.8)	€ (388.2)
Principal-related (b)...	—	—	(2.1)	—	—	(137.7)	24.7	(115.1)
Total	<u>€ (22.7)</u>	<u>€ (35.8)</u>	<u>€ (70.8)</u>	<u>€ (48.9)</u>	<u>€ (54.6)</u>	<u>€ (186.4)</u>	<u>€ (84.1)</u>	<u>€ (503.3)</u>

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

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