# Kabel Deutschland Holding AG
# Unterfoehring

Annual Report pursuant to
Section 37v and Section 37y WpHG

for the Fiscal Year Ended
March 31, 2013

Kabel Deutschland

| Selected Key Figures | Fiscal year ended March 31, 2013 | 2012 | Variance | Variance |
|---|---|---|---|---|
| **Consolidated Statement of Income (in € million)** | | | | |
| Revenues | 1,829.9 | 1,699.7 | 130.2 | 7.7% |
| Adjusted EBITDA [1] | 862.3 | 795.5 | 66.8 | 8.4% |
| Adjusted EBITDA margin (in %) [2] | 47.1 | 46.8 | - | - |
| Depreciation and Amortization | 360.9 | 395.9 | (35.0) | (8.8)% |
| Net profit / loss for the period | 246.8 | 159.4 | 87.4 | 54.8% |
| Earnings per Share (in €) [3] | 2.79 | 1.78 | 1.01 | 56.7% |
| **Consolidated Statement of Financial Position (in € million)** | | | | |
| Cash and cash equivalents | 609.5 | 133.8 | 475.7 | 355.5% |
| Net debt [4] | 2,742.9 | 2,690.0 | 52.9 | 2.0% |
| Leverage net debt to Adjusted EBITDA (in times) | 3.2 | 3.4 | - | - |
| **Consolidated Statement of Cash Flows (in € million)** | | | | |
| Cash paid for capital expenditure [5] | (472.3) | (391.2) | (81.1) | 20.7% |
| thereof success based investments | (311.5) | (274.8) | (36.7) | 13.4% |
| thereof non success based investments | (160.8) | (116.4) | (44.4) | 38.1% |
| Cash flows from operating activities | 729.8 | 729.9 | (0.1) | 0.0% |
| Cash flows from financing activities | 217.4 | (232.9) | 450.3 | - |
| Changes in cash and cash equivalents | 475.8 | 105.4 | 370.4 | 351.4% |
| Operating free cash flow [6] | 390.0 | 404.3 | (14.3) | (3.5)% |
| **Network (in thousands)** | | | | |
| Homes passed | 15,293 | 15,293 | 0 | 0.0% |
| Homes passed upgraded for two-way communication | 13,334 | 12,682 | 652 | 5.1% |
| Homes passed upgraded for two-way communication being marketed [7] | 11,220 | 10,632 | 588 | 5.5% |
| **Subscribers (in thousands)** | | | | |
| Direct subscribers (incl. Internet and Phone "Solo" subscribers) [8] | 7,576 | 7,536 | 40 | 0.5% |
| Indirect Basic Cable subscribers | 897 | 1,009 | (112) | (11.1)% |
| **Total unique subscribers (homes connected)** | **8,473** | **8,545** | **(72)** | **(0.8)%** |
| **RGUs (in thousands)** [9] | | | | |
| Basic Cable | 8,617 | 8,702 | (85) | (1.0)% |
| Premium-TV [10] | 2,070 | 1,680 | 390 | 23.2% |
| Internet and Phone | 3,661 | 3,067 | 594 | 19.4% |
| **Total RGUs** | **14,348** | **13,449** | **899** | **6.7%** |
| **RGUs per subscriber (in units)** | **1.69** | **1.57** | **0.12** | **7.6%** |
| **ARPU (in € / month)** | | | | |
| Total blended TV ARPU per subscriber [11] | 10.37 | 9.86 | 0.51 | 5.2% |
| Total blended Internet and Phone ARPU per subscriber [12] | 28.27 | 28.24 | 0.03 | 0.1% |
| **Total blended ARPU per subscriber** [13] | **15.87** | **14.44** | **1.43** | **9.9%** |
| **Employees (average headcount)** | | | | |
| Employees | 3,157 | 2,781 | 376 | 13.5% |

[1] EBITDA consists of profit from ordinary activities before depreciation and amortization. We calculate "Adjusted EBITDA" as profit from ordinary activities before depreciation and amortization, expenses related to LTIP, expenses related to acquisitions and changes in norms and expenses related to restructuring and legal reorganization.

[2] Adjusted EBITDA margin is a calculation of Adjusted EBITDA as a percentage of total revenues.

[3] There is no variance between basic and diluted earnings per share.

[4] Debt stated at nominal values minus cash and cash equivalents.

[5] Capital expenditure consists of cash paid for investments in intangible assets as well as property and equipment.

[6] Adjusted EBITDA minus cash paid for investments (without acquisitions).

[7] Homes passed being marketed are those homes to which we currently sell our Internet and / or Phone products.

[8] Internet and Phone "Solo" subscribers are non-Basic Cable service customers subscribing to Internet and / or Phone services only.

[9] RGU (revenue generating unit) relates to sources of revenue, which may not always be the same as subscriber numbers. For example, one person may subscribe to two different services, in which case two RGUs would be assigned to that one subscriber.

[10] Premium-TV RGUs consist of RGUs for our Pay-TV product (Kabel Premium HD and Kabel International) as well as our DVR products Kabel Komfort HD and Kabel Komfort Premium HD.

[11] Total blended TV ARPU per subscriber is calculated by dividing the subscription revenues (excluding installation fees and other non-recurring revenues) generated for a specified period from our TV Business products by the sum of the monthly average number of Basic Cable subscribers in that period.

[12] Total blended Internet and Phone ARPU per subscriber is calculated by dividing the Internet and Phone subscription revenues including usage dependent fees (excluding installation fees and other non-recurring revenues) generated in the relevant period by the sum of the monthly average number of Internet and Phone subscribers of these products in that period.

[13] Total blended ARPU per subscriber is calculated by dividing recurring TV and Internet and Phone subscription revenues including usage dependent fees (excluding installation fees and other non-recurring revenues) generated in the relevant period in the TV Business and Internet and Phone Business segments by the sum of the monthly average number of total unique subscribers in that period.

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# REPORT OF THE SUPERVISORY BOARD

**Dear Shareholders,**

In the following, we will give an overview of the activities of the Supervisory Board of Kabel Deutschland Holding AG („KDH AG" or the „Company") and report on the composition and number of the meetings of the Supervisory Board and its committees. Further, we report on the audit of the annual and consolidated financial statements for the fiscal year 2012/2013, including the related audit reports.

## Overview of the activities of the Supervisory Board

During the fiscal year 2012/2013, the Supervisory Board diligently complied with its responsibilities under the law, the Company's Articles of Association and the internal Rules of Procedure, and carefully and regularly monitored and assessed the management function of the Management Board. It was involved at an early stage in all decisions that were of fundamental importance to the Company and, in particular, provided support in the form of strategic development advice.

The Management Board regularly reported to the Supervisory Board, both in writing and orally, in a timely and comprehensive manner on the Company's business plans, strategic developments, the operational business and the situation of KDH AG and the Group, including its risk position. Outside of the Supervisory Board meetings, the Chairman of the Supervisory Board was in close contact with the Management Board, particularly its CEO, and was informed about current developments, the business situation and major business transactions, projects and plans. The Management Board discussed in detail with the Supervisory Board any deviation of business developments from the plans and objectives. This allowed the Supervisory Board to regularly obtain an informative picture of the results of operations, net assets and financial position of the Company.

In all its meetings, the Supervisory Board has assessed the management function of the Management Board on the basis of submitted reports. A subject of regular discussions with the Management Board was the development of the Group in terms of sales, earnings and staffing as well as the exchange about the business situation and strategy of the Group. The criteria for the monitoring of the management by the Management Board of the business and the Group were, in particular, legality, correctness, expediency and economic efficiency. No additional investigative measures, such as the inspection of Company documents, were necessary.

Important topics the Supervisory Board dealt with in fiscal year 2012/2013 were the planned acquisition of the Tele Columbus group, combining the customer service and technical service areas in the wholly owned subsidiary Kabel Deutschland Kundenbetreuung GmbH, which has around 1,300 employees, including approximately 600 who were previously temporary personnel and were hired permanently by the company, the first dividend payment after the Company's IPO, the investment program, with a volume of approximately €300 million, and financing measures.

## Changes in the Supervisory Board

The shareholder representatives Annet Aris, Catherine Mühlemann, Paul Stodden and Torsten Winkler, who have been court-appointed members of the Supervisory Board since November 1, 2011, were confirmed by majorities of more than 97% at the Shareholders' Meeting of October 11, 2012.

With regard to the employee representatives, Helmut von der Lieck left the Supervisory Board in August, as he became Managing Director of Kabel Deutschland Kundenbetreuung GmbH. Florian Landgraf was appointed by the court in September 2012 to take his place as a member of the Supervisory Board.

As in the past fiscal year, Tony Ball is the Chairman and Joachim Pütz is the Deputy Chairman of the Supervisory Board.

## Supervisory Board Committees

The Supervisory Board created the following committees in order to increase its efficiency: the Conciliation Committee in accordance with Section 27 para. 3 of the German Co-Determination Act (Mitbestimmungsgesetz – "MitbestG"), the Executive Committee, the Audit Committee, and the Nomination Committee. The Supervisory Board receives regular reports on the work of the committees.

The **Conciliation Committee** assumes the legal responsibilities laid down in Section 31 para. 3 MitbestG. The members of the Conciliation Committee in the fiscal year 2012/2013 were: Tony Ball (Chairman of the Conciliation Committee), Paul Stodden, Susanne Aichinger and Joachim Pütz.

The **Executive Committee** lays the groundwork for the personnel-related decisions of the Supervisory Board, in particular those relating to the appointment and removal of members of the Management Board and the appointment of the Chairman and decisions as to the remuneration of the Management Board. The Executive Committee is composed of the Chairman of the Supervisory Board, who also acts as Chairman of the Executive Committee, and three further members. In the fiscal year 2012/2013, these were: Catherine Mühlemann, Ronald Hofschläger and Joachim Pütz.

The **Audit Committee** deals particularly with issues relating to the correctness of accounting, the independence of the auditor, internal control system, risk management and compliance. The Audit Committee works closely with the auditor. It issues the audit mandate to the auditor, which includes the definition of the issues that the audit should focus on and the agreement as to the audit fee. In particular, it prepares the resolutions to be passed by the Supervisory Board in regard to the approval of the annual financial statements. To this end it carries out a preliminary audit of the annual financial statements, the combined management report, the proposal as to the use of proceeds and the consolidated financial statements, as well as a review of the auditor's report together with the auditor. The half-year and quarterly financial reports are also reviewed by the Audit Committee, together with the Management Board, prior to publication. The Audit Committee is composed of four members. In fiscal year 2012/2013 these were Martin Stewart (an independent member of the Supervisory Board who possesses expert knowledge in the fields of accounting and auditing gained from his professional practice) as Chairman, together with Susanne Aichinger, Petra Ganser and Torsten Winkler.

The **Nomination Committee** is responsible for proposing suitable candidates to the Supervisory Board for the nomination of the representatives of the shareholders on the Supervisory Board at the Shareholders' Meeting. It comprises the Chairman of the Supervisory Board, who also acts as Chairman of the Nomination Committee, and two further shareholder representatives. In the fiscal year 2012/2013, these were Annet Aris and Paul Stodden.

## Meetings of the Supervisory Board and its committees

In the fiscal year 2012/2013, the Supervisory Board held 11 meetings. No member of the Supervisory Board attended fewer than half of the meetings. The meetings of the Supervisory Board were prepared by the shareholder representatives and the employee representatives in separate sessions. Furthermore, decisions were taken outside of meetings, in particular as to urgent transactions requiring the approval of the Supervisory Board, where necessary.

The Executive Committee convened six meetings and, in particular, laid the groundwork for decisions by the Supervisory Board on corporate and Management Board objectives and personnel matters of the Management Board, in particular periodic extension of the office of the members of the Management Board and remuneration matters. The Audit Committee held six meetings in the fiscal year 2012/2013, in particular for the purposes of auditing of the annual and consolidated financial statements and the half-year and quarterly financial reports, concerning matters of independence and the appointment of the auditor, and concerning the internal control and audit system. In the fiscal year 2012/2013, the Nomination Committee proposed candidates to the Supervisory Board for its election recommendations to the Shareholders' Meeting of October 11, 2012. To date, there has been no need to call a meeting of the Conciliation Committee.

## Corporate Governance

The German Corporate Governance Code's recommendations are taken very seriously by the Supervisory Board. The Supervisory Board has considered the recommendations of the Governmental Commission in regard to the German Corporate Governance Code. It has approved the declaration of compliance that is to be issued annually in conjunction with the Management Board in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz – "AktG") in March 2013. The shareholders can find the declaration of compliance on the Company's website. No board member conflicts of interest, as defined by the German Corporate Governance Code, on the part of the members of the Supervisory Board came to light in regard to the reporting period.

## Main features of the remuneration system

The remuneration system of the Management Board of KDH AG was implemented after the Company's IPO and approved by way of resolution at the Shareholders' Meeting on October 20, 2010. The details can be found in the Compensation Report available on the Company's website.

## Auditing of the Annual and Consolidated Financial Statements

At the Shareholders' Meeting of KDH AG on October 11, 2012, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as auditor for the fiscal year ended March 31, 2013, in line with the proposal made by the Supervisory Board on the recommendation of the Audit Committee. This appointment also comprises the audit of the consolidated financial statements. The Supervisory Board was provided with a statement of independence.

The auditor carried out an audit of KDH AG's annual financial statements under commercial law for the fiscal year 2012/2013 (balance sheet date: March 31, 2013), the consolidated financial statements prepared in accordance with the IFRS rules (balance sheet date: March 31, 2013) and the combined management report, including the accounting procedures used, and issued an unqualified auditor's opinion in each case. In addition, the auditor examined the risk management system in accordance with Section 91 para. 2 AktG and determined that the risk management system established by the Management Board complies with the legal requirements.

The financial statements for the 2012/2013 financial year, including the auditor's reports, the combined management report and the Management Board's proposal in regard to the use of proceeds, were made available to each member of the Supervisory Board in sufficient time prior to the meeting for the review of the financial statements on June 23, 2013.

The Audit Committee members, in a meeting held on June 23, 2013, carefully reviewed and examined, together with the Chief Financial Officer and the auditor, the financial statements cited above as well as the audit reports concerning the annual and consolidated financial statements and reported thereon to the entire Supervisory Board at the latter's subsequent meeting. The Supervisory Board, in awareness of and taking into consideration the auditor's reports, discussed and examined KDH AG's annual financial statements, the consolidated financial statements and the combined management report at its meeting on June 23, 2013. Upon request, the Management Board additionally provided an oral explanation of the financial statements during this session. The auditor participated in this meeting, reported on the material findings of its audit, and made itself available to the Supervisory Board for any questions and inquiries concerning supplemental information.

The Supervisory Board was able to conclude, as a result of this meeting and on the basis of the report resulting from the previous meeting of the Audit Committee, that the audit had been conducted in a proper manner. The Supervisory Board, following the recommendation of the Audit Committee, raised no objections to KDH AG's annual financial statements, the consolidated financial statements, the combined management report or the auditor's audit reports.

The Supervisory Board therefore concurred with the findings of the audit conducted by the auditor and approved KDH AG's annual financial statements and management report, and the consolidated financial statements as of March 31, 2013. Thus, KDH AG's annual financial statements of March 31, 2013, have been approved. The Supervisory Board discussed the Management Board's proposal for the appropriation of the accumulated profit in detail and concurred therewith.

The Supervisory Board thanks the Management Board, the managing directors of the Group companies, as well as all employees for their great dedication during the past fiscal year.

**Tony Ball**
Chairman of the Supervisory Board

# CORPORATE GOVERNANCE DECLARATION AND CORPORATE GOVERNANCE REPORT

Compliance with the rules of good corporate governance is of great importance to Kabel Deutschland. Our Company sees this as an important component of good corporate management and the foundation for the company's success. In this report, the Management Board provides details – also for the Supervisory Board – on corporate management in accordance with Section 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code (Handelsgesetzbuch – "HGB").

## 1. Declaration of compliance in accordance with Section 161 German Stock Corporation Act (AktG)

Under Section 161 of the German Stock Corporation Act (Aktiengesetz – "AktG"), the Management Board and Supervisory Board of a listed stock corporation are required to declare every year that the company has complied and is complying with the recommendations of the "Government Commission for the German Corporate Governance Code" (the "Code"), as published in the official part of the Federal Gazette ("Bundesanzeiger") by the Federal Ministry of Justice, or, alternatively, are to declare which recommendations the company has not followed or does not follow and why not. The declaration shall be published permanently on the company's website.

For the period ended June 15, 2012, the following declaration refers to the version of the Code of May 26, 2010, published on July 2, 2010 ("Former Code"). For the subsequent and future corporate governance practice of Kabel Deutschland Holding AG ("KDH AG" or the "Company"), the following declaration refers to the Code as amended on May 15, 2012 and published on June 15, 2012 ("New Code").

In March 2013, the Management Board and the Supervisory Board filed a declaration pursuant to Section 161 AktG that KDH AG, since the last declaration of compliance, has complied and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the Federal Gazette with the following exceptions:

- Deviating from the recommendation in Section 3.8 of the Code, the members of the Supervisory Board are covered by a directors' and officers' liability insurance policy that does not include the deductible recommended in Section 3.8 of the Code. Agreeing a deductible would not be a suitable method of improving the motivation and sense of responsibility for the tasks and functions of the members of the Supervisory Board.

- Diversity is taken into account when appointing the Management Board and when executive positions are filled within the Company. However, the focus is on the expert qualifications offered by – female and male – candidates (deviation from Sections 4.1.5 and 5.1.2 of the Code).

- Pursuant to Section 5.4.1 para. 2 and 3 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition and take these into account in its recommendations. The objectives of the Supervisory Board and the status of implementation shall be published in the Corporate Governance Report. These recommendations are deviated from. The composition of the Supervisory Board of KDH AG is oriented toward the Company's interest and has to ensure the effective monitoring and counseling of the Management Board. As far as the composition of the Supervisory Board is concerned, great importance is therefore attached to the knowledge, capabilities and expert experience required from the individual board members in order to complete their tasks properly. In addition to these selection criteria, we regard the aspects mentioned in Section 5.4.1 para. 2 of the Code as being worthwhile to be taken into account, and the Supervisory Board will do so at the time when recommendations are made, taking into consideration the respective company-specific situation. Specific objectives relating to the composition of the Supervisory Board are currently not defined. Accordingly, there is no publication of any such objectives.

- Pursuant to Section 5.4.1 of the New Code, the Supervisory Board shall, in its election recommendations to the Shareholders' Meeting, disclose specific information of the candidates. This was not the case with regard to the election of Supervisory Board members in the Shareholders' Meeting on October 11, 2012, since the Supervisory Board had already decided on its election recommendations prior to the publication of this new recommendation of the New Code.

- Deviating from the recommendation in Section 5.4.6 of the Former Code, the members of the Supervisory Board receive a fixed remuneration only. KDH AG considers such fixed remuneration more suitable to secure in all respects the independent exercise of the Supervisory Board members' controlling function. Since the New Code does not contain a recommendation for performance-related compensation components for the Supervisory Board anymore, there will be no deviation in this regard in the future.

- Furthermore, the Code recommends in Section 5.4.6 para. 3 sentence 1 that the compensation of the members of the Supervisory Board shall be reported individually, subdivided according to components. As there is no variable remuneration paid to the Supervisory Board and as the remuneration of the Supervisory Board members is regulated by the Articles of Association, we do not consider an individualized disclosure to be necessary.

- Deviating from the recommendation in Section 7.1.2 of the Code, KDH AG does not always publish its preliminary reports within 45 days after the end of the respective reporting period. The efforts required to be in compliance with such time limit do not result in a noteworthy increase in transparency.

The wording of this declaration of compliance as well as the declarations from former years that are no longer applicable may also be found on KDH AG's website (www.kabeldeutschland.com) by following the menu path: Company / Corporate Governance / Declaration of Compliance.

## 2. Relevant information regarding corporate governance practices

### Effective compliance to secure corporate governance

Creation of an effective compliance system is an indispensable tool for good corporate governance, in order to guarantee compliance with applicable laws and with corporate policies and values. Compliance is a matter of top priority for KDH AG, and is an essential part of the Management Board's managerial responsibilities.

Kabel Deutschland had already adopted a corporate Code of Conduct several years ago, requiring all employees to abide by high legal and ethical standards. The focus of the Code of Conduct is to set forth a minimum standard for each employee, in particular with regard to honest and fair conduct in the workplace, observance of law, integrity and fairness, data protection and third party rights, correct internal reporting, avoidance of corruption, bribery and conflicts of interest, and dealing with donations and other benefits.

Management staff of the Company has likewise agreed to follow the Code of Ethics and all ethical standards adopted by the Company. The Code of Ethics contains, in particular, provisions concerning the standards of honest and ethical corporate governance, disclosure of information, monitoring of compliance with law, correct internal reporting, fair competition, prohibition of insider trading and money laundering, dealing with donations and other benefits, as well as safeguarding of the Company's assets.

To implement, manage and continue to develop the company-wide corporate compliance program, there is a Compliance Manager who is primarily responsible for the main compliance tasks. The compliance management department is also available to answer and provide advice on specific compliance-related questions from employees and management staff. The Compliance Manager takes relevant measures to ensure the continuing development of the compliance program implemented by Kabel Deutschland, with the emphasis being on anti-corruption and anti-trust measures.

Kabel Deutschland's existing Compliance Management System was expanded in fiscal year 2012/2013. Preventive measures were taken to ensure that anti-corruption provisions were adhered to. An anti-corruption concept was introduced for this purpose. This concept supplements the Code of Conduct. This also ensures integrity when dealing with business partners, office holders and public corporations. Kabel Deutschland views integrity as an essential basis for a relationship of trust with customers and business partners and an important instrument for sustaining long-term business success.

The tasks associated with compliance management over the past fiscal year also included the further recording and evaluation of compliance risks as well as the investigation and verification of the factual and legal situation relating to notifications.

More than six years ago, Kabel Deutschland introduced a so-called whistle blowing program as part of the development of its anti-fraud management. In order to enable employees to report material compliance violations, openly or anonymously, an ombudsman has been appointed for this program. An external accounting firm has been assigned with this task. The ombudsman can generally be reached at any time and at no charge. In addition, the Compliance Manager is available to all management staff and any other employees of the Group who wish to report potential violations of applicable laws or policies within the Group.

Insider trading laws are supplemented by an insider trading policy giving information on the insider trading laws and regulating procedures for the monitoring of insider trading. Individuals who must have access to insider information in order to perform their duties at KDH AG will be included in an insider register.

### Responsible handling of opportunities and risks

Kabel Deutschland is faced with a multitude of opportunities and risks. Responsible handling of risks by the Company is an important part of good corporate governance. By carefully monitoring uncertainties and optimizing opportunities, Kabel Deutschland protects itself and creates value for its shareholders. KDH AG accordingly uses an internal control and risk management system that is carefully adapted to its environment and its operations, and is continuously developed and adapted to changing conditions.

The objective is for risks to be identified at an early stage and minimized by rigorous risk management. The Management Board keeps the Supervisory Board regularly informed of significant risks. The Audit Committee regularly examines the effectiveness of the internal control and audit system.

Further information on the risk management system and the internal control system relating to accounting is presented in section 8 "Opportunity and Risk Report" of the combined management report, which is part of the annual financial report.

## 3. Work of the Management Board and Supervisory Board

The **Management Board** of KDH AG consists of four members, the Chairman Dr. Adrian von Hammerstein as well as Dr. Manuel Cubero del Castillo-Olivares, Mr. Erik Adams and Dr. Andreas Siemen. The Management Board has sole responsibility for managing the business of the Company with the objective of the creation of sustainable value and in the interest of the Company with regard to the concerns of its shareholders, its employees and other stakeholders of the Company. Additional details are governed, in particular, by the internal Rules of Procedure for the Management Board that were adopted by the Supervisory Board. The Management Board develops the strategic orientation of the Company, coordinates this with the Supervisory Board on a regular basis, and also looks after its implementation. The Chairman of the Management Board is responsible for the coordination of all areas of business for which the Management Board as a whole is responsible. He exchanges information and discusses matters with the Chairman of the Supervisory Board on a regular basis, and represents the Management Board and the Company in relation to the public.

The current four members of the Management Board share responsibilities on the board as provided for in the schedule of responsibilities. Each member of the Management Board independently manages the area of business assigned to him, in conformity with resolutions of the Management Board. Irrespective thereof, the members of the Management Board are jointly responsible for the overall management of the Company. The strategy of the Company, major issues of business policy, as well as all matters of particular significance for the Company and/or its affiliates are therefore decided by the plenary Management Board. Transactions and measures of particular importance are, in addition, subject to the prior consent of the Supervisory Board. The plenary Management Board meets regularly, generally every week, with meetings chaired by the Chairman of the Management Board. Resolutions by the Management Board may also be adopted outside of meetings, in particular in writing, by fax or e-mail.

The Management Board reports to the Supervisory Board on the Company's course of business on a regular basis, at least once each quarter. In addition, the Management Board must report to the Supervisory Board any transactions that may be of major significance to the profitability or liquidity of the Company, in due time for the Supervisory Board to have an opportunity to respond before the transaction is executed. Finally, the Management Board must report to the Supervisory Board any important events or affairs within the meaning of Section 90 para. 1 sentence 3 AktG.

The **Supervisory Board** of the Company has 12 members in total, of which six members shall be elected by the Shareholders' Meeting and six members shall be elected in accordance with the provisions of the German Co-Determination Act (Mitbestimmungsgesetz – "MitbestG") from among the Company's employees.

The shareholder representatives in the Supervisory Board are the Chairman Mr. Tony Ball, Mrs. Annet Aris and Mrs. Catherine Mühlemann as well as Messrs. Martin Stewart, Paul Stodden and Torsten Winkler. The employee representatives are the Deputy Chairman Mr. Joachim Pütz as well as Mrs. Susanne Aichinger, Mrs. Petra Ganser, Mrs. Irena Gruhne and Messrs Ronald Hofschläger and Florian Landgraf.

The Supervisory Board advises and supervises the Management Board in the management of the Company on a regular basis and must be consulted with respect to all decisions of fundamental significance. The Supervisory Board appoints and dismisses members of the Management Board and determines the compensation of the Management Board. The principles governing the work of the Supervisory Board and its cooperation with the Management Board are set forth in the internal Rules of Procedure for the Supervisory Board. The Chairman of the Supervisory Board coordinates the activities of the Supervisory Board and the cooperation of the Supervisory Board with the Management Board.

The Supervisory Board actively participates in the consultations and debates of the Management Board, obeys the duties imposed by law and the Articles of Association, and monitors the management on the basis of the reports of the Management Board and joint meetings.

The Supervisory Board holds at least two meetings in a calendar half-year. Resolutions by the Supervisory Board may also be adopted outside of meetings, in particular in writing, by fax or e-mail.

## 4. Composition and work of the committees of the Supervisory Board

In order for the Supervisory Board to carry out its tasks in an optimal manner, the Rules of Procedure for the Supervisory Board provide for four fixed committees. The Supervisory Board receives regular reports on the work of the committees.

The **Conciliation Committee** assumes the legal responsibilities laid down in Section 31 para. 3 MitbestG. The members of the Conciliation Committee in the fiscal year 2012/2013 were: Tony Ball (Chairman of the Conciliation Committee), Paul Stodden, Susanne Aichinger and Joachim Pütz.

The **Executive Committee** lays the groundwork for the personnel-related decisions of the Supervisory Board, in particular those relating to the appointment and removal of members of the Management Board and the appointment of the Chairman, issues of compensation for the Management Board and investment and divestment decisions. The Executive Committee is composed of the Chairman of the Supervisory Board, who also acts as Chairman of the Executive Committee, and three further members. In the fiscal year 2012/2013, these were Catherine Mühlemann, Ronald Hofschläger and Joachim Pütz.

The **Audit Committee** deals particularly with issues relating to the correctness of accounting, the independence of the auditor, internal control system, risk management and compliance. The Audit Committee works closely with the auditor. It issues the audit mandate to the auditor, which includes the definition of the issues that the audit should focus on and the agreement as to the audit fee. In particular, it prepares the resolutions to be passed by the Supervisory Board in respect of the approval of the annual

financial statements. To this end it carries out a preliminary audit of the annual financial statements, the combined management report, the proposal as to the use of proceeds and the consolidated financial statements, as well as a review of the auditor's report together with the auditor. The half-year and quarterly financial reports are also reviewed by the Audit Committee, together with the Management Board, prior to publication. The Audit Committee accordingly meets at least on a quarterly basis. The Audit Committee is composed of four members. In fiscal year 2012/2013, these were Martin Stewart (an independent member of the Supervisory Board who possesses expert knowledge in regard to the fields of accounting and auditing gained from his professional practice) as Chairman, together with Susanne Aichinger, Petra Ganser and Torsten Winkler.

The **Nomination Committee** is responsible for proposing suitable candidates to the Supervisory Board for the nomination of the representatives of the shareholders on the Supervisory Board at the Shareholders' Meeting. It comprises the Chairman of the Supervisory Board, who also acts as Chairman of the Nomination Committee, and two further shareholder representatives. In the fiscal year 2012/2013, these were Annet Aris and Paul Stodden.

The composition of the committees of the Supervisory Board can be found on the website of the Company (www.kabeldeutschland.com).

## 5. Further information on corporate governance

### Transparency through communication

Transparency is an essential element of good corporate governance. Consequently, Kabel Deutschland uses almost all available channels of communication to inform shareholders, prospective investors, and interested members of the public of the development of the Company's business and any special events or affairs on a regular basis. In particular the Company's website, www.kabeldeutschland.com, provides interested members of the public with a variety of information about the development of the Company's business in the past as well as prospects for the future. The Company's key dates are published in a financial calendar on its website. We also give members of the public an opportunity to register and receive corporate news in the form of an online newsletter. All press releases, investor relations communications and the financial reports (in English and German) may be viewed online. Our Investor Relations team is in regular contact with the capital market participants. When the quarterly reports are published, we hold telephone conference calls to inform investors and analysts about the development of the Company's business. Once a year we hold a Capital Markets Day. We also take part in regular roadshows and investor conferences. The comprehensive information offered to the public is complemented by pertinent press releases, regular interviews with analysts, and informational events.

### Shareholders and Shareholders' Meeting

KDH AG's shareholders can uphold their rights, in particular their right to obtain information, and exercise their voting rights at the Shareholders' Meeting. They can exercise their voting right at the Shareholders' Meeting in person or through a representative of their own choosing, e.g. through voting representatives appointed by the Company but bound to follow shareholders' instructions. To make it easier for shareholders to exercise their rights and to prepare them for the Shareholders' Meeting, we put the invitation, the agenda, reports, documentation and other information related to the Shareholders' Meeting on the KDH AG website (www.kabeldeutschland.com) under: Investor Relations / Events / General Meeting. Numbers attending and the results of the votes are published online immediately after the Shareholders' Meeting. This promotes the exchange of information between KDH AG and its shareholders. Around 72% of the share capital was represented when resolutions were adopted at the Shareholders' Meeting held in Munich on October 11, 2012.

### Accounting and auditing

Kabel Deutschland Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as applied in the European Union and Section 315a para. 1 HGB. KDH AG's annual financial statements are prepared in accordance with the provisions of the HGB and the AktG as well as the supplementary provisions contained in the Articles of Association.

At KDH AG's Shareholders' Meeting held on October 11, 2012, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as auditor in accordance with the proposal of the Supervisory Board, as recommended by its Audit Committee, and following submission of a statement of its independence. As recommended by the Code, agreement was reached with the auditor that the Chairman of the Audit Committee would be advised immediately of any grounds for disqualification or partiality that arise in the course of the audit unless they are immediately resolved. Furthermore, the auditor has to report immediately on any determinations and events arising in the course of the audit, which are significant to the tasks performed by the Supervisory Board. If facts are uncovered in the course of the audit that result in the declaration of compliance for the Code given by the Management Board and the Supervisory Board not being correct, the auditor must inform the Supervisory Board about this and/or record it in the auditor's report.

The auditor participated in the consultation of the Audit Committee and the plenary Supervisory Board about the annual and consolidated financial statements for the fiscal year 2012/2013 and submitted a report to the Supervisory Board on the results of the audit of the annual financial statements, the consolidated financial statements and the combined management report of KDH AG.

### Compensation of Management Board and Supervisory Board

The basic components for the compensation of members of the Management Board and Supervisory Board are presented in the Compensation Report in detail. Furthermore, the compensation paid to the members of the Management Board is disclosed individually in the Compensation Report, in accordance with the legal requirements, divided into non performance-based (fixed remuneration and fringe benefits) and performance-based components (variable annual bonus), as well as components with long-term incentive effect (Long-Term Incentive Plan, "LTIP").

The compensation of the Supervisory Board was determined by the Shareholders' Meeting and is governed by Section 12 of the Articles of Association of KDH AG. The overall compensation of the Supervisory Board is also reported in the Compensation Report.

The Compensation Report is part of the combined management report and is published in the annual financial report.

## Directors' dealings, shareholdings of members of the Management Board and Supervisory Board

Under Section 15a German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"), any individuals performing managerial responsibilities at Kabel Deutschland, as well as any close associates of such individuals, are required to report within five business days any transactions involving shares of Kabel Deutschland or any financial instruments based on the shares of Kabel Deutschland.

In the fiscal year 2012/2013, no such transactions were reported to the Company.

Beyond this legal reporting obligation, Section 6.6 of the Code provides that the ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. Collectively, all members of the Supervisory Board and the Management Board of KDH AG directly or indirectly hold less than 1% of the shares of the Company. The foregoing information is valid as of the cut-off date of March 31, 2013.

## Stock option plans; share-based incentive systems

Effective from the fiscal year 2010/2011 onwards, a new compensation structure for KDH AG's Management Board was introduced, which includes a new long-term performance-oriented variable part of the compensation comprising virtual performance shares and a one-time grant of virtual stock options. For details reference is made to the Compensation Report.

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# KABEL DEUTSCHLAND HOLDING AG, UNTERFOEHRING COMBINED MANAGEMENT REPORT FOR THE FISCAL YEAR ENDED MARCH 31, 2013


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# 1 GENERAL

Kabel Deutschland Holding AG ("KDH AG" or the "Company") is listed in the regulated market (Prime Standard) of the Frankfurt Stock Exchange under ISIN DE000KD88880. Following the last placement by the former main shareholder, Cable Holding S.A., Luxembourg, on July 5, 2011, a total of 100% of the 90 million subscribed shares of the Company have been in free float. In the period from September 19, 2011 to December 9, 2011 around 1.48 million shares were repurchased through the stock exchange based on a share buyback program. Subsequently, the number of shares of the Company was reduced to 88,522,939 shares by retirement on March 13, 2012.

KDH AG is the ultimate management and holding company of our Group ("KDH" or the "Group") and has its registered office in Unterfoehring, Betastrasse 6 - 8, Germany (commercial register of Munich HRB 184452). As the parent company of the Group it performs the typical tasks of a holding company, such as e.g. the strategic development of the Group and the provision of services and financing for its affiliated companies. The Group's business activities are mainly conducted by the respective operating subsidiaries, primarily Kabel Deutschland Vertrieb und Service GmbH ("KDVS GmbH")[1)] and Kabel Deutschland Kundenbetreuung GmbH ("KDK").

In terms of residential units that can be connected to a cable network ("homes passed") and subscribers, we are the largest cable network provider in Germany, according to our own estimate. With more than 15 million homes passed, we believe our cable network is also the largest in a single country in Europe. We offer our customers a variety of television and telecommunications services, including digital and high-definition ("HDTV") and analog TV, Video-on-Demand ("VoD"), digital HD video recorders, Pay-TV, broadband Internet (up to 100 Mbit/s) and phone via TV cable or via a mobile communication services partner. We currently operate cable networks in 13 federal states in Germany, and supply to 8.5 million homes connected. As a triple play service provider, we believe that we are well positioned to take advantage of the growth opportunities in the converging German media and telecommunications markets.

1) Previously Kabel Deutschland GmbH ("KDG"). The change of name was registered in the Commercial Register early August 2011 during the course of the Merger (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 1).

# 2 BUSINESS SEGMENTS

The Group has two reporting segments: TV Business, and Internet and Phone Business.

## 2.1 TV BUSINESS

Our TV Business consists of Basic Cable and Premium-TV products and services.

Our Basic Cable products consist of analog as well as digital TV and radio services. Our analog cable services currently offer up to 32 free-to-air television and up to 36 radio channels, respectively. Our digital cable services offer up to 100 digital TV (Free-TV) channels and up to 70 digital radio channels.

We provide these Basic Cable services primarily via individual contracts with end customers or collective contracts with landlords or housing associations and via contracts with Level 4 network operators. Revenues are primarily generated from subscription fees.

Premium-TV products are also offered to our direct Basic Cable customers. With our Premium-TV products, revenues are primarily generated from monthly subscription fees for Pay-TV and for digital video recorders ("DVR") as well as from technical access fees for "Privat HD". "Privat HD" currently offers access to 13 high definition ("HD") channels with basic encryption.

Our Pay-TV product branded "Kabel Premium HD" includes 14 HD channels. The additional optional package "Premium Extra" also includes 20 standard definition channels ("SD"). For our customers speaking foreign languages we offer "Kabel International", which includes 37 channels grouped into eight different foreign languages.

Our DVR product "Kabel Komfort HD" allows several convenient viewing functions including the ability to pause real-time programs and to record up to four programs simultaneously to be watched at a later time.

Additionally, our VoD offering "SELECT VIDEO" is available in the cities of Berlin, Hamburg, Munich and six other larger cities to approximately 2.4 million households. The download offering includes over 6,000 hours of Hollywood blockbusters, current movies, movie classics, TV programs and adult content. The digital pay-video library contains approximately 1,600 movies, thereof approximately 60% in HD quality; almost one quarter can optionally be viewed in the original version. In addition, 43 broadcasters' shops currently provide over 3,500 TV formats from Free- and Pay-TV. Customers who own 3D hardware may also receive part of the movie-offering in 3D.

Revenues from carriage fees and signal transport services are generated from public and private broadcasters as well as third party Pay-TV providers. Please also refer to the Notes to the consolidated financial statements of KDH AG as of March 31, 2013 section 5.3 subsection "Other Financial Obligations, Contingencies and Lawsuits" for information on current developments.

Our TV Business generated revenues of T€1,191,638 or 65.1% of our total revenues in the fiscal year ended March 31, 2013, compared with T€1,158,382 or 68.2% of our total revenues in the prior year.

## 2.2 INTERNET AND PHONE BUSINESS

Our Internet and Phone Business consists of our broadband Internet access, fixed-line and mobile phone services, mobile data services as well as additional options.

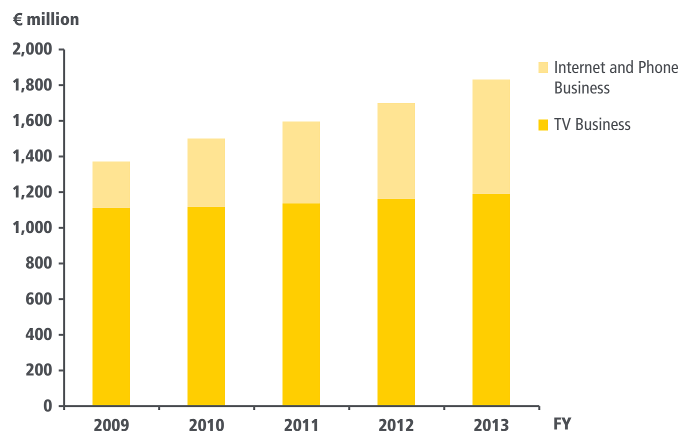
Broadband Internet access and fixed-line phone services are offered to those homes which can be connected to our upgraded network. In the fiscal year ended March 31, 2013, 87.1% of our new Internet and Phone subscribers subscribed for a bundled product incorporating both broadband Internet and Phone services. The bundle share in our subscriber base of the Internet and Phone Business increased to 88.5% in the fiscal year ended March 31, 2013, compared with 87.7% in the fiscal year ended March 31, 2012.

Since November 2011 our offering for broadband Internet access includes download speeds between 8 Mbit/s and up to 100 Mbit/s. Since early 2010 we have been offering speeds of up to 100 Mbit/s in selected cities where the network is fully DOCSIS 3.0 capable. We will continue to expand our DOCSIS 3.0 footprint going forward. As of March 31, 2013 we had capacity to serve approximately 82.6% of the homes connected to our upgraded network with DOCSIS 3.0 products.

In addition to our fixed-line services we offer mobile phone and mobile data services via a contractual relationship with a German mobile network operator.

Our Internet and Phone Business generated revenues of T€638,284 or 34.9% of our total revenues in the fiscal year ended March 31, 2013, compared with T€541,352 or 31.8% of our total revenues in the prior year.

Revenue development by segment last fiscal years



# 3 KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

## 3.1 NETWORK UPGRADE

We have been making investments to upgrade our broadband networks for interactive services since April 2006. As of March 31, 2013, 87.2% of our network was upgraded to a bi-directional HFC structure (hybrid fiber coaxial – networks using both coaxial and fiber optic cable). Simultaneously, we invested in the continuing technological development of the customer premise equipment ("CPE"). In this way, from our point of view, we are able to deliver market-leading broadband Internet access, phone services and modern TV services to our customers. We will convert additional networks for interactive services in coming years by using DOCSIS 3.0 to offer high Internet bandwidths.

In April 2013, we started an additional investment program with a volume of €300 million that will be implemented in the next two fiscal years. The objective of the program is on additional growth and efficiency improvements in network infrastructure.

In order to promote and accelerate growth, further broadband networks, also a significant share in rural areas, are being upgraded for interactive services. As a result, approximately 95% of our subscriber potential can take advantage of our attractive Internet and Phone offerings. Further investments are being made in upgrading the network to a transmission bandwidth of 862 MHz, which will allow additional TV services and HD channels to be offered. Growth is also promoted by the expansion of our VoD product offering, which will be introduced and offered in networks that have been expanded to 862 MHz.

Systematic progress on the then almost complete conversion of all our networks to the DOCSIS 3.0 transmission standard allows us to offer products with Internet bandwidths of up to 400 Mbit/s in the future. In our view, these measures allow us to strengthen our competitiveness and maintain our competitive advantage over the long term.

The second factor, in addition to accelerated growth, is efficiency improvements in our network infrastructure. These activities are focused on eliminating leased lines, and replacing them with our own fiber optic infrastructure. This allows us to effectively counter the continuous increase in lease costs, and significantly reduce the reaction time required for supplying needed capacity in the network. This investment also creates a foundation for realizing future high bandwidth products and services.

In October 2012 we started the WLAN pilot project PUBLIC WIFI BERLIN in cooperation with the Medienanstalt Berlin-Brandenburg (mabb), and in April 2013 the WLAN project PUBLIC WIFI POTSDAM. Users can surf in the Internet free of charge for up to 30 minutes a day at one of the hotspots on high-traffic streets and public squares in Berlin and Potsdam. Based on high access figures for the first six months since the project started in Berlin (approximately 250,000 accesses at the 55 Berlin hotspots), the results were positive.

As in past years, we expect our average installation cost per Internet and Phone subscriber will continue to decrease since market penetration of our broadband Internet and fixed-line phone services is increasing. In the fiscal year ended March 31, 2013, the average installation cost per Internet and Phone Business subscriber declined to approximately €115 compared to approximately €123 in the fiscal year ended March 31, 2012. Our Basic Cable and our Premium-TV products do not typically require installation costs as most customers are able to use an existing cable network connection or to self-install a CPE delivered to their residence.

## 3.2 MARKETING AND PROMOTIONAL ACTIVITIES

The organization of our sales department is based on our subscriber structure, with the objective of achieving the best possible customer focus and optimizing services in order to further increase customer satisfaction, thereby ensuring our competitiveness also over the long term. In general, our marketing is focused on sales-oriented advertising, such as direct mail, sales agents, online marketing and shops, in order to achieve the desired objectives. In addition, a sales partnership was concluded with a mobile service provider, allowing our products to be marketed in around 350 shops since September 2012.

We strive to offer our customers high quality products at the best possible price. This is confirmed by awards such as the "Provider of the Year 2012" award in the "Cable Internet Providers" category from the editors of Tariftipp.de and top award winner for Internet service providers in the product analysis test performed by the Deutsches Institut für Service-Qualität GmbH & Co. KG (private-sector service study: Internet service providers 2012).

The customer need for high bandwidths is further increasing, as shown, for example, by the fact that our 100 Mbit/s product has now become the best-selling tariff in our Internet and Phone Portfolio.

To promote sales, we regularly make attractive introductory offers to new subscribers of our TV and Internet and Phone services, such as trial periods with special cancellation rights during the first two months, discounts for the first 12 months (promotional period) and bonuses associated with certain online orders. In addition, we offer our subscribers bundled services at a lower price than the sum of the individual prices, and offer additional discounts to certain large Level 4 network operators and housing associations.

As of March 31, 2013, approximately 395 thousand of our broadband Internet and Phone subscribers were in a promotional period, compared to 417 thousand as of March 31, 2012. As the promotional period expires, these subscribers will return to the regular pricing, which is currently up to €20 (inclusive of VAT) per month above the introductory price, depending on the product. After expiry of the minimum contractual term, which includes a limited promotional period, there is a possibility of customer fluctuation, but experience over the years has shown that customer churn remains stable at a moderate level and that customer losses do not increase significantly following expiry of the promotional period.

## 3.3 LEGAL REORGANIZATION / RESTRUCTURING

In the fiscal year ended March 31, 2013, the Group undertook a number of steps aimed at optimizing organizational structures and improving operating efficiency that led to structural changes and, in some cases, to changes in legal structure.

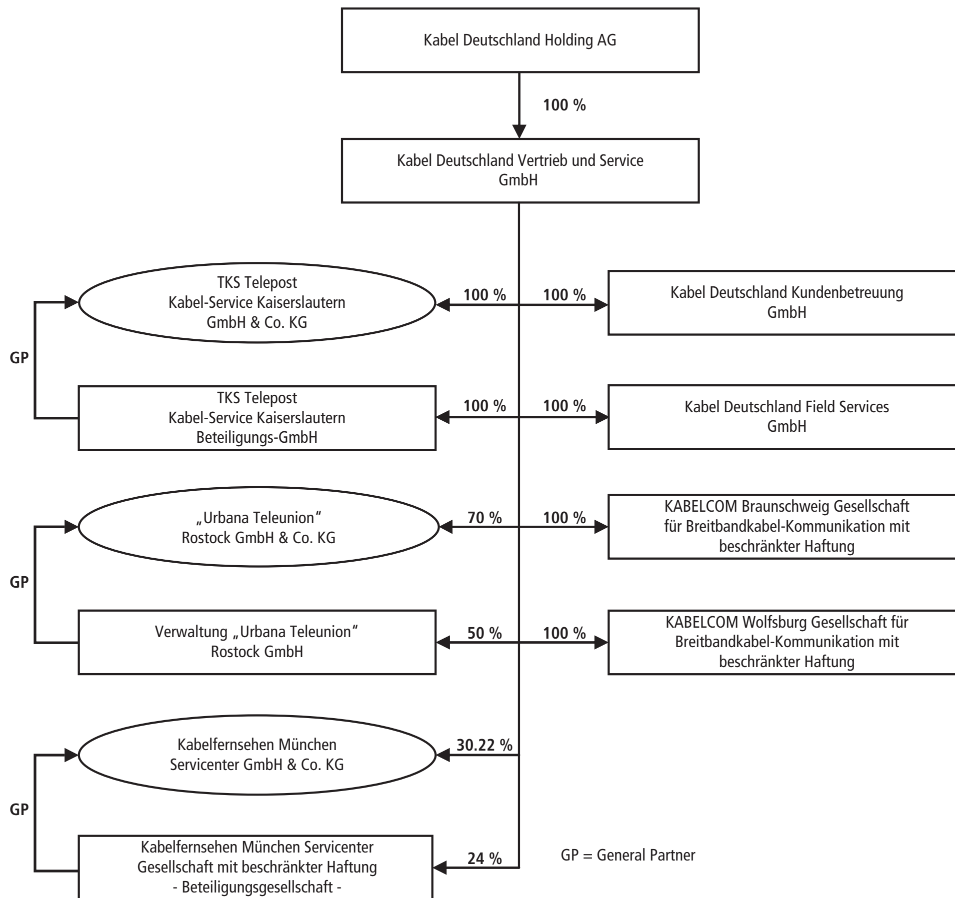
A variety of measures implemented in customer-oriented areas, such as the call centers, technical services and sales, are aimed at ensuring the long-term competitiveness of the Group and optimizing services in order to further increase customer satisfaction. Key to the measures are primarily efficiency increases through improving interface processes in the functional areas concerned, and efforts to maintain and increase network quality by analyzing and adjusting the value creation chain. As part of the optimization measures described above, the Group bundled its customer and technical service centers in KDK, a wholly owned subsidiary of KDVS GmbH, effective November 1, 2012. KDK currently has around 1,300 employees located mainly in Berlin, Bonn, Erfurt and Halle/Leipzig. KDK permanently hired approximately 600 previously temporary employees of the Group as part of the process of reorganizing the service centers.

In addition, we acquired the business operations of one of our regional complex service providers in August 2012. The aim of this acquisition is to secure and improve our technical service operations in the region of western and southern Bavaria.

Furthermore, a specific subsection of the sales organization providing basic services to American military bases and military personnel was strategically realigned during the reporting period.

For the implementation of the measures described above, T€3,562 were recorded as an expense in the fiscal year ended March 31, 2013. These expenses consist primarily of personnel and consulting costs, and expenses related to the adaptation of systems.

The following overview shows the most important Group entities as well as our investments in associates:




## 3.4 ACQUISITION

On May 21, 2012, KDH AG entered into a purchase agreement with Tele Columbus GmbH ("Tele Columbus") to acquire the Tele Columbus Group. After this intended acquisition was prohibited by resolution of the German Federal Cartel Office ("FCO"; Bundeskartellamt) dated February 22, 2013, Tele Columbus withdrew from the purchase agreement.

In the fiscal year ended March 31, 2013, expenses related to the acquisition of the Tele Columbus Group were T€6,013. They primarily include legal consulting fees, consulting fees for cartel proceedings, costs for due diligence, as well as personnel expenses.

## 3.5 IMPACT OF INFLATION

A portion of our costs is affected by inflation. We attempt to restrict increases in our costs below the rate of inflation through productivity improvements and operational efficiency. However, general inflation affects costs for our competitors, suppliers and us. Our margins may suffer in the event that our costs increase more quickly than our revenues, in particular as our ability to raise prices is subject to contractual and legal limitations.

## 3.6 IMPACT OF EXCHANGE RATE FLUCTUATIONS

Our functional and reporting currency is the Euro. As of March 31, 2013, we had almost no revenues, expenses, liabilities or receivables denominated in other currencies, except for the US dollar denominated Tranche F of the Senior Credit Facility in an aggregate principal amount of US$750 million, which matures in 2019. Interest and principal payments for the US dollar denominated Tranche F of the Senior Credit Facility, which are payable after January 31, 2017, are subject to currency risks. We have hedged the interest and principal payments related to this Tranche until January 31, 2017 against currency fluctuations. In the event that we incur other debt denominated in other currencies, such as US dollar denominated bank or bond debt, we could incur additional currency risk and related hedging costs.

## 3.7 IMPACT OF INTEREST RATE CHANGES

Our exposure to market risk for changes in interest rates relates primarily to our floating rate debt obligations (Senior Credit Facility). In order to hedge its risks resulting from exposure to changes in interest rates, the Group has entered into and partially adjusted interest rate hedges ("interest swaps") with various banks for portions of the Senior Credit Facility in the fiscal year ended March 31, 2012. With these interest swap agreements the variable part of the interest rate (EURIBOR) on the €500 million Tranche E were effectively exchanged over the term from July 29, 2011 to June 30, 2017, for a fixed interest rate of 2.44%. In addition, the variable part of the interest rate (EURIBOR) on the €400 million Tranche D was effectively exchanged over its entire term from August 31, 2011 to December 31, 2016 for a fixed interest rate of 2.07%. Please also refer to section 7 for further information.

## 3.8 SEASONALITY

Our business is only subject to small seasonal fluctuations. We have a disproportionately high percentage of annual prepayments for our Basic Cable products in January and February, which results in higher cash flows from operating activities in these months of the fiscal year. In the fiscal years ended March 31, 2013 and March 31, 2012, the Group billed approximately 26.3% and 26.8%, respectively, of its total revenues for the fiscal year in the months of January and February.

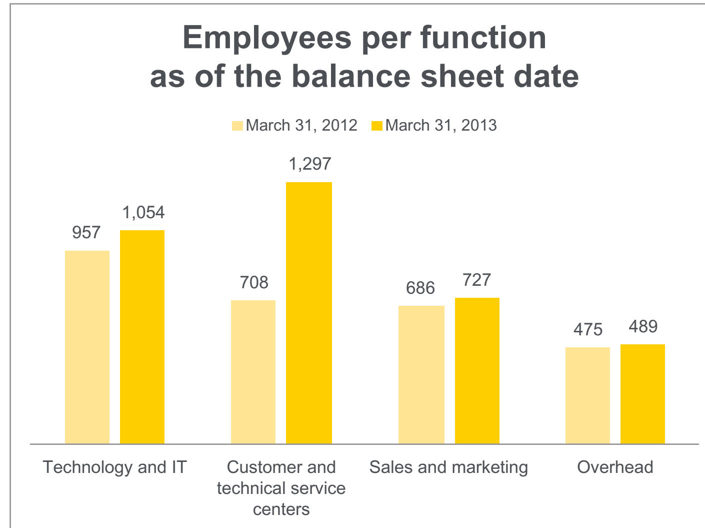
## 3.9 NON-FINANCIAL PERFORMANCE INDICATORS

### Employees

Well-educated and experienced employees are an important requirement for the success of our Company. Their efforts and dedication are a major reason that we are able to maintain our leading market position.

The Group had 3,567 employees as of the balance sheet date March 31, 2013 (thereof 7 in KDH AG). This meant that the number of employees rose by 741 or 26.2% (prior year: 2,826 employees; thereof 7 in KDH AG).

The diagram below shows a breakdown by area for the respective balance sheet dates:




The number of employees rose primarily due to the regular employment of around 600 former temporary personnel in customer and technical service of KDK, as well as due to a build-up of own staff in the technology area in order to provide construction and other services by Kabel Deutschland Field Services GmbH in the region of western and southern Bavaria, but also from organic employee growth.

As of March 31, 2013, the employees had been with the Group for an average of 9.7 years (prior year: 11.6 years). The reduction in the length of service is primarily due to the new hirings in KDK mentioned in the paragraph above. The turnover rate for the fiscal year just ended was 5.7% (prior year: 7.0%).

## Personnel Development and Apprenticeship Management

KDH is an innovative and growing company. Consequently, advanced training and personnel development are essential. We therefore provide support for further professional and job-related development of our employees by offering external trainings as well as targeted and individually matched in-house trainings. Within management development we offer our executives an extensive and mandatory training program, as well as management forum.

The Group has steadily expanded its apprenticeship since 2005. We are currently providing training at a variety of locations for the following occupations: office communications clerk, IT electronics technician (main focus: equipment and system technology), service specialists / clerks for dialog marketing, and IT specialists. In addition, students have the opportunity to work with us as working students or during internships.

# 4 KEY OPERATING MEASURES

We use several key operating measures, e.g. RGU, ARPU and subscriber acquisition costs, to track the financial performance of our business. None of these are measures of financial performance under IFRS, nor have these measures been reviewed by an outside consultant, expert or auditor. Unless specifically indicated to the contrary, all of these measures are derived from management estimates. As defined by our management, these terms may not be comparable to similar terms used by other companies.

## 4.1 DEVELOPMENT OF SUBSCRIBERS AND RGUs

In recent fiscal years we have significantly expanded the capacity of our network and our product offering in the Premium-TV, broadband Internet and Phone segments. Our results reflect successive year-on-year RGU and revenue growth.

| in thousands, except as noted | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Operational data** | | |
| **Network** | | |
| Homes passed | 15,293 | 15,293 |
| Homes passed upgraded for two-way communication | 13,334 | 12,682 |
| *Upgraded homes as % of homes passed* | *87.2%* | *82.9%* |
| *DOCSIS 3.0 availability as % of homes passed upgraded for two-way communication* | *82.6%* | *76.9%* |
| Homes passed upgraded for two-way communication being marketed [1] | 11,220 | 10,632 |
| **Subscribers** | | |
| Direct Basic Cable subscribers | 7,194 | 7,232 |
| Internet and Phone "Solo" subscribers [2] | 382 | 304 |
| **Total direct subscribers** | **7,576** | **7,536** |
| Indirect Basic Cable subscribers | 897 | 1,009 |
| **Total unique subscribers (homes connected)** | **8,473** | **8,545** |
| Thereof subscribers taking Internet and Phone services | 1,942 | 1,634 |
| **RGUs** | | |
| Basic Cable [3] | 8,617 | 8,702 |
| Premium-TV [4] | 2,070 | 1,680 |
| Internet | 1,829 | 1,518 |
| Phone | 1,831 | 1,549 |
| **Subtotal New Services** | **5,731** | **4,747** |
| **Total RGUs** | **14,348** | **13,449** |
| **RGUs per subscriber (in units)** | **1.69** | **1.57** |
| **Penetration** | | |
| *Premium-TV RGUs as % of Basic Cable subscribers* | *25.6%* | *20.4%* |
| *Internet RGUs as % of total subscribers* | *21.6%* | *17.8%* |
| *Phone RGUs as % of total subscribers* | *21.6%* | *18.1%* |

[1] Homes passed being marketed are those homes to which we currently sell our Internet and / or Phone products.

[2] Internet and Phone "Solo" subscribers are non-Basic Cable service customers subscribing to Internet and / or Phone services only.

[3] The difference between the number of Basic Cable subscribers and Basic Cable RGUs is due to one additional digital product component, "Kabel Digital". It is sold directly to the end customer in addition to the analog Basic Cable service, which is provided and billed via a housing association. A customer subscribing to the Kabel Digital product is counted as one Basic Cable subscriber (analog service via a housing association) and two Basic Cable RGUs (analog service via a housing association and digital service via a direct contract with the end customer).

[4] RGU (revenue generating unit) relates to sources of revenue, which may not always be the same as subscriber numbers. For example, one person may subscribe to two different services, in which case two RGUs would be assigned to that one subscriber. Premium-TV RGUs consist of RGUs for our Pay-TV product (Kabel Premium HD and Kabel International) as well as our DVR products Kabel Komfort HD and Kabel Komfort Premium HD.

The number of homes passed upgraded for two-way communication and being marketed increased as of March 31, 2013 by 588 thousand or 5.5% to 11,220 thousand compared with 10,632 thousand in the prior year.

The number of direct subscribers increased slightly by 40 thousand to 7,576 thousand as of March 31, 2013 from 7,536 thousand as of March 31, 2012.

Our total unique subscribers decreased by 72 thousand or 0.8% to 8,473 thousand as of March 31, 2013 compared with 8,545 thousand as of March 31, 2012. This decline was primarily due to the net loss of 112 thousand indirect subscribers (of households supplied by Level 4 network operators), which generate the lowest ARPU of all our subscribers.

Each service that a Basic Cable subscriber receives counts as one RGU. As of March 31, 2013 we had 8,617 thousand Basic Cable RGUs, compared to 8,702 thousand in the prior year. The primary reason for the decrease was the above-mentioned net loss of 112 thousand indirect subscribers. In contrast, the number of households receiving Basic Cable services via landlords or housing associations and digital access (Kabel Digital) directly from KDH increased. These households count as two RGUs in our statistics.

As of March 31, 2013, we had 1,365 thousand Premium-TV subscribers and accordingly 2,070 thousand Premium-TV RGUs. Compared to the 1,680 thousand Premium-TV RGUs as of March 31, 2012, this represents an increase of 390 thousand or 23.2%. In order to receive Premium-TV services, a household must be a Basic Cable subscriber. A Premium-TV RGU refers to the source of revenue and each Premium-TV service for which a subscriber pays counts as one RGU. For example, a Basic Cable subscriber using Pay-TV and DVR services counts as two Premium-TV RGUs. However, Privat HD is not counted as RGU.

Internet RGUs grew by 311 thousand or 20.5% to 1,829 thousand as of March 31, 2013 from 1,518 thousand as of March 31, 2012. The number of Phone RGUs increased by 282 thousand or 18.2% to 1,831 thousand as of March 31, 2013 from 1,549 thousand as of March 31, 2012.

A growing number of our subscribers purchase more than one of our service offerings. As of March 31, 2013, we recorded 1.69 RGUs per subscriber, compared to 1.57 RGUs per subscriber as of March 31, 2012.

## 4.2 ARPU

The ARPU indicates how far we are realizing potential revenues from subscribers. We calculate ARPU per subscriber on an annual, quarterly or monthly basis by dividing total subscription fees including usage dependent fees (excluding installation fees and other non-recurring revenues) generated from the provision of services during the period by the sum of the monthly average number of total subscribers in that period.

| | Fiscal Year ended | |
|---|---|---|
| in € / month | March 31, 2013 | March 31, 2012 |
| Total blended TV ARPU per subscriber [1] | 10.37 | 9.86 |
| Total blended Internet and Phone ARPU per subscriber [2] | 28.27 | 28.24 |
| **Total blended ARPU per subscriber [3]** | **15.87** | **14.44** |

[1] Total blended TV ARPU per subscriber is calculated by dividing the subscription revenues (excluding installation fees and other non-recurring revenues) generated for a specified period from our TV Business products by the sum of the monthly average number of total Basic Cable subscribers in that period.

[2] Total blended Internet and Phone ARPU per subscriber is calculated by dividing the Internet and Phone subscription revenues including usage dependent fees (excluding installation fees and other non-recurring revenues) generated in the relevant period by the sum of the monthly average number of Internet and Phone subscribers of these products in that period.

[3] Total blended ARPU per subscriber is calculated by dividing recurring TV and Internet and Phone subscription revenues including usage dependent fees (excluding installation fees and other non-recurring revenues) generated in the relevant period in the TV Business and Internet and Phone Business segments by the sum of the monthly average number of total unique subscribers in that period.

For the fiscal year ended March 31, 2013, total blended ARPU per subscriber improved by €1.43 or 9.9% to €15.87 from €14.44 for the fiscal year ended March 31, 2012. The increase in ARPU was primarily due to a higher number of Internet and Phone subscribers, a growing number of subscribers who purchase more than one product, and a decrease in indirect subscribers, who generate the lowest ARPU of our subscribers.

The total blended ARPU per subscriber in the TV Business segment increased by €0.51 or 5.2% to €10.37 in the fiscal year ended March 31, 2013 compared to €9.86 in the fiscal year ended March 31, 2012. This was primarily due to a growing number of subscribers who subscribe to more than one TV Business product, and a decrease in indirect subscribers, who generate the lowest ARPU of our subscribers.

In the fiscal year ended March 31, 2013, the total blended ARPU per subscriber in the Internet and Phone Business segment increased by €0.03 or 0.1% to €28.27 compared to €28.24 in the fiscal year ended March 31, 2012. The slight increase was due to a larger number of CPE rentals and an improved product mix towards higher download speeds of up to 100 Mbit/s. Both points offset the lower variable phone usage, with a positive effect on the total blended ARPU per subscriber in the Internet and Phone Business segment.

We continue to focus on increasing ARPUs per subscriber, particularly by raising RGUs per subscriber. These improved as of March 31, 2013 by 0.12 or 7.6% to 1.69 RGUs per subscriber (prior year: 1.57 RGUs per subscriber).

## 4.3 SUBSCRIBER ACQUISITION COSTS

We are focused on growing our business profitably as we increasingly penetrate our customer base with our New Services such as Internet and Phone or Premium-TV. Costs per acquired subscriber comprise costs for CPE, installation and setup and our acquisition costs per order (costs for marketing, sales and promotion) as well as general and administrative expenses.

Our acquisition costs per order for Internet and Phone subscribers rose marginally in the fiscal year ended March 31, 2013 to €161 from €158 in the fiscal year ended March 31, 2012.

The average acquisition costs per order for our TV Business products rose to €48 in the fiscal year ended March 31, 2013 from €42 in the fiscal year ended March 31, 2012.

# 5 COMPARISON OF THE GROUP'S RESULTS OF OPERATIONS FOR THE FISCAL YEARS ENDED MARCH 31, 2013 AND MARCH 31, 2012

## 5.1 REVENUES

Our business is divided into two operating segments: (i) the TV Business segment, which accounted for 65.1%, and (ii) the Internet and Phone Business segment, which accounted for 34.9% of our total revenues in the fiscal year ended March 31, 2013.

The following table gives an overview of our revenues in the fiscal year ended March 31, 2013 compared to the fiscal year ended March 31, 2012.

| | Fiscal Year ended | |
|---|---|---|
| in T€, except as noted | March 31, 2013 | March 31, 2012 |
| TV Business revenues | 1,191,638 | 1,158,382 |
| Internet and Phone Business revenues | 638,284 | 541,352 |
| **Total revenues** | **1,829,923** | **1,699,734** |
| Blended ARPU per subscriber (in € / month) [1] | 15.87 | 14.44 |

[1] Total blended ARPU per subscriber is calculated by dividing recurring TV and Internet and Phone subscription revenues including usage dependent fees (excluding installation fees and other non-recurring revenues) generated in the relevant period in the TV Business and Internet and Phone Business segments by the sum of the monthly average number of total unique subscribers in that period.

Total revenues for the fiscal year ended March 31, 2013 increased by T€130,189 or 7.7% to T€1,829,923 compared to T€1,699,734 in the fiscal year ended March 31, 2012. This is the result of the continued strong growth in Internet and Phone, combined with accelerated growth for our Premium-TV products. In both areas, new products have contributed significantly to the growth, particularly DOCSIS 3.0 with a transmission rate of up to 100 Mbit/s as well as the HD DVR.

### 5.1.1 TV Business Revenues

TV Business revenues are generated primarily from Basic Cable subscription fees, which are paid for access to our network and reception of our analog and digital TV signals. These Basic Cable subscription fees are realized from private households, housing associations (including landlords) and Level 4 network operators.

In addition, the Group generates revenues in the TV Business via our Premium-TV services such as Pay-TV and DVR services.

Generally, first-time subscribers are charged an installation fee for the initial connection to our network and the provision of products. In addition, we generate fees and receive reimbursements for connecting newly built homes to our network.

Furthermore, the Group receives revenues from carriage fees for the distribution of broadcasters' programming, from signal transport services as well as from the sale of CPE and other revenues. Carriage fees are typically based on the number of homes to which we distribute the programming and are subject to subsequent ordinary antitrust regulations. The future development of carriage fees depends, among other things, on the number of subscribers connected to our network and the embodiment of contracts. We also refer to our explanations in section 5.3 subsection "Other Financial Obligations, Contingencies and Lawsuits" of the Notes to the consolidated financial statements of KDH AG as of March 31, 2013.

| in T€, except as noted | Fiscal Year ended March 31, 2013 | March 31, 2012 |
|---|---|---|
| Subscription fees | 1,018,199 | 994,867 |
| Carriage fees and other revenues | 173,440 | 163,516 |
| **TV Business revenues** | **1,191,638** | **1,158,382** |
| Blended ARPU per subscriber (in € / month) [1] | 10.37 | 9.86 |

[1] Total blended TV ARPU per subscriber is calculated by dividing the subscription revenues (excluding installation fees and other non-recurring revenues) generated for a specified period from our TV Business products by the sum of the monthly average number of total Basic Cable subscribers in that period.

In the fiscal year ended March 31, 2013 our TV Business generated revenues of T€1,191,638, corresponding to 65.1% of our total revenues. In comparison, in the fiscal year ended March 31, 2012 revenues of T€1,158,382 or 68.2% of total revenues were generated.

The growth of revenues in TV Business was primarily due to an increase in Premium-TV RGUs, particularly in connection with our HD DVR, and the expanded HD subscription packages, such as Kabel Premium HD.

## 5.1.2 Internet and Phone Business Revenues

We provide broadband Internet access, fixed-line and mobile phone services, mobile data services as well as additional services. Revenues of our Internet and Phone Business include recurring revenues from monthly usage dependent and fixed subscription fees as well as termination fees generated by the phone traffic of third party carriers terminating in our network. Revenues also include non-recurring revenues from installation fees, sale proceeds of CPE, mobile phone commissions and other revenues. We promote these Internet and Phone products independently from our TV products.

We offer our customers mobile data and phone services under a contract with a German mobile network operator. Under this agreement, we enter into a direct contractual relationship with the subscriber and sell this provider's mobile phone services under our own brand name.

| in T€, except as noted | Fiscal Year ended March 31, 2013 | March 31, 2012 |
|---|---|---|
| Subscription fees (recurring) | 604,712 | 508,329 |
| Installation fees and other non-recurring revenues | 33,572 | 33,023 |
| **Internet and Phone Business revenues** | **638,284** | **541,352** |
| Blended ARPU per subscriber (in € / month) [1] | 28.27 | 28.24 |

[1] Total blended Internet and Phone ARPU per subscriber is calculated by dividing the Internet and Phone subscription revenues including usage dependent fees (excluding installation fees and other non-recurring revenues) generated in the relevant period by the sum of the monthly average number of Internet and Phone subscribers of these products in that period.

In the fiscal year ended March 31, 2013 our Internet and Phone Business revenues rose by T€96,932 or 17.9% to T€638,284 (prior year: T€541,352) primarily due to the increase in recurring fees. This continuous strong growth was primarily due to the increase in our Internet and Phone subscribers. As a percentage of our total revenues our Internet and Phone Business generated 34.9% in the fiscal year ended March 31, 2013 compared to 31.8% in the fiscal year ended March 31, 2012.

## 5.2 COSTS AND EXPENSES

In the fiscal year ended March 31, 2013 costs and expenses increased by T€77,630 or 5.8% to T€1,416,576 (prior year: T€1,338,946), primarily due to higher personnel expenses. The increase in personnel expenses was mainly due to the additional recruitments in our call centers. In addition, the increase in personnel expenses resulted from higher non-cash expenses related to the Long-Term Incentive Plan ("LTIP") [1], particularly in connection with the current positive trend of KDH AG's share price, additional vesting, and the additional grant of virtual performance shares. Costs and expenses also rose due to increased cost of materials. The increase was partially offset by lower non-cash expenses for depreciation and amortization following the expiration of the useful life of the customer list in September 2011, which was originally acquired by the Group in 2003 (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013, section 3.6). The 5.8% increase in costs and expenses was disproportionately low compared to the growth in revenues of 7.7%.

Costs and expenses are incurred in the following three functional areas:

| | Fiscal Year ended | |
|---|---|---|
| in T€, except as noted | March 31, 2013 | March 31, 2012 |
| Cost of services rendered | 835,599 | 784,287 |
| Selling expenses | 414,166 | 424,652 |
| General and administrative expenses | 166,811 | 130,008 |
| **Costs and expenses** | **1,416,576** | **1,338,946** |
| Thereof: | | |
| Depreciation and amortization | 360,930 | 395,937 |
| Expenses related to LTIP (IFRS 2) [1] | 64,051 | 20,459 |
| Expenses related to acquisitions and changes in norms | 7,797 | - |
| Expenses related to restructuring / legal reorganization | 3,562 | 6,189 |
| **Total non-operating, non-cash costs and expenses** | **436,341** | **422,585** |
| **Operating costs and expenses [2]** | **980,236** | **916,361** |
| Monthly operating costs and expenses per average RGU in € [2] | 5.88 | 5.84 |

1) Will be cash settled under certain conditions at the end of the program, see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 5.5).

2) Operating costs and expenses comprise costs and expenses before non-cash depreciation and amortization, expenses related to LTIP, expenses related to acquisitions and changes in norms, and expenses related to restructuring / legal reorganization.

Costs and expenses in the fiscal year ended March 31, 2013 included non-cash depreciation and amortization, LTIP expenses, expenses related to acquisitions and changes in norms and expenses related to restructuring / legal reorganization of T€436,341 (prior year: T€422,585).

Adjusted for these items, costs and expenses in the fiscal year ended March 31, 2013 increased by T€63,875 or 7.0% to a total of T€980,236 compared to T€916,361 in the fiscal year ended March 31, 2012. The increase is mainly due to higher personnel expenses following additional recruitments, higher expenses related to program content, particularly for programs in HD quality, and higher marketing expenses. In addition, the expansion of our product offering and the intensified acquisition of new subscribers led to increased subscriber demand, thereby increasing our subscriber-related costs, such as customer service, as well as infrastructure costs, e.g. expenses relating to service level agreements ("SLAs") with Deutsche Telekom AG ("DTAG"), particularly for leased fiber optic lines.

Monthly costs and expenses per average RGU increased slightly in the fiscal year ended March 31, 2013 to €5.88 from €5.84 in the prior year.

### 5.2.1 Cost of Services Rendered

Cost of services rendered relates primarily to costs associated with our business activities which are directly attributable to generating revenues. These include costs and expenses related to the operation and maintenance of our network, costs and expenses related to leased networks, as well as other costs directly associated with the provision of products and services over our network, such as content costs.

1) Will be cash settled under certain conditions at the end of the program, see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 5.5)

The cost of services rendered in the fiscal years ended March 31, 2013 and 2012 was as follows:

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| **Cost of materials and services** | **455,486** | **418,482** |
| Thereof: | | |
| Service level agreements ("SLAs") renting and leasing DTAG | 180,370 | 172,237 |
| Thereof cable ducts | 103,388 | 103,304 |
| Content costs | 76,552 | 59,432 |
| Connectivity and other network costs | 43,692 | 36,738 |
| Interconnection expenses | 42,907 | 42,487 |
| Maintenance and repair | 41,123 | 35,794 |
| Other expenses | 70,842 | 71,793 |
| **Personnel expenses** | **45,139** | **37,827** |
| Thereof: | | |
| Expenses related to LTIP (IFRS 2) [1] | 8,110 | 2,813 |
| Expenses / (income) related to restructuring / legal reorganization | 101 | (414) |
| **Depreciation and amortization** | **260,333** | **250,378** |
| **Other costs and expenses** | **74,641** | **77,600** |
| Thereof: | | |
| Expenses related to restructuring / legal reorganization | 433 | 0 |
| **Cost of services rendered** | **835,599** | **784,287** |

1) Will be cash settled under certain conditions at the end of the program, see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 5.5).

In the fiscal year ended March 31, 2013, the cost of services rendered increased by T€51,312 or 6.5% to T€835,599 compared to T€784,287 in the fiscal year ended March 31, 2012.

As a percentage of our total revenues, the cost of services rendered in the fiscal year ended March 31, 2013 decreased to 45.7% from 46.1% in the prior year.

## Cost of Materials and Services

Cost of materials and services in relation to cost of services rendered consists to a large extent of expenses in connection with SLAs with DTAG relating primarily to leased cable ducts, technical rooms, fiber optic systems and energy supply. Additionally, content costs, connectivity and other network costs, interconnection expenses, maintenance and repair costs as well as other expenses are included in the cost of materials and services.

Expenses in connection with SLAs of DTAG mainly consist of two cost components:

(i) SLAs in connection with rental and leasing:

- Payments to DTAG for the use of operating assets. We lease certain operating assets, such as cable ducts and fiber optic capacity / backbones, which together represent the largest expense component of the SLAs;
- Payments to DTAG for leased technical operating areas (for antennas and other equipment); and
- Payments to DTAG for granting and monitoring access by our technical employees to shared facilities.

(ii) Other SLAs (not related to leases):

- Payments made in connection with energy (disclosed under other costs of materials and services).

Expenses from SLAs with DTAG in connection with rental and leasing agreements increased in the fiscal year ended March 31, 2013 by T€8,133 or 4.7% to T€180,370, compared to T€172,237 in the fiscal year ended March 31, 2012. The growth trend in the Internet and Phone Business made it necessary to lease additional fiber optic lines required for more network capacity. The costs of leasing cable ducts from DTAG, which accounted for the bulk of the expenses reported under this item, remained nearly unchanged in the fiscal year ended March 31, 2013 at T€103,388 (prior year: T€103,304). As a percentage of total revenues, the costs of leasing cable ducts from DTAG decreased in the fiscal year ended March 31, 2013 to 5.6% compared to 6.1% in the prior year.

Content costs relate primarily to program costs for the Kabel Digital, Kabel Komfort HD, Kabel Premium HD, Kabel Komfort Premium HD and Kabel International products. Content costs increased by T€17,120 or 28.8% to T€76,552 in the fiscal year ended March 31, 2013 from T€59,432 in the fiscal year ended March 31, 2012. Content costs increased to 4.2% of our total revenues for the fiscal year ended March 31, 2013 from 3.5% for the fiscal year ended March 31, 2012. The increase in content costs is disproportionately large compared to our number of Premium-TV RGUs, which increased by 23.2% during the past fiscal year. This was primarily due to additional expenses for HD content for our new HD packages. In general the broadcasters' services are charged based on the costs per subscriber. With respect to the licensing of the HD content there are also contracts with minimum guarantees, of which, however, the minimum thresholds are mostly reached. We are proceeding on the assumption that total content costs will increase with a corresponding increase in our Premium-TV revenues. We are continuously monitoring and modifying our programming to achieve maximum customer satisfaction and minimum costs per subscriber.

Connectivity and other network expenses reflect the lease costs of our regional backbones from DTAG and from other third parties as well as costs for the connection to networks from third parties and expenses relating to leases of space for technical operating areas from third parties. As long as we continue the traffic-related extension of the upgraded network and the bandwidth capacity, we expect our connectivity and other network expenses to continue to increase, combined with further customer growth. In the fiscal year ended March 31, 2013, our connectivity and other network costs increased by T€6,954 or 18.9% to T€43,692 (prior year: T€36,738), thereby exceeding the revenue growth rate of 7.7%.

Interconnection expenses are a charge between carriers related to the cost of phone traffic being transmitted and terminated through the network of third party carriers. In return we recognize revenues for phone traffic of the customers of third party carriers transmitted over and terminating in our network. In the fiscal year ended March 31, 2013 interconnection expenses remained nearly stable at T€42,907 compared with T€42,487 in the fiscal year ended March 31, 2012. The percentage of our interconnection expenses in relation to Internet and Phone revenues decreased in the fiscal year ended March 31, 2013 to 6.7% (prior year: 7.8%). In the fiscal year ended March 31, 2013, the monthly average interconnection expenses per Phone RGU decreased to €2.15 from €2.54 in the prior year.

In the fiscal year ended March 31, 2013, expenses for maintenance and repair provided by third parties increased by T€5,329 or 14.9% to T€41,123 (prior year: T€35,794). This is associated with increased service intensity for our new Premium-TV products and Internet and Phone products, as well as a larger RGU base. As a percentage of our total revenues, maintenance expenses remained relatively stable at 2.2% in the fiscal year ended March 31, 2013, compared to 2.1% in the fiscal year ended March 31, 2012.

Other costs of materials and services comprise several items, among them expenses for energy, expenses for external technical call center agencies, the costs of CPEs sold, non-capitalized installation and setup costs for installation and setup, and other expenses. These fell by T€951 to T€70,842 in the fiscal year ended March 31, 2013, from T€71,793 in the fiscal year ended March 31, 2012. The percentage of other costs of materials and services in relation to total revenues decreased to 3.9% in the fiscal year ended March 31, 2013 from 4.2% in the fiscal year ended March 31, 2012.

In total, the cost of materials and services increased marginally to 24.9% of our total revenues in the fiscal year ended March 31, 2013, compared to 24.6% of our total revenues in the fiscal year ended March 31, 2012.

## Personnel Expenses

Personnel expenses within cost of services rendered mainly consist of costs incurred with respect to our technical staff responsible for network infrastructure planning and operation. In addition, technical staff in this area maintains the IP platform, the playout centers and our technical service center. Personnel expenses comprise salaries, social security contributions and expenses for non-cash or non-recurring items such as LTIP and restructuring.

In the fiscal year ended March 31, 2013, personnel expenses increased by T€7,312 or 19.3% to T€45,139, compared to T€37,827 in the fiscal year ended March 31, 2012. Personnel expenses adjusted for non-cash or non-recurring items, such as LTIP and restructuring, rose in the fiscal year ended March 31, 2013 by T€1,501 or 4.2% to T€36,929, compared to T€35,428 in the fiscal year ended March 31, 2012. This increase was primarily due to additional recruitments in our technical devisions, including a built-up of own staff to provide construction and other services of Kabel Deutschland Field Services GmbH in the region of western and southern Bavaria, and the permanent employment of former temporary personnel in the technical customer service of KDK. Personnel expenses were also adversely affected by the tariff increases negotiated for this fiscal year. In contrast, personnel expenses were positively affected by own work capitalized in the wake of further extension of our technical infrastructure and associated improvements in performance capabilities for the provision of our new products and services.

The adjusted personnel expenses remained relatively stable at 2.0% of total revenues in the fiscal year ended March 31, 2013, compared to 2.1% in the fiscal year ended March 31, 2012.

## Depreciation and Amortization

Depreciation and amortization within cost of services rendered relate to the investments incurred to upgrade the network infrastructure and mainly comprise the depreciation of the network and the CPE.

In the fiscal year ended March 31, 2013, depreciation and amortization increased by T€9,955 or 4.0% to T€260,333 (prior year: T€250,378). The higher depreciation and amortization expenses relate primarily to a larger number of higher-quality CPE, particularly for Premium-TV, in connection with increased customer demand for our New Services. Higher depreciation and amortization expenses were also due to investments in network upgrades in connection with increasing customer demand, e.g. for Internet products with up to 100 Mbit/s, and related new technology standards (e.g. DOCSIS 3.0). This was partially offset by depreciation related to the extension of the useful life of the Level 3 cable networks. As a percentage of total revenues, depreciation and amortization decreased to 14.2% in the fiscal year ended March 31, 2013, compared to 14.7% in the fiscal year ended March 31, 2012.

### Other Costs and Expenses

Other costs and expenses within cost of services rendered comprise copyright fees, other expenses for IT support, rental expenses, consulting costs and other miscellaneous items. In the fiscal year ended March 31, 2013 other costs and expenses decreased by T€2,959 or 3.8% to T€74,641 (prior year: T€77,600). As a percentage of total revenues, other costs and expenses decreased to 4.1% in the fiscal year ended March 31, 2013 from 4.6% in the prior year.

## 5.2.2 Selling Expenses

Selling expenses arise in connection with the activities to support our sales and marketing effort with respect to our products and services. They are divided into four categories.

For the fiscal years ended March 31, 2013 and 2012 selling expenses were as follows:

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| **Cost of materials and services** | **35,601** | **32,455** |
| **Personnel expenses** | **123,624** | **98,082** |
| Thereof: | | |
| Expenses related to LTIP (IFRS 2) [1] | 17,034 | 5,967 |
| Expenses related to restructuring / legal reorganization | 1,515 | 1,826 |
| **Depreciation and amortization** | **76,844** | **123,897** |
| **Other costs and expenses** | **178,098** | **170,218** |
| Thereof: | | |
| Expenses related to restructuring / legal reorganization | 971 | 58 |
| **Selling expenses** | **414,166** | **424,652** |

[1] Will be cash settled under certain conditions at the end of the program, see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 5.5).

In spite of higher non-cash expenses relating to the LTIP, selling expenses decreased by T€10,486 to T€414,166 in the fiscal year ended March 31, 2013 (prior year: T€424,652). As a percentage of our total revenues, selling expenses declined to 22.6% from 25.0% in the prior year.

### Cost of Materials and Services

Cost of materials and services within selling expenses is associated with the general sale of our products and services as well as expenses relating to our customer service centers. Cost of materials and services increased in the fiscal year ended March 31, 2013 by T€3,146 or 9.7% to T€35,601 (prior year: T€32,455). The increase resulted primarily from higher expenses for our external customer service centers due to the larger RGU base and in connection with the expanded HD offering. The percentage of cost of materials and services in relation to total revenues remained stable at 1.9% in the fiscal year ended March 31, 2013.

### Personnel Expenses

Personnel expenses within selling expenses comprise salaries, social security contributions and pension costs as well as expenses for non-cash or non-recurring items, such as LTIP and restructuring, relating to the sales, marketing and customer service center personnel.

In the fiscal year ended March 31, 2013, personnel expenses for sales and related activities increased by T€25,542 or 26.0% to T€123,624 (prior year: T€98,082). Personnel expenses adjusted for LTIP and restructuring expenses increased by T€14,786 or 16.4% to T€105,075 in the fiscal year ended March 31, 2013 from T€90,289 in the fiscal year ended March 31, 2012, mainly as a result of additional recruitments through the permanent employment of former temporary personnel in KDK's customer service. With this regular employment, the cost of temporary personnel decreased accordingly. Personnel expenses also rose as a result of tariff increases negotiated for this fiscal year. While adjusted personnel expenses increased, due to regular employment of former temporary personnel, to 5.7% of our total revenues in the fiscal year ended March 31, 2013 from 5.3% in the prior year, there was a corresponding decrease in other costs and expenses in relation to total revenues (see following section "Other Costs and Expenses").

### Depreciation and Amortization

Depreciation and amortization included in selling expenses primarily relate to the customer list, to capitalized subscriber acquisition costs and to CPE.

In the fiscal year ended March 31, 2013, depreciation and amortization decreased by T€47,053 or 38.0% to T€76,844 (prior year: T€123,897). This was primarily attributable to the expiration in September 2011 of the useful

life of the customer list, originally acquired by the Group in 2003, and the useful life of capitalized subscriber acquisition costs adjusted for the expected subscriber relationship period in August 2011 (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013, section 3.6). The amortization expense recorded during the fiscal year ended March 31, 2013 overcompensated the capitalized subscriber acquisition costs.

### Other Costs and Expenses

Other costs and expenses with regard to selling expenses mainly include marketing costs, sales commissions, bad debt expenses as well as expenses for sales support, for temporary personnel and for other items. In the fiscal year ended March 31, 2013 other costs and expenses within selling expenses increased by T€7,880 or 4.6% to T€178,098 (prior year: T€170,218). The increase was mainly due to intensified marketing measures and the higher sales commissions resulting from the growth in our subscriber base. The increase was partially offset by decreased expenses for temporary personnel following their regular employment in our customer service centers. As a percentage of total revenues, other costs and expenses decreased to 9.7% in the fiscal year ended March 31, 2013 from 10.0% in the prior year.

## 5.2.3 General and Administrative Expenses

General and administrative expenses are expenses that are not directly allocated to the cost of services rendered or to selling expenses and cover in particular headquarter functions, such as managing directors, IT, legal and regulatory, finance, human resources, corporate services and security. General and administrative expenses are divided into three categories.

For the fiscal years ended March 31, 2013 and 2012 general and administrative expenses were as follows:

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| **Personnel expenses** | **94,930** | **63,930** |
| Thereof: | | |
| Expenses related to LTIP (IFRS 2 ) [1] | 38,907 | 11,680 |
| Expenses related to acquisitions and changes in norms | 874 | - |
| Expenses related to restructuring / legal reorganization | 374 | 729 |
| **Depreciation and amortization** | **23,754** | **21,661** |
| **Other costs and expenses** | **48,128** | **44,417** |
| Thereof: | | |
| Expenses related to acquisitions and changes in norms | 6,923 | - |
| Expenses related to restructuring / legal reorganization | 169 | 3,990 |
| **General and administrative expenses** | **166,811** | **130,008** |

[1] Will be cash settled under certain conditions at the end of the program, see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 5.5).

### Personnel Expenses

Personnel expenses within general and administrative expenses comprise salaries, social security contributions and pension costs related to administrative personnel. This item also includes expenses for non-cash and non-recurring items such as LTIP and restructuring.

Personnel expenses increased in the fiscal year ended March 31, 2013 by T€31,000 or 48.5% to T€94,930 (prior year: T€63,930). Adjusted for non-cash LTIP expenses and non-operating expenses related to acquisitions and changes in norms as well as restructuring, personnel expenses increased by T€3,253 or 6.3% to T€54,774 in the fiscal year ended March 31, 2013 compared with T€51,521 in the prior year. This increase was mainly the result of additional recruitments, and tariff increases.

As a percentage of our total revenues, adjusted personnel expenses for the fiscal year ended March 31, 2013 remained stable compared to the prior year at 3.0%.

### Depreciation and Amortization

Depreciation and amortization reported under general and administrative expenses relate primarily to investments in IT. Depreciation and amortization increased by T€2,093 or 9.7% to T€23,754 in the fiscal year ended March 31, 2013 from T€21,661 in the fiscal year ended March 31, 2012, primarily due to investments in newly developed software. As a percentage of our total revenues, depreciation and amortization remained stable at 1.3% for the fiscal year ended March 31, 2013.

### Other Costs and Expenses

Other costs and expenses within general and administrative expenses primarily include expenses for consulting, IT support, and other headquarter-related costs. In the fiscal year ended March 31, 2013 other costs and expenses increased by T€3,711 or 8.4% to T€48,128 (prior year: T€44,417). The other costs and expenses include non-operating expenses of T€7,092 in total mainly relating to the originally planned acquisition of the Tele Columbus Group (see section 3.4 "Acquisition") and to a lesser extent relating to the implementation of the EU Directive on the Introduction of a Single Euro Payments Area ("SEPA"). The expenses related to restructuring / legal reorganization of T€3,990 reported in the prior year primarily included IT expenses in connection with the implementation of the merger (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 section 1) and the associated required data migrations.

Adjusted for these non-operating expenses, other costs and expenses within general and administrative expenses increased by T€609 or 1.5% to T€41,036 in the fiscal year ended March 31, 2013 from T€40,427 in the prior year, declining as a percentage of our total revenues to 2.2% from 2.4%.

## 5.3 PROFIT FROM ORDINARY ACTIVITIES

In the fiscal year ended March 31, 2013 profit from ordinary activities increased by T€53,061 or 14.2% to T€425,961 (prior year: T€372,900), primarily resulting from the incremental operating margin based on substantial revenue growth and lower expenses for depreciation and amortization of T€35,007.

## 5.4 INTEREST INCOME

Interest income increased by T€442 to T€3,333 in the fiscal year ended March 31, 2013, compared to T€2,891 in the prior year. In the fiscal year ended March 31, 2012, the Group entered into standalone derivatives contracts (interest floors) (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013, section 3.12.2) that generated T€1,766 in income from market value changes in the fiscal year ended March 31, 2013 compared to T€2,111 in the prior year. The reduction in market value was counterbalanced by an increase in income from default interest and fixed deposit interest.

## 5.5 INTEREST EXPENSES

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Senior Credit Facility | 109,678 | 120,884 |
| 2018 Senior Secured Notes | 39,744 | 25,639 |
| 2017 Senior Notes | 20,222 | - |
| Amortization of capitalized financing and transaction costs | 19,469 | 34,982 |
| Thereof: | | |
| Non-recurring | 10,630 | 13,562 |
| Recurring | 8,839 | 21,420 |
| Derivatives | 6,114 | 2,231 |
| Pensions | 2,516 | 2,397 |
| Finance lease | 1,845 | 1,479 |
| Asset retirement and CPE obligations | 1,123 | 1,155 |
| Bridge Credit Agreement | 817 | - |
| PIK Loan | 0 | 9,735 |
| Other | 4,478 | 3,073 |
| **Total interest expenses** | **206,006** | **201,575** |

In the fiscal year ended March 31, 2013 interest expenses increased by T€4,431 or 2.2% to T€206,006 (prior year: T€201,575).

In July and August 2011 we entered into interest hedge agreements to swap the floating interest rate of the T€400,000 Term Loan Tranche D (EURIBOR plus 4.0%) for an effective fixed interest rate of 6.07% until December 2016, and the floating interest rate of the T€500,000 Term Loan Tranche E (EURIBOR plus 3.25%) for an effective fixed interest rate of 5.69% until June 2017. The resulting interest expense of T€18,830 (prior year: T€6,795) is presented as part of the interest portion of the Senior Credit Facility.

On July 31, 2012, KDVS GmbH increased the 2018 Senior Secured Notes due on June 29, 2018, by a notional amount of T€200,000 at an issue price of 106.75%. The agio of T€13,500 will be reversed over the term using the effective interest method and offset against the interest expense relating to the 2018 Senior Secured Notes.

On June 21, 2012, KDH AG issued T€400,000 of 6.5% 2017 Senior Notes due on July 31, 2017 at par (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 section 3.12.2). The resulting interest expense totaled T€20,222 in the fiscal year ended March 31, 2013.

Together with Tranches D and E of the Senior Credit Facility mentioned above, the new 2017 Senior Notes and the 2018 Senior Secured Notes, which were increased in July 2012, we achieved a proportion of fixed rate or hedged debt of approximately 60% as of March 31, 2013.

In February 2013, with the consent of the lenders, the Group agreed an amendment to the terms of Tranche F ("Tranche F1"). Effective February 6, 2013, Tranche F1 bears interest of 2.75% over the US$-LIBOR. It was also stipulated that upon reaching a rating of BB and Ba2 from the rating agencies Standard & Poor's and Moody's, the interest margin will be decreased again by 0.25% to 2.50% over the US$-LIBOR. Effective March 18, 2013, the interest rate on Tranche F1 is US$-LIBOR plus 2.50%.

In January 2012, the currency risk associated with Term Loan Tranche F was fully hedged by currency swaps for a period of 5 years for the full notional amount. In addition, the minimum LIBOR of 1.00% stipulated in Tranche F was effectively eliminated by the purchase of an interest floor for 5 years. From the Group's point of view this results in variable Euro denominated interest payments based on the one month EURIBOR plus the agreed margin. As part of the amendment of the terms of Tranche F effective February 6, 2013, this minimum LIBOR of 1.00% was reduced to 0.75%. With the amendment of the interest floors purchased in January 2012 further effective elimination of the minimum LIBOR was assured.

The amortization of capitalized financing and transaction costs included non-recurring expenses of T€10,630 related to full cancellation of the new Bridge Credit Agreement, early repayment of Facility C in the fiscal year ended March 31, 2013, and the refinancing and partial repayment of existing Facilities D and G (see also section 7) in April 2013, compared with T€13,562 in the prior year due to early repayment of the PIK Loan and Facilities A and C.

The standalone derivatives entered into in the fiscal year ended March 31, 2012 associated with Tranche F, which was issued under the Senior Credit Facility, incurred interest expenses of T€6,114 for the Group in the fiscal year ended March 31, 2013 (prior year: T€2,231), primarily as a result of changes in fair value.

On April 30, 2012, the Group entered into an unsecured Bridge Credit Agreement, primarily for financing the acquisition of the Tele Columbus Group. The loan commitment originally amounted to T€600,000 in total. However, with the new placement of 2017 Senior Notes in June 2012 and the placement of the tap on 2018 Senior Secured Notes in July 2012, the original loan commitment was reduced by T€400,000 and T€200,000, respectively. Until the cancelation of the Bridge Credit Agreement, commitment fees of 0.75% p.a. were payable on the outstanding loan commitment. The resulting interest expense totaled T€817 in the fiscal year ended March 31, 2013.

The Group fully repaid its PIK Loan in the amount of T€746,983 (inclusive accrued interest as of the redemption dates) in the fiscal year ended March 31, 2012. In addition, the Group repaid T€635,999 of Facility A and T€170,694 of Facility C. These repayments were funded by the issue of 2018 Senior Secured Notes in the amount of T€500,000, the addition of a Senior Add-on Facility ("Tranche E") in the amount of T€500,000, and of a Senior Add-on Facility ("Tranche F") in the amount of TUS$750,000.

Adjusted for non-recurring effects and the effects from the change in fair values in connection with our interest and currency hedging, recurring interest expenses in the fiscal year ended March 31, 2013 rose moderately by T€3,480 or 1.9% to T€189,262 compared with T€185,782 in the fiscal year ended March 31, 2012.

Outstanding interest debt at nominal values (excluding derivatives) as of March 31, 2013 increased by €529 million or 18.7% to €3,352 million (prior year: €2,824 million), primarily due to the issuance of the 2017 Senior Notes and the increased 2018 Senior Secured Notes while at the same time prolonging the terms of our financial liabilities (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 section 3.12.2).

We constantly monitor our net debt (total debt nominal amounts (excluding derivatives) less cash), which increased slightly as of March 31, 2013 to €2,743 million (prior year: €2,690 million).

## 5.6 INCOME FROM ASSOCIATES

Based on the financial statements available to us, income from associates in the fiscal year ended March 31, 2013 increased by T€717 to T€2,344 (prior year: T€1,627).

## 5.7 PROFIT BEFORE TAXES

Due to the improved profit from ordinary activities our profit before taxes also rose to T€225,632 in the fiscal year ended March 31, 2013 compared to T€175,842 in the fiscal year ended March 31, 2012.

## 5.8 TAXES ON INCOME

A tax benefit of T€21,207 was recorded in the fiscal year ended March 31, 2013 compared to a tax expense of T€16,435 in the fiscal year ended March 31, 2012. Taxes for the fiscal year ended March 31, 2013 comprised current tax expenses of T€53,335 and a deferred tax benefit of T€74,541. Taxes recorded for the fiscal year ended March 31, 2012 comprised current tax expenses of T€21,017 and a deferred tax benefit of T€4,583. The increase in current tax expenses for the fiscal year ended March 31, 2013 was primarily due to the increase in profit before taxes compared to the prior year, while the tax loss carryforwards of KDVS GmbH were almost fully utilized. The increase in the deferred tax benefit for the fiscal year ended March 31, 2013 was primarily due to the first-time capitalization of previously unused loss carryforwards of KDH AG. These loss carryforwards can be used for the first time under the income tax consolidation between KDH AG and KDVS GmbH which became effective as of April 1, 2013.

## 5.9 NET PROFIT OF THE GROUP FOR THE PERIOD

A net profit of T€246,838 was recorded in the fiscal year ended March 31, 2013 compared with T€159,408 in the fiscal year ended March 31, 2012. The significant increase in net profit was primarily driven by the incremental operating margin earned based on higher revenues, a tax benefit mainly resulting from capitalization of loss carryforwards that can be used within the scope of the income tax consolidation with the beginning of the fiscal year at April 1, 2013, and lower depreciation and amortization expenses. Earnings per share also improved to €2.79 in the fiscal year ended March 31, 2013, from €1.78 in the prior year.

## 5.10 ADJUSTED EBITDA (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION) [1)]

| | Fiscal Year ended | |
|---|---|---|
| in T€, except as noted | March 31, 2013 | March 31, 2012 |
| Profit from ordinary activities | 425,961 | 372,900 |
| Depreciation and amortization | 360,930 | 395,937 |
| Expenses related to LTIP (IFRS 2) [2)] | 64,051 | 20,459 |
| Expenses related to acquisitions and changes in norms | 7,797 | - |
| Expenses related to restructuring / legal reorganization | 3,562 | 6,189 |
| **Adjusted EBITDA** | **862,302** | **795,485** |
| **Adjusted EBITDA margin in %** | **47.1%** | **46.8%** |

1) EBITDA consists of profit from ordinary activities before depreciation and amortization. We calculate "Adjusted EBITDA" as profit from ordinary activities before depreciation and amortization, expenses related to LTIP, expenses related to acquisitions and changes in norms and expenses related to restructuring / legal reorganization.

2) Will be cash settled under certain conditions at the end of the program, see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 (section 5.5).

Adjusted EBITDA improved by T€66,817 or 8.4% to T€862,302 in the fiscal year ended March 31, 2013 compared to T€795,485 in the fiscal year ended March 31, 2012, mainly as a result of continued growth and therefore significantly higher revenues in our Internet and Phone Business and in the TV Business. Our adjusted EBITDA margin increased slightly to 47.1% in the fiscal year ended March 31, 2013 (prior year: 46.8%).

# 6 FINANCIAL POSITION AND NET ASSETS OF THE GROUP AS OF MARCH 31, 2013 COMPARED TO THE FISCAL YEAR ENDED MARCH 31, 2012

As of March 31, 2013, the balance of our cash and cash equivalents was T€609,547. Under our revolving Senior Credit Facility Tranche B we also had T€324,030 in unused credit line available.

The following table shows a condensed version of our cash flows for the fiscal years ended March 31, 2013 and 2012:

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Cash flows from operating activities | 729,767 | 729,867 |
| Cash flows from investing activities | (471,376) | (391,549) |
| Cash flows from financing activities | 217,373 | (232,869) |
| Changes in cash and cash equivalents | 475,763 | 105,449 |
| Cash and cash equivalents at the beginning of the period | 133,784 | 28,335 |
| **Cash and cash equivalents at the end of the period** | **609,547** | **133,784** |

## 6.1 CASH FLOWS FROM OPERATING ACTIVITIES

In the fiscal year ended March 31, 2013 our net cash flows from operating activities decreased slightly by T€100 to T€729,767 (prior year: T€729,867). Our operating performance improved significantly, as evidenced by the positive development of the gross operating cash flows (cash flows from operating activities before changes in assets and liabilities as well as income taxes), which increased as of March 31, 2013 by T€21,486 to T€790,425 (prior year: T€768,939). Various asset and liability items changed during the reporting period, having opposing effects and in sum almost netting each other. In addition, there was a reduction in the cash flows from operating activities due to a significant increase in tax payments that mainly consisted of additional payments for prior years. These additional tax payments were already included in the liabilities reported in the corresponding prior years, but were not paid until the reporting period.

## 6.2 CASH FLOWS FROM INVESTING ACTIVITIES

The net cash used in investing activities increased in the fiscal year ended March 31, 2013 by T€79,827 or 20.4% to T€471,376 (prior year: T€391,549).

The investment payments increased by T€81,120 to T€472,333 (prior year: T€391,213) for the fiscal year ended March 31, 2013, corresponding to 25.8% of our total revenues for the fiscal year ended March 31, 2013 (prior year: 23.0%).

These operational investments were composed of success based investments of T€311,531, comprised investments directly attributable to the acquisition of new subscribers and thus the connection of new homes to our network as well as the CPE and their installation, and non success based investments of T€160,802. The non success based investments were primarily attributable to the upgrade and expansion of our network and the expansion of our IT systems, particularly in order to improve our customer service.

The increase in investment payments was related to the positive development of RGUs in the Internet and Phone Business as well as in the Premium-TV area, and to the associated increase in investments in our networks, such as the replacement of leased lines with our own fiber optic lines, and in CPE. Due to these investments in our networks 87.2% of our network was already upgraded for two-way communication as of March 31, 2013, allowing us to offer our subscribers Premium-TV services, broadband Internet access, phone services and other innovative interactive services. As we progressed with our network upgrade, we continuously increased the number of homes passed being marketed with our "New Services", especially Internet and Phone services. In our view, by upgrading the majority of our network to the DOCSIS 3.0 data transmission standard, we are able to maintain our competitive advantage in the long run since we can offer Internet download speeds of up to 100 Mbit/s or more. As of March 31, 2013, DOCSIS 3.0 products could be offered in 82.6% of our upgraded network.

The net cash flow from investing activities also included other items. In August 2012, we acquired the business operations of one of our regional complex service providers. Cash payments for acquired service contracts of this business amounted to T€3,702. Cash paid for acquisitions amounted to T€68 in the fiscal year ended March 31, 2013, compared to T€10,525 in the prior year, which included primarily residual purchase price payments related to subscriber contracts acquired in prior fiscal years. In addition, dividends of T€2,750 were received from associates (prior year: T€6,673).

## 6.3 CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from our financing activities were T€217,373 in the fiscal year ended March 31, 2013, compared to net cash used in financing activities of T€232,869 in the fiscal year ended March 31, 2012.

In the fiscal year ended March 31, 2013, we received cash payments related to non-current financial liabilities of T€400,000 from the 2017 Senior Notes. Cash flows were also generated by the T€200,000 increase in the existing 2018 Senior Secured Notes and the resulting agio of T€13,500. In addition, as per resolution by the General Shareholders' Meeting on October 11, 2012, a dividend of T€132,784 was paid out. Cash repayments of non-current financial liabilities of T€73,454 consisted of the repayment of Facility C (T€71,319) and the present value of the purchased interest floors (T€2,135). Payments of interest and transaction costs totaled T€187,665, consists of non-recurring financing and transaction costs of T€16,190 primarily due to the meanwhile canceled Bridge Credit Agreement, the issue of the 2017 Senior Notes and the increase in the 2018 Senior Secured Notes. Cash repayments to reduce finance lease liabilities amounted to T€2,225.

In the fiscal year ended March 31, 2012, cash received related to non-current financial liabilities of T€1,570,452 consisted of T€570,452 for Facility F, T€500,000 for Facility E, and T€500,000 for the 2018 Senior Secured Notes. Cash repayments of current and non-current financial liabilities in the amount of T€1,543,875 comprised T€736,827 for the repurchased PIK Loan, T€170,694 for the partially redeemed Facility C, T€635,999 for the partially redeemed Facility A and to a much lesser degree T€355 for our interest floor (see Group Notes section 3.12.2). Interest and transaction costs paid totaled T€188,665, comprised T€32,144 in non-recurring financing and transaction costs resulting from conducted debt restructurings and T€10,162 in accrued interest related to the redemption of the PIK Loan. More detailed information concerning the development of the financial liabilities can be found in the Group Notes, section 3.12. Cash payments to shareholders in the amount of T€60,000 relate to the redemption of 1,477,061 treasury shares at an average price of €40.621, which was executed from September 19, 2011 to December 9, 2011 (see Group Notes section 3.16).

## 6.4 OTHER COMMENTS ON NET ASSETS

The increase in total assets of T€698,692 as of March 31, 2013 primarily reflects the increased non-current liabilities as a result of the issue of the 2017 Senior Notes and the increased 2018 Senior Secured Notes and the associated marked increase in cash and cash equivalents.

# 7 PARTICULAR EVENTS AFTER THE BALANCE SHEET DATE

On April 19, 2013, the Group was able to improve the terms and conditions of its €400 million Tranche D and €782 million Tranche G by reducing the interest margin to 2.75% (previously 4.00% and 3.50%, respectively) above the 1-month-EURIBOR. The changes were implemented by rolling the majority of the former Tranches D and G into the €1,000 million Tranche H effective April 30, 2013. At that time, the remaining financial liabilities of the Tranches D and G of the Group were correspondingly reduced by €182 million from existing liquidity. Tranche H matures in March 2020, which means that also an extension of the term of approximately three years was reached. All other contractual terms and conditions remained unchanged. The interest hedges entered into for Tranche D remain in place and from April 30, 2013 will be used to hedge the new Tanche H.

In addition, on April 19, 2013 the Group entered into a new revolving credit tranche B4, which will be available in March 2014 and run until March 2019. Tranche B4 starts with a drawing limit of €84.6 million, which increases to €159.6 million in June 2015 and to €270.0 million in March 2017. The margin of Tranche B4 is 2.75% above the 1-month-EURIBOR. A commitment fee of 1.10% p.a. is to be paid on the undrawn balance from March 2014 (see Notes to the consolidated financial statements of KDH AG as of March 31, 2013 section 3.12.2 subsection "Senior Credit Facility").

On May 3, 2013, the Group was able to improve the terms and conditions of its €500 million Tranche E by reducing the interest margin to 2.75% (previously 3.25%) above the 1-month-EURIBOR. The changes were implemented by rolling the former Tranche E into Tranche E1 effective May 14, 2013. Tranche E1 matures in June 2020, which means that also an extension of the term of two years was reached. All other contractual terms and conditions remained unchanged. The interest hedges entered into for Tranche E remain in place and from May 14, 2013 will be used to hedge the new Tranche E1.

# 8 OPPORTUNITY AND RISK REPORT

The Group is faced with a multitude of opportunities and risks. By carefully monitoring uncertainties and optimizing opportunities, the Group protects itself and creates value for its shareholders.

## 8.1 RISK MANAGEMENT SYSTEM

Risk management consists of compiling and monitoring all organizational regulations and measures which are aligned with management's strategy and designed to identify and manage risks.

The risk management system is an integral part of all processes within our company. It is designed to identify unplanned developments as early as possible so that these can be actively controlled by management.

The risk environment can change quickly and unexpectedly due to a variety of factors. It is therefore necessary to react flexibly to prevent a situation where there is avoidable damage or sustainable impact on the net assets, financial position or results of operations.

The decisions on taking opportunities and minimizing risks are generally made in the operating units. Therefore all managers perform an additional task as risk managers and they have the authority to take and control risks. The system is supplemented by the central risk management unit, thus ensuring that the responsibilities are segregated.

The risk management unit is responsible for processes and ensures that the risk situation is assessed comprehensively and is transparent by means of quarterly reporting to the Management Board. In specially defined cases which require thorough investigation, and where defined limits in the early warning system are exceeded, this regular standard reporting is supplemented by immediate reporting. In addition, risk management is also responsible for the ongoing enhancement of the risk management system and for setting company-wide standards. Risks that overlap departments are also monitored.

The risks listed below are closely monitored as part of the Group's risk management system so that appropriate measures can be implemented if necessary.

## 8.2 INTERNAL CONTROL SYSTEM RELATING TO ACCOUNTING

The internal control system includes certain principles, procedures and measures established by the Management Board, which are aimed at the

- Assurance of the effectiveness and profitability of the business operations (this includes the protection of assets, including the prevention and detection of economic loss)
- Correctness and reliability of internal and external accounting
- Compliance with the legal provisions relevant for the Group.

The Group uses the internal control system to ensure the correctness of accounting. This guarantees prompt, standardized, correct and complete accounting and processing of business transactions and processes as well as compliance with legal standards. Changes in accounting regulations are continuously reviewed for their relevance and effects on the financial statements of the Group, and if necessary, the internal policies and systems are adjusted accordingly. The organization of the internal control system includes organizational and technical measures, e.g. agreement processes, automatic plausibility checks, segregation of duties as well as compliance with guidelines and regulations.

The internal control system is based on the COSO framework (Committee of the Sponsoring Organizations of the Treadway Commission) and the COBIT framework (Control Objectives for Information and Related Technology). Regular checks of personnel in charge of controls and processes are made within the Group.

This accounting process, which can significantly influence the individual financial accounts and the overall assessment of the annual financial statements, including the management report, is part of our internal control and risk management system. The following main elements are included in this regard:

- Identification of the key risk fields and controls that are relevant for the accounting process
- Monitoring controls for monitoring the accounting process and its results at Management Board level and strategic business segment level
- Preventive control measures in finance and accounting as well as in operational and business performance processes, which generate key information for preparation of the annual financial statements including the management report, inclusive of a segregation of duties and predefined approval processes in relevant departments
- Measures which ensure the correct computer processing of accounting-related issues and data
- Measures for monitoring the internal control and risk management system related to accounting.

In addition, the Internal Audit department has a key function within the Group control system. As part of its risk-oriented audits, it examines inter alia the accounting-related processes and reports the results.

Monitoring the internal control system is also a responsibility of the Audit Committee.

In general, it should be noted that an internal control system provides no absolute guarantee that inaccurate information in external reporting will be detected. However, the risks of potential inaccurate information are minimized as far as possible.

## 8.3 RISKS

### Risks relating to our Industry

We operate in a highly competitive industry and the competitive pressure can have material negative effects on our business. The developing Internet TV sector also might lead to intensified competition.

The German cable and telecommunications markets are exposed to considerable price and margin pressure.

We may not achieve our growth targets if demand for cable and telecommunications products and services in Germany does not further increase, slows down or even collapses. In addition, the market environment in Germany differs from that of other countries; penetration rates, RGUs and ARPUs of cable providers outside Germany can therefore only restrictedly be used as reliable indicators of our growth potential.

### Risks relating to our Business

Failure to control customer churn and the associated decline in the number of our cable subscribers may have an adverse effect on our business activities and financial results.

We may be unable to renew our existing contracts with housing associations and Level 4 network operators upon their expiration on commercially attractive terms, if at all. We may also not be able to win new customers by signing new contracts with housing associations and Level 4 network operators.

If we are unable to continue existing products or successfully launch and establish new or improved products and services, our revenues, margins and cash flows could be lower than expected.

Our business activities are subject to rapid changes in technology and our business activities could be adversely affected if we are not able to respond to technological developments in time.

Failure to maintain and further develop our cable network or make other improvements to the cable network may have a material adverse effect on our business activities and financial position.

Many components of our cable network are based on rental and lease contracts. These contracts may be terminated by both parties after a minimum period or for good cause. Cancelation of these contracts may lead to additional costs for the prolongation of the contracts or alternative solutions or – in the worst case – to a loss of business if there is no suitable alternative.

We are dependent on DTAG and some of its affiliated companies for cable ducts and other important services. The ongoing litigation against Telekom Deutschland GmbH ("Telekom") which seeks to reduce the compensation for joint use of cable ducts may have a negative impact on our business relationship with DTAG.

We do not have guaranteed access to programs and are dependent on contracts with certain program providers. Our profitability may be negatively impacted if we are unable to extend the contracts on comparable terms.

Failure to reach agreements with collection societies for copyright fees might negatively impact our business activities.

The occurrence of events beyond our control might result in damage to our central systems and service platforms, inclusive our digital playout centers, and to our cable network. Exemplary would be lengthy network outages due to bad weather conditions, particularly long periods of intense cold.

The security of our encryption systems can be compromised by piracy, which may have a negative effect on our business activities and profitability.

We are dependent on equipment and service suppliers who could discontinue production or attempt to impose prices on us that are not competitive for us, which may adversely affect our business and our profitability.

Sensitive customer data are an important part of our daily business, and unauthorized disclosure of such data might violate laws and regulations which could result in fines, loss of reputation and customers, adversely affecting our business activities.

The loss of key executives and other personnel or the inability to attract key executives or other personnel could have a detrimental effect on our business.

Risks relating to outsourcing services may have an adverse effect on our business and result in higher costs than expected.

Strikes or other collective bargaining disputes with work stoppage could disrupt or interrupt our operations or make them more costly.

We may acquire assets which could potentially generate revenues, cash flows and profits which are lower than expected. We may encounter problems in the planned integration of these assets and not achieve the expected synergies.

We are subject to increasing operating costs and inflation risks which may have an adverse effect on our earnings.

The insolvency risk of our major suppliers and customers may adversely affect our revenues and operating results.

We are subject to significant government regulation, which may increase our costs and otherwise negatively affect our business activities.

Because of these regulations we do not have complete control of the prices that we can charge to broadcasters, or for resales to Level 4 network operators, which may adversely affect our cash flows and profitability as well as our ability to compete for contracts with subscribers and housing associations.

Our relationships with program content providers and radio broadcasters are subject to asymmetrical regulations. We are required to distribute certain programs on our cable network, which may adversely affect our competitive position and operating results.

We are subject to consumer protection laws, and the General Terms of Business incorporated in our customer contracts may not be enforceable in German civil courts, which might negatively affect our business and operating results.

## Risks relating to Litigation

KDH is a party in a number of court and out-of-court proceedings with government authorities, competitors and other interest holders. Proceedings with special significance are disclosed in the Notes to the consolidated financial statements. We refer to section 5.3 "Other Financial Obligations, Contingencies and Lawsuits".

## Risks relating to our Financing Situation

Our substantial financial liabilities and dependence on changing market interest rates may negatively impact our financial strength and our ability to raise further capital to finance our business activities.

Our debt agreements contain covenants which may limit our flexibility in operating our business.

Our capacity to generate sufficient cash depends on many factors that are beyond our control, and under certain circumstances we may not be able to generate the cash required to service our debt.

We could still incur more debt, which could lead to further risks related to the increased indebtedness.

The Group has significant financial liabilities and we may not be able to refinance these on favorable terms, or at all.

We have unfunded liabilities relating to our pension plans and other retirement benefits.

We might lose our tax loss carryforwards and interest loss carryforwards if a change in the shareholder structure were to occur, which could result in significantly higher future tax payments and might adversely affect our liquidity and earnings situation.

In the past we have disclosed losses and might disclose losses again in the future, which may negatively impact our business activities and ability to obtain financing in the future.

The Senior Credit Facilities are subject to floating interest rates, which could rise significantly, resulting in increased costs and reduced cash flows.

We could potentially be required to pay additional taxes or other levies resulting from tax audits on us or our subsidiaries.

We might not be able to fully deduct our interest payments for tax purposes.

Despite the current financial crisis we do not expect any direct consequences that could negatively impact our business. There is no international dependency, since the Group operates its business exclusively in Germany and does not operate in foreign currencies. If the financial crisis were to continue for a longer period, our refinancing conditions and thus our cost of capital could deteriorate.

Future dividend payments or further share buyback programs strengthen the relationship with our shareholders but could limit the financial flexibility of the Group.

## Summary

In summary, it can be stated that the existence of the Group was at no time under threat. In addition, we currently know of no other developments which could pose such a risk or might substantely adversely affect the Group's net assets, financial position or results of operations.

Overall, the Group's risk situation is considered to be controlled and manageable.

## 8.4 OPPORTUNITIES

In terms of customers and homes passed, the Group is, according to our own estimate, Germany's largest cable network operator. Our cable network encompasses 13 of Germany's 16 federal states, among them the metropolitan areas of the three largest German cities Berlin, Hamburg and Munich. As of December 31, 2011 [1)], there were a total of 47.1 million persons living in 23.8 million households in the federal states where we do business, which account for more than half of Germany's gross domestic product ("GDP"). Taken on its own, this is equivalent to the fifth largest economic output in the European Union, as measured by GDP (source: German Federal Statistical Office, Statistisches Bundesamt). We believe the scale of our operations in combination with our network ownership provides us with a significant advantage to disproportionately benefit from growth opportunities in our industry.

The German market offers very good growth prospects for the cable sector. The German market for broadband Internet access alone has further grown over the past five years. Despite the high growth rates, broadband Internet penetration in 2012 was estimated at only 82%. Compared with the rest of the EU, this leaves Germany trailing behind the countries with greatest penetration, such as Sweden (87%), Norway (86%), Denmark (85%), Finland (85%) and the Netherlands (84%) (source: Eurostat).

We believe that German broadband Internet customers will continue to switch from other network technologies to cable in the future, due to the competitive advantage offered by cable technology.

The German market for Premium-TV continues to be underdeveloped. We therefore expect that we will further benefit from the growth potential in our TV Business as we continue the distribution of DVRs in our subscriber base and expand our Premium-TV services with HDTV programming and VoD.

Our TV Business generates predictable, relatively stable cash flows from operations. Along with satellite reception, cable is Germany's leading TV platform. At the end of December 2012, 45.5% of German households obtained their television programming over cable networks (source: AGF/GfK TV Research, February 2013). This percentage share has decreased only slightly over the last few years even though alternative distribution platforms are available, such as digital terrestrial broadcasting (DVB-T) or Internet television. This is also shown by relatively low churn rates in the core segments of our TV Business. The stability of our subscriber base, paired with an increasing share of those subscribers who subscribe via TV cable to further Premium-TV as well as Internet and Phone products, leads to a predictable cost basis. In addition, together with a predictable investment structure, this has led to relatively stable operating cash flows.

We have an extensive, but not fully exploited, subscriber base and network coverage. Despite strong growth, in terms of both RGUs per subscriber (1.69 as of March 31, 2013) and monthly ARPU per subscriber (€15.87 for the fiscal year ended March 31, 2013), we were behind cable providers in other countries over the last three years.

Part of this has to do with the relatively late launch of the New Services on our network. In the future, however, with our offerings of complementary and higher-end products (cross-selling / upselling), such as Premium-TV services, broadband Internet and fixed-line phone services, we will be in a position to gain both existing and new subscribers for our New Services.

As the operator of Germany's second largest media and telecommunications connection network, we have a considerable technological and range advantage. The technology and range of our cable network positions us well in the converging markets of the media and telecommunications landscape. Since we control the access through our own network also in the "last mile", we can be more flexible in product planning and provision. Also, as compared to providers without their own access network, we have shorter lead times for market launch and a number of cost advantages. Our upgraded cable network can transmit both analog and digital TV signals, which can be used simultaneously by multiple users per household.

We believe that, because of the high quality network infrastructure, we will also benefit in the future from increased broadband Internet penetration and from increased customer demand for HDTV offerings and interactive TV applications. Through the further extension of the DOCSIS 3.0 data transmission standard, our network guarantees broadband speeds of 100 Mbit/s or more. Thus we expect to maintain our present position of leadership in the price performance ratio for the time being.

We benefit from economies of scale, with a largely fixed cost structure and capital expenditures that are mostly success based. In our view, as the owner of the network and due to our large subscriber base, we can operate more cost-effectively than many of our German competitors, in particular resellers and providers on the basis of copper wire pairs from DTAG. Some of our cost elements, such as a significant portion of our network, selling and administrative costs, are fixed, which allows us to generate high incremental returns and margins as we grow our business. Since our cable network also serves as a platform for our broadband Internet access and fixed-line phone products, we benefit from the growth effects of additional products and services that are delivered over a shared asset base. This is validated by the fact that since the launch of our New Services in March 2006, our adjusted EBITDA margin increased from 35.0% for the fiscal year ended March 31, 2007 to 47.1% for the fiscal year ended March 31, 2013, despite continued investments in sales, marketing and service quality. Our intention

[1)] Based on the most recent information available.

over the coming years is to upgrade additional portions of our network that are not yet able to offer bi-directional services. These measures will lead to further marketable homes, which should open improved growth opportunities in particular for the Internet and Phone Business.

Our management possesses considerable experience in the German cable, television and telecommunications sector. Their record of successful achievement also encompasses productivity increases, cost reductions, market launch of new products as well as the maintenance and expansion of established customer relationships. Our Chief Executive Officer has been with us since May 2007. For over 20 years, he has held leading positions in the information and communications industry, including Siemens Business Services and Fujitsu Siemens Computers. Our Chief Financial Officer has many years of experience in the German telecommunications sector. Before joining us in his original position as Director of Corporate Development in 2003, he spent over ten years with management consultant McKinsey & Co., where he primarily provided advice to telecommunications companies. Our Chief Operating Officer gained a broad range of experience in the German media sector, having held a variety of positions at the German Kirch Group before joining us in 2003. Our Chief Marketing Officer came to us in 2007 from Swiss cable network operator Cablecom Holdings GmbH, and in his previous position was responsible for marketing and sales in the consumer business and in product areas.

# 9 OUTLOOK

The Group's business has proven resilient in the recessionary macroeconomic environment. Against the backdrop of this experience, we believe our business will continue to perform very robust during the current fiscal year and beyond. An economic environment with high inflation, however, could have a negative impact on the success of our business (higher factor costs and interest).

In previous years, the Group has implemented a comprehensive investment program for network upgrading, introduced New Services and strengthened its marketing and sales capabilities. This enabled the sale of new products such as broadband Internet access, fixed-line phone services and Premium-TV services, e.g. DVR or Pay-TV. In our investments, we have benefited from our existing network, economies of scale due to a relatively fixed cost structure and success based, subscriber oriented investments. Over the last few years, this strategy has led to clear organic growth in revenues and EBITDA. We expect the successful performance of our Group supported by the continuation of our strategy to move forward over the next years. We have announced another investment program in our network for the fiscal years ending March 31, 2014 and 2015 that will continue and expand this strategy. Based on the type of financing chosen by the Group, we believe that no difficulties will arise with regard to the timely fulfillment of our financial obligations.

## TV BUSINESS

We expect that our Basic Cable business will continue to generate stable revenues and cash flows in the future as well, despite a probable continuing slight reduction in the number of Basic Cable subscribers. As in the past years, this decline in subscribers is expected to appear mainly in the segment of indirect customers with low average monthly revenues, triggered by further cable connection removal notices by Level 4 network operators. Possible additional acquisitions of Level 4 network operators in our network area might further increase the proportion of direct subscriber relationships.

As we have in the past, we will continue to evaluate the potential added value of prospective acquisition targets and thereby, subject to suitable frame conditions (market, regulation), benefit from the ongoing consolidation of the German cable industry. This strategy applies in spite of the FCO's rejection of the acquisition of the Tele Columbus Group in February 2013.

We believe that the growing awareness of and demand for digital TV services will provide ample opportunities for us to drive innovation and penetrate our Basic Cable subscribers with additional Premium-TV services. In the next two years, we plan to further increase the distribution of our digital video recorders and digital receivers among our subscriber base and to expand our HDTV offering. Furthermore, we plan over the next few years to distribute the interactive VoD service, launched in March 2011, on further upgraded networks. It is our expectation that the marketing of these New Services – either as individual products or as a product bundle with our current Pay-TV offerings – will generate further growth in the TV Business and should make a positive contribution to the performance of our Group's EBITDA and cash flow.

## INTERNET AND PHONE BUSINESS

As in past years, we expect the Internet and Phone Business to continue to be the major engine of our Group's revenue and EBITDA growth in the future as well. While growth in the overall market in Germany is weakening, we nevertheless believe that, as Internet penetration rises, this will mean significantly above-average growth in Internet subscribers and revenues for our company. The cable industry has been gaining market share from DSL providers and we expect to fuel our growth increasingly by churning DSL subscribers who are attracted by cable technology's differentiating products and price-performance leadership. This technology leadership will be further strengthened by the increased availability of our DOCSIS 3.0 services, which provide speeds of 100 Mbit/s or more.

## CABLE NETWORK PROJECTS, CAPITAL EXPENDITURE AND FINANCIAL POSITION

To accommodate further growth of subscribers, data traffic and our New Services offerings, we will continue to invest in the extension of our network and service platforms in the years to come. The majority of our investment volume going forward will also be success based, i.e. directly related to the acquisition and installation of new subscribers and the associated expenditure for CPE. We will additionally be upgrading even more networks for our Internet and Phone service offering and we will also be systematically reviewing the substitution of leased infrastructure by investing in our own line capacities. We have announced another investment program in our network for the fiscal years ending March 31, 2014 and 2015.

As a consequence of the developments described above, we believe that the operating free cash flow (EBITDA less capital expenditure) from our current business will decline slightly in the fiscal year ended March 31, 2014 due to the announced investment program, and develop positively in the following year. We expect to meet all financial obligations (loan covenants, interest and principal repayments) and loan terms and conditions of the Group in coming years, and also strengthen our results of operations on a sustained basis.

# 10 DISCLOSURES PURSUANT TO SECTION 289 PARA. 4 AND SECTION 315 PARA. 4 HGB AND EXPLANATORY REPORT

The disclosures required under Sections 289 para. 4 and 315 para. 4 of the German Commercial Code (Handelsgesetzbuch – "HGB") are as follows:

## DESCRIPTION AND COMPOSITION OF SUBSCRIBED CAPITAL

As of March 31, 2013, KDH AG's subscribed capital remained unchanged from the prior year at T€88,523. It was composed at that time of 88,522,939 bearer shares with no par value and a pro rata portion of the share capital of €1.00 per share. The subscribed capital of KDH AG is fully paid in.

There are no different classes of shares; the same rights and duties are associated with all shares, the details of which are specified in particular by Sections 12, 53a, 186 and 188 et seq. of the German Stock Corporation Act (Aktiengesetz – "AktG"). The right of shareholders to shares issued in certificate form is excluded under Article 4 para. 3 of the Articles of Association. Each share confers the right to one vote at the Shareholders' Meeting. Shareholders' proportion of the Company's profits is determined in accordance with their proportion of the share capital (Section 60 AktG).

## DIRECT OR INDIRECT PARTICIPATIONS IN CAPITAL THAT EXCEED 10% OF THE VOTING RIGHTS

Under the German Securities Trading Act (Wertpapierhandelsgesetz), investors whose share of direct and indirect voting rights of listed companies has reached, exceeded or fallen below certain thresholds are required to notify the Company. As of the balance sheet date, the following companies have reported exceeding the threshold of 10% of the voting rights to KDH AG:

- BlackRock, Inc., New York, USA,
- BlackRock Financial Management, Inc., New York, USA, and
- BlackRock Holdco 2, Inc., Wilmington, Delaware, USA.

## APPOINTMENT AND REMOVAL OF THE MANAGEMENT BOARD, AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and removal of the members of the Management Board is regulated in Sections 84 and 85 AktG as well as in Section 31 Co-Determination Act (Mitbestimmungsgesetz – "MitbestG"). Under these provisions, members of the Management Board shall be appointed by the Supervisory Board for a maximum of five years. Reappointment or extension of the term for five years is also permitted. Under Section 31 MitbestG, a majority of at least two-thirds of the members of the Supervisory Board is required for the appointment of members of the Management Board. If an appointment does not occur in accordance with this, the Conciliation Committee of the Supervisory Board makes a recommendation for the appointment within one month after the voting. The Supervisory Board shall then appoint the members of the Management Board with a majority of the votes of its members. If an appointment still does not occur in accordance with this, then the Chairman of the Supervisory Board has two votes in the next voting.

Under Article 5 of the Articles of Association, the Management Board of KDH AG consists of one or more persons. The Supervisory Board determines the concrete number of members. The Supervisory Board has appointed a Chairman of the Management Board and a Deputy Chairman.

The Supervisory Board may revoke the appointment of a Management Board member and the designation of its Chairman for good cause pursuant to Section 84 para. 3 AktG.

In the case of amendments to the Articles of Association, Sections 179 et seq. AktG shall be observed. The German Stock Corporation Act contains special provisions (Sections 182 - 240 AktG) for amendments to the Articles of Association in the event of an increase or decrease in share capital. Under these provisions, the Shareholders' Meeting may authorize the Management

Board to undertake particular (capital) measures within the limits specified by it (existing authorizations at KDH AG are set out below). The Shareholders' Meeting decides with regard to amendments to the Articles of Association (Sections 119 para. 1 no. 5, 179 para. 1 AktG). The resolution must be approved by at least three fourths of the share capital represented when the resolution is adopted. The Articles of Association can designate a different capital majority (higher or lower) and establish additional requirements. The Articles of Association of KDH AG, in Article 17 para. 2, provide that resolutions of the Shareholders' Meeting are to be adopted by a simple majority of the votes cast and, insofar as a capital majority is required, by a simple majority of the share capital represented at the time the resolution is adopted, unless a greater majority is required by the Articles of Association or mandatory statutory provisions. The latter is the case, for example, for the creation of authorized capital (Section 202 para. 2 sentences 2 and 3 AktG) or contingent capital (Section 193 para. 2 sentences 1 and 2 AktG), for which a three-fourths majority of the capital represented when the resolution is adopted is required in each case.

The Supervisory Board is authorized by Article 11 of the Articles of Association to decide on amendments to the Articles that relate only to their wording. The Supervisory Board is further authorized by Article 4 para. 5 and 6 of the Articles of Association to adjust the wording of the Articles of Association after complete or partial implementation of the share capital increase out of Authorized Capital 2010/I and after expiration of the authorization period, in accordance with the extent of the capital increase(s) from Authorized Capital 2010/I, as well as after complete or partial implementation of the share capital increase out of Contingent Capital 2010/I.

# POWERS OF THE MANAGEMENT BOARD, IN PARTICULAR WITH RESPECT TO THE POSSIBILITY OF ISSUING OR REDEEMING SHARES

## Authorized Capital

By shareholders' resolution dated February 19, 2010, the Management Board is authorized to increase the Company's share capital, with Supervisory Board approval, on or before February 18, 2015 by issuing up to 45,000,000 new no par value bearer shares against contributions in cash and / or in kind on one or more occasions, up to a total amount of T€45,000 ("Authorized Capital 2010/I").

## Contingent Capital

The Company's share capital is contingently increased by T€45,000 by resolution of the Shareholders' Meeting dated March 15, 2010 through the issue of up to 45,000,000 new no par value bearer shares ("Contingent Capital 2010/I"). The contingent capital may be used to provide shares to holders/creditors of convertible and warrant bonds pursuant to the authorization dated March 15, 2010.

## Treasury Shares

By a resolution of the Shareholders' Meeting dated March 15, 2010, the Management Board is authorized to purchase treasury shares on or before March 14, 2015, subject to Supervisory Board consent, in a volume of up to 10% of the share capital existing at the time the resolution was adopted (corresponding to 9,000,000 shares). Acquisition for purposes of trading in treasury shares is not permitted. The shares acquired on the basis of this authorization, together with other shares of the Company acquired by the Company and still in its possession at the time of acquisition, may not represent more than 10% of the share capital.

The authorization may be used by the Company in its entirety or in several installments, on one or more occasions, and may also be used by the Company's subsidiaries or companies under majority ownership of the Company or by third parties acting on behalf of the Company or its subsidiaries or companies under majority ownership of the Company.

Purchases may be made over the stock exchange or through a public offer to all shareholders. For acquisition via the stock exchange, the purchase price (excluding incidental acquisition costs) may not be more than 20% above or below the share price as determined by the opening auction in XETRA trading (or a corresponding successor system) on the trading date.

In the event of acquisition through a public offer, the purchase price offered or the limits of the purchase price range per share (excluding incidental acquisition costs) may not be more than 20% above or below the closing price in XETRA trading (or a corresponding successor system) on the third exchange trading day preceding the date of public notification of the offer. If there are significant fluctuations in the prevailing price after the public offer to purchase is published, the offer may be adjusted. In that event, any adjustment will be based on the price on the third exchange trading day prior to the public announcement.

The volume of the offer may be limited. If the entire subscription of the offer exceeds the fixed volume, acceptance must be effected according to quota. Provisions may be made for preferential acceptance of smaller numbers of up to 1,000 tendered shares per shareholder.

In addition to a sale via the stock exchange, or an offer to all shareholders, the Management Board is authorized to utilize the shares acquired on the basis of this authorization as follows:

(a) They may be retired, with no further resolution of the Shareholders' Meeting required for the retirement or its implementation.

(b) With the consent of the Supervisory Board, they may be offered and transferred to third parties against contributions in kind in connection with company mergers or for the purpose of acquiring (including indirectly) companies, divisions of companies, equity investments in companies or other assets.

(c) With the consent of the Supervisory Board, they may be sold to third parties for cash payment if the price at which the shares are sold is not materially below the stock exchange price of the Company's shares at the time of the sale (excluding incidental acquisition costs); the relevant price

in that event will be the stock exchange price of the Company's shares in XETRA trading (or a corresponding successor system) at the time of the determination of the selling price.

Altogether, the shares sold on the basis of this authorization may not exceed the upper limit for simplified exclusion of subscription rights of 10% of the share capital, neither at the time this authorization goes into effect nor when it is exercised. This number is to include company shares issued by the Company while this authorization is valid with shareholder subscription rights excluded in direct or indirect application of Section 186 para. 3 sentence 4 AktG. This number is also to include shares issued, or that may yet be issued, to service conversion or option rights or conversion obligations, insofar as the bond conveying a corresponding conversion or warrant right or providing a basis for a corresponding conversion obligation was issued while this authorization was in effect in accordance with this provision precluding shareholders' subscription rights.

(d) With the consent of the Supervisory Board, they may be used to service warrant and / or conversion rights or conversion obligations on bonds issued by the Company or an affiliated company.

The above authorizations for the use or retirement of treasury shares may be used in full or in installments, on one or more occasions, individually or in combination.

Shareholders' subscription rights regarding acquired treasury shares are excluded insofar as these shares are used in accordance with the above authorizations in letters (b) through (d).

In the fiscal year ended March 31, 2012, the Management Board, with consent of the Supervisory Board, repurchased on the stock exchange a total of 1,477,061 no par value shares, with a pro rata amount of share capital equal to T€1,477 at a total purchase price of approximately T€60,000 (excluding transaction costs) and retired these treasury shares with a corresponding reduction in the share capital.

At this time, the authorization of the Shareholders' Meeting of March 15, 2010 still encompasses the repurchase of up to 8.36% of the share capital existing at the time the resolution was adopted (corresponding to 7,522,939 shares).

## MATERIAL AGREEMENTS OF THE COMPANY THAT ARE CONDITIONAL ON CHANGE OF CONTROL RESULTING FROM A TAKEOVER OFFER

In the following circumstances, mandatory prepayments are due on borrowings under the Senior Credit Facility: (i) in full, upon a change of control (generally triggered if a person or group obtains control over more than 30% of the Company's total voting rights) or upon the sale of all significant assets of the Group, (ii) in part from the receipt of proceeds from certain third parties, including in connection with the sale of assets.

In the event of a "Change of Control Triggering Event" for the 2018 Senior Secured Notes, KDVS GmbH is obligated and for the 2017 Senior Notes, KDH AG is obligated to submit an offer to buy back the 2018 Senior Secured Notes (KDVS GmbH) or the 2017 Senior Notes (KDH AG) at a price of 101%, plus accrued interest. A "Change of Control Triggering Event" takes place if there is a change of control accompanied by a ratings downgrade. A change of control in this meaning occurs (i) if a person or group acquires control over a majority of voting rights in KDVS GmbH for the 2018 Senior Secured Notes or in KDH AG for the 2017 Senior Notes (ii) if within two successive years persons who constitute the majority of shareholder representatives on the Supervisory Board of KDH AG (together with new Supervisory Board members whose election or nomination for election by the Shareholders' Meeting was previously supported by the majority of shareholder representatives on the Supervisory Board) no longer constitute the majority of shareholder representatives on the Supervisory Board, or (iii) upon a sale, lease, transfer or other disposition of all material assets. A relevant ratings downgrade is present (i) in the event that the 2018 Senior Secured Notes or 2017 Senior Notes are given an investment grade rating by both Moody's Investors Service, Inc. and Standard & Poor's Rating Services, if this investment grade status is revoked by at least one of these two agencies, or (ii) in the event that the 2018 Senior Secured Notes or 2017 Senior Notes are not given an investment grade rating by at least one of the two rating agencies, if at least one agency reduces the rating by at least one sub-rating step.

Individual agreements between KDVS GmbH and Pay-TV providers guarantee a special right of cancelation in the event that a competitor of the contracting party or a company associated with the competitor obtains dominant control over the Group.

A communal housing association may cancel a concession and service agreement with KDVS GmbH if a third party acquires a majority interest in KDVS GmbH or KDH AG and, due to the changed ownership structure, it is no longer reasonable to expect adherence to the agreement.

# 11 CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289A HGB

The corporate governance declaration and corporate governance report, relevant disclosures on corporate governance practices, a description of the working procedures of the Management Board and Supervisory Board, and the composition and working procedures of their committees are published permanently on the Company's website at www.kabeldeutschland.com.

# 12 COMPENSATION REPORT

The following compensation report summarizes the main features of the system for compensation of the Management Board and Supervisory Board of KDH AG that have determined Management Board and Supervisory Board compensation during the past fiscal year.

## 12.1 MANAGEMENT BOARD COMPENSATION SYSTEM

The whole Supervisory Board defines reasonable compensation for the individual members of the Management Board. The criteria for the reasonableness of total compensation are the tasks and the performance of each Management Board member and the situation of the Company. Total compensation may not exceed common compensation in the absence of special justifying reasons.

Total compensation for Management Board members essentially comprises three elements: base compensation, short-term variable compensation based on the fiscal year, and long-term variable compensation components based on the LTIP. Added to these are retirement pensions and common contractual fringe benefits.

### Fixed Salary

A fixed annual salary is provided. This is paid out regardless of performance in equal monthly installments and represents the fixed element of compensation.

### Short-term Variable Bonus

In addition, a short-term variable bonus related to the fiscal year, which is payable annually retrospectively, is paid in the form of a success based performance bonus. The amount of the performance bonus depends on the extent to which performance targets are reached, given certain company-specific parameters defined by the Supervisory Board in agreement with the Management Board at the beginning of each fiscal year. If targets are achieved 100%, the performance bonus corresponds to the agreed target bonus, equal to 80% of the base compensation. If there is 70% target achievement, a bonus in the amount of 10% of the agreed target bonus is paid; there is no bonus for lower achievements. The upper limit of the performance bonus is 150% of the contractually agreed target bonus. The extent to which targets have been achieved is calculated and determined by the Supervisory Board after the closing of each fiscal year based on actual results.

The following parameters were used to establish performance targets for the fiscal year ended March 31, 2013: EBITDA, EBITDA less capital expenditure (i.e. investment payments for longer-term fixed assets, total revenues, customer satisfaction (one third each for customer service centers, technical service centers and technical operations), net adds of individual user contracts and net adds of Internet and Phone subscriber numbers.

### Long-term Variable Bonus

In addition, the members of the Management Board participate in a long-term, performance-dependent compensation plan, referred to as LTIP. This consists of two share-based components: a virtual performance share program, issued annually ("LTIP I") and a one-time grant of virtual stock options ("LTIP II").

### LTIP I

The virtual performance share program is a performance-dependent compensation program related to the total shareholder return (TSR) on shares of KDH AG during a 4-year period ("vesting period") relative to the performance of the MDAX. The 4-year period ends at March 31, 2014, March 31, 2015, March 31, 2016, respectively.

At the beginning of every fiscal year, Management Board members are awarded a number of virtual shares ("performance shares") duly determined at the discretion of the Supervisory Board. Depending on the attainment of certain performance targets, the performance shares will be due for payout four years after they are granted ("vesting period"). The performance targets are assessed based on the performance of the total shareholder return on KDH AG shares compared to the MDAX during the four-year vesting period. Payout is made in cash and is determined by the number of payable performance shares multiplied by the volume-weighted average closing price of KDH AG shares in XETRA trading during the last 30 trading days prior to the time of full vesting. If the performance of the total shareholder return on KDH AG shares in the vesting period is equal to the performance of the MDAX, there is 100% achievement of the performance targets and 100% of the performance shares granted are paid out. If the total shareholder return on KDH AG shares during the vesting period outperforms the MDAX, the number of payable performance shares rises, depending on the extent of the outperformance relative to the MDAX, up to a maximum of 200% of the performance shares originally granted. The 200% limit is reached if the MDAX is outperformed by 40 percentage points or more. If the total shareholder return on KDH AG shares in the vesting period underperforms the MDAX by up to 20 percentage points (inclusive), the number of payable performance shares is reduced, depending on the extent of the underperformance, to up to 50%. Straight-line interpolation is applied between the upper and lower limits. The performance target is missed, and the performance shares will expire worthless, if the MDAX is underperformed by more than 20 percentage points. The performance shares will likewise expire worthless if the MDAX is underperformed and, at the same time, the price of KDH AG shares at the time of full vesting (the relevant price being the volume-weighted average closing price of KDH AG shares in XETRA trading during the last 30 trading days before the time of full vesting) plus any dividends paid out during the vesting period falls below the exercise price of the performance shares.

## LTIP II

Effective April 1, 2010, the members of the Management Board received a one-time allotment of virtual stock options with a term of six years. The quantity of options was duly determined at the discretion of the Supervisory Board.

Depending on the achievement of specific performance targets, the virtual stock options vest in several tranches on March 31, 2012 (40% of the options), on March 31, 2013 (another 30% of the options), and on March 31, 2014 (the remaining 30% of the options). The performance targets that were set are target EBITDA levels which must be achieved during a specific time period as well as price targets for KDH AG shares that must be achieved within defined performance time frames. If the respective price targets are not achieved within the relevant performance time frame, the options may also become vested subsequently, up to the expiration of the exercise period, if and when the price target for one of the following performance time frames is achieved either before the start of such next performance time frame or during it, insofar as the relevant Management Board member is in office at the time the target is achieved (so-called "catch-up vesting"). The virtual stock options can be exercised for the first time four years after being granted and within a two-year exercise period. In the event of a material adverse change of the capital markets, the Supervisory Board may also extend the term of the options and the exercise period by up to two years. Virtual stock options not exercised within the (if necessary extended) exercise period shall be forfeited without compensation. Upon exercise of the virtual options, the difference between the IPO issue price of KDH AG shares (€22) and the volume-weighted average closing price of KDH AG shares in XETRA trading during the last 30 days prior to the exercise date will be paid out in cash.

In the event of extraordinary developments, the Supervisory Board may limit both the number of payable performance shares as well as the number of exercisable virtual stock options.

## Payment in the Event of Termination or Retirement

Members of the Management Board acquire pension expectancies under individual contracted pension commitments in accordance with currently applicable company pension rules. These pension commitments give Management Board members a right to pension benefits upon reaching the regular statutory retirement age, in the event of permanent disability, or in the event of death. In the event of retirement, permanent disability or death, payments are made out of a capital account plan funded by annual contributions, the amount of which is determined by annual base salary. The amount of the annual contributions to the capital account plan is calculated using 2.5% of annual base salary and 7.5% for the amount of annual base salary exceeding the contribution measurement limits of statutory pension insurance. The contributions are translated into an insurance sum that is calculated by multiplying the contribution by a factor depending on age. The total insurance sums accumulated in this manner constitute the pension benefit balance. Payments from this pension benefit balance may consist of a lump sum withdrawal (as a single amount or in installments) or an annuity on the pension benefit balance existing at the time of retirement, permanent disability or death. The payment in the event of disability amounts to 100% of the pension credit balance achieved at the time of permanent disability. The survivor benefits give the spouse a right to 100% of the pension benefit balance. Children under the age of 27 are entitled to 100% of the pension benefit balance in equal shares if there is no surviving spouse.

In the event that a Management Board member leaves the company before reaching retirement age, the retirement benefits are vested. If pension payments are made out of the retirement capital, an annual increase is made to the ongoing pension payments. If the retirement capital is spread out over yearly installments, a commitment may be given for a widow / orphans annuity, in the amount of 60% of the annuity payment.

## Contractual Fringe Benefits

Management Board members have a right to common contractual (non-cash) fringe benefits. These include the use of a company car, the closure of a D&O insurance and a life insurance policy, health insurance contributions and, on an individual basis, a housing allowance.

## 12.2 TOTAL COMPENSATION OF MEMBERS OF THE MANAGEMENT BOARD

The following information concerning the compensation of the members of the Management Board comprises the disclosures required by law under Sections 285 and 314 HGB and German Accounting Standard No. 17 ("DRS 17") in consideration of additional disclosures in section 5.4 of the Notes to the consolidated financial statements of KDH AG as of March 31, 2013.

In total, the members of the Management Board received short-term compensation (comprised of annual fixed salaries, variable annual bonuses and various typical fringe benefits) of T€3,007 (prior year: T€3,259) and commitments for pension benefits which were expensed in the amount of T€219 (prior year: T€216) for services performed for KDH AG and its subsidiaries in the fiscal year ended March 31, 2013. In addition, in the fiscal year ended March 31, 2013, KDH AG granted members of the Management Board currently non-cash[1)] share-based compensation based on the LTIP of the Group in the form of virtual performance shares as long-term compensation with a fair value of T€1,693 at the time of the grant (prior year: T€1,706).

The total compensation for each individual member of the Management Board of KDH AG, broken down by individual components, is shown for the fiscal years ended March 31, 2013 and 2012 in the two charts below:

| Type of compensation | Non-performance related compensation [1)] | Variable annual bonus | LTIP [2)] | Total compensation |
|---|---|---|---|---|
| in T€ | | Fiscal year ended March 31, 2013 | | |
| Dr. Adrian v. Hammerstein | 575 | 413 | 544 | 1,532 |
| Dr. Manuel Cubero | 469 | 316 | 422 | 1,206 |
| Erik Adams | 437 | 264 | 398 | 1,099 |
| Dr. Andreas Siemen | 347 | 186 | 330 | 864 |
| **Total** | **1,828** | **1,179** | **1,693** | **4,701** |

1) Non-performance related compensation (fixed salary and fringe benefits) does not contain service costs for pensions; for these please refer to the separate individual disclosure.

2) Currently non-cash and long-term part of compensation based on the fair value at grant date.

| Type of compensation | Non-performance related compensation [1)] | Variable annual bonus | LTIP [2)] | Total compensation |
|---|---|---|---|---|
| in T€ | | Fiscal year ended March 31, 2012 | | |
| Dr. Adrian v. Hammerstein | 573 | 485 | 602 | 1,660 |
| Dr. Manuel Cubero | 443 | 371 | 467 | 1,281 |
| Erik Adams | 387 | 310 | 386 | 1,083 |
| Dr. Andreas Siemen | 173 | 0 | 251 | 424 |
| Paul Thomason [3)] | 208 | 310 | 0 | 518 |
| **Total** | **1,784** | **1,476** | **1,706** | **4,966** |

1) Non-performance related compensation (fixed salary and fringe benefits) does not contain service costs for pensions; for these please refer to the separate individual disclosure.

2) Currently non-cash and long-term part of compensation based on the fair value at grant date.

3) Paul Thomason obtained his non-performance related compensation (fixed salary and fringe benefits) and variable annual bonus until September 30, 2011.

1) Will be cash settled under certain conditions at the end of the program. See section 12.1.

The commitments of pension benefits for each member of the Management Board recognized through profit or loss during the fiscal year ended March 31, 2013, are shown in the chart below:

| in T€ | Service cost<br>April 1, 2012 - March 31, 2013 | Present value of defined benefit obligation (DBO)<br>March 31, 2013 |
|---|---|---|
| Dr. Adrian v. Hammerstein | 53 | 421 |
| Dr. Manuel Cubero | 62 | 470 |
| Erik Adams | 61 | 217 |
| Dr. Andreas Siemen | 44 | 235 |
| **Total** | **219** | **1,344** |

The members of the Management Board of KDH AG participate in the long-term success of the Company through a Long-Term Incentive Plan comprised of two components. The virtual performance shares granted as the first component ("LTIP I") are distributed as follows:

| | Year of grant | Number of virtual performance shares<br>March 31, 2013<br>Number | Fair value of performance shares at grant date<br>T€ |
|---|---|---|---|
| Dr. Adrian v. Hammerstein | 2010 | 26,175 | 576 |
| | 2011 | 15,942 | 602 |
| | 2012 | 12,055 | 544 |
| Dr. Manuel Cubero | 2010 | 20,295 | 447 |
| | 2011 | 12,361 | 467 |
| | 2012 | 9,347 | 422 |
| Erik Adams | 2010 | 16,795 | 369 |
| | 2011 | 10,211 | 386 |
| | 2012 | 8,812 | 398 |
| Dr. Andreas Siemen | 2010 | 7,500 | 165 |
| | 2011 | 5,717 | 251 |
| | 2012 | 7,314 | 330 |
| **Total** | | **152,524** | **4,956** |

The virtual stock options granted as the second component ("LTIP II") are distributed among the individual members of the Management Board as follows:

| | Number of virtual stock options<br>March 31, 2013<br>Number | Fair value of stock options at grant date<br>T€ |
|---|---|---|
| Dr. Adrian v. Hammerstein | 225,000 | 1,329 |
| Dr. Manuel Cubero | 191,667 | 1,132 |
| Erik Adams | 191,667 | 1,132 |
| Dr. Andreas Siemen | 75,000 | 443 |
| **Total** | **683,334** | **4,037** |

## 12.3 SUPERVISORY BOARD COMPENSATION SYSTEM

The compensation of the Supervisory Board was set by the Shareholders' Meeting and is governed by Article 12 ("Compensation") of KDH AG's Articles of Association. Each member of the Supervisory Board receives a fixed base compensation in the amount of T€20 payable after the end of the fiscal year. The Chairman of the Supervisory Board receives fixed compensation in the amount of four times the base compensation and the Deputy Chairman in the amount of one and a half times the amount. The Chairman of the Executive Committee additionally receives twice and the Chairman of the Audit Committee four times the amount of base compensation for Supervisory Board members. Every ordinary member of the Audit Committee receives an additional amount of 0.75 times the base compensation. Supervisory Board members who belong during only part of a fiscal year to the Supervisory Board and/or a Supervisory Board committee or who hold the post of Chairman or Deputy Chairman of the Supervisory Board of KDH AG are to receive only the corresponding prorated compensation.

In addition, Supervisory Board members receive an attendance fee of T€1 per meeting for each meeting of the entire Supervisory Board in which they personally take part. The attendance fee is limited to T€1 per calendar day. In addition, the Company reimburses Supervisory Board members for expenses arising from the exercise of their Supervisory Board responsibilities as well as for the value added tax payable on their compensation and expenses, provided that it is separately billed.

The members of the Supervisory Board received compensation of T€556 in the fiscal year just ended.

# 13 KABEL DEUTSCHLAND HOLDING AG (NOTES BASED ON HGB)

The KDH AG Management Report and the Group Management Report for the fiscal year ended March 31, 2013 have been combined for the first time in accordance with Section 315 para. 3 HGB in combination with Section 298 para. 3 HGB. The annual financial statements of KDH AG were prepared in accordance with the principles of the HGB and the AktG. The following notes refer to these statements and therefore contain HGB figures. These figures are not comparable with the IFRS consolidated figures of the Group.

## 13.1 RESULTS OF OPERATIONS

KDH AG is a holding company and provides services to its direct and indirect subsidiaries on the basis of intercompany service agreements. These are primarily related to consulting services and services in connection with strategic issues and financing. For this reason, the Company is permanently dependent on the operating results of the Group and any income from equity investments.

The following analysis of KDH AG's results of operations reflects the income and expenses for the fiscal year ended March 31, 2013 compared to the fiscal year ended March 31, 2012.

### Revenues

The revenues of T€14,448 for the fiscal year ended March 31, 2013 (prior year: T€2,910) primarily resulted from consulting services and services, including for strategic development and financing, invoiced to KDVS GmbH. The considerable increase of T€11,538 is due to transaction costs passed on to KDVS GmbH in connection with the issue of the 2017 Senior Notes in June 2012 by KDH AG and the Bridge Credit Agreement that was made available in the fiscal year ended March 31, 2013, but canceled. Both the 2017 Senior Notes and the Bridge Credit Agreement were passed on to KDVS GmbH (for more information, also see section 3.6.1 in the Notes to the separate financial statements of KDH AG).

### Other Operating Income

Other operating income was T€25 for the fiscal year ended March 31, 2013 (prior year: T€9) and resulted primarily from income from the reversal of provisions and personal use of company cars.

### Personnel Expenses

Personnel expenses were T€29,609 (prior year: T€11,090), and included salaries of T€3,939 (prior year: T€3,825) and social security contributions of T€304 (prior year: T€274). The social security contributions included pension costs of T€216 (prior year: T€191). The personnel expenses also include currently non-cash[1] share-based payment expenses based on the LTIP of the Group amounting to T€25,365 (prior year: T€6,991).

The increase in personnel expenses is primarily due to higher non-cash expenses resulting from share price-induced changes in value, current vesting and new grants under the LTIP.

The personnel expenses mainly related to the Management Board members of KDH AG. Also see section 12.2 for information on individual compensation for members of the Management Board.

[1] Will be cash settled under certain conditions at the end of the program. See section 12.1.

## Other Operating Expenses

Other operating expenses were T€5,351 for the fiscal year ended March 31, 2013 (prior year: T€3,849). The increase of T€1,502 was mainly due to a T€808 increase in management fees for consulting and services provided by KDVS GmbH, and a T€488 increase in consulting costs.

## Income from Investments

The Company earned income from its investment in KDVS GmbH from an advance distribution of T€200,000 for the fiscal year ended March 31, 2013 (prior year: €0).

## Interest and Similar Income

In June 2012, KDH AG issued T€400,000 2017 Senior Notes and passed on the full amount as loan to KDVS GmbH. Interest income for this loan was T€20,222 and leads to an increase in interest and similar income of T€20,218 from T€4 in the prior year.

## Interest and Similar Expenses

Interest and similar expenses rose by T€41,363 in the fiscal year ended March 31, 2013 to T€97,613 (prior year: T€56,250). Interest expenses to affiliated companies were T€64,961 (prior year: T€46,411) and increased as a result of additional loans from KDVS GmbH. The additional loans were used to pay dividends and for ongoing liquidity requirements. The T€22,813 increase in interest expenses to third parties resulted primarily from the issue of the 2017 Senior Notes in June 2012 and associated interest of T€20,222 as well as from transaction costs of T€11,446. In contrast, no further interest was incurred for the PIK Loan, which was fully repaid in the fiscal year ended March 31, 2012 (prior year: T€9,735).

The 2017 Senior Notes were passed on in full to KDVS GmbH at a matching interest rate. As a result, the interest expenses of T€20,222 indicated above are matched by an equal amount of income from KDVS GmbH. Also the Bridge Credit Agreement that was available in an amount of T€600,000 during the year, but was canceled, was made available to KDVS GmbH. KDVS GmbH therefore also provided reimbursement for transaction costs totaling T€11,446 (see section "Revenues" above).

## Income Taxes and Deferred Taxes

Income taxes consist of deferred tax income of T€132,940 as of March 31, 2013 (prior year: T€24). The increase resulted from the first-time recognition of deferred tax assets for interest and loss carryforwards based on the income tax consolidation between KDH AG and KDVS GmbH from the beginning of the fiscal year on April 1, 2013, which allows the Company's loss carryforwards to be offset against positive income earned by KDVS GmbH.

## Net Profit for the Year

Taking into account the factors listed above, the net profit for the year was T€235,062 (prior year: net loss of T€68,241). The increase was primarily due to the income from equity investment from KDVS GmbH of T€200,000 and deferred tax assets of T€132,940 on the Company's loss carryforwards.

# 13.2 NET ASSETS AND FINANCIAL POSITION

Total assets increased by T€751,547 to T€2,284,679 compared to T€1,533,131 in the prior year.

## Fixed Assets

Fixed assets consist of shareholdings in the wholly owned subsidiary KDVS GmbH in an unchanged amount of T€1,515,498 as well as of a loan of T€400,000 granted to KDVS GmbH in the fiscal year ended March 31, 2013.

## Current Assets

Current assets total T€236,085 (prior year: T€17,482) and consist primarily of a receivable from KDVS GmbH of T€200,000 for the advance distribution for the fiscal year ended March 31, 2013 approved in March 2013.

## Deferred Tax Assets

For the first time, the Company capitalized T€132,940 in deferred tax assets for interest and loss carryforwards. After netting with deferred tax liabilities, a balance of T€132,938 was reported in the balance sheet under deferred tax assets.

## Equity

Equity increased by T€102,278 to T€702,439 (prior year: T€600,161). The change was due to the net profit for the reporting year of T€235,062 as well as the dividend of T€132,784 paid during the reporting period. The equity ratio is 30.7% (prior year: 39.1%).

## Provisions

The provisions include pension obligations of T€1,965 (prior year: T€1,695) and other provisions of T€47,950 (prior year: T€17,745). The increase in other provisions is mainly related to the T€25,365 increase in provisions for LTIP, and interest provisions of T€4,333 for the 2017 Senior Notes issued during the reporting year. The increase in provisions for LTIP was due to share price-induced changes in value, current vesting and new grants under the LTIP.

## Liabilities

Liabilities increased by T€618,797 compared to the prior year to T€1,532,325 (prior year: T€913,528). The increase resulted from the issue of 2017 Senior Notes in June 2012 in an amount of T€400,000, and an increase of T€222,211 in loan and interest liabilities to KDVS GmbH raising the balance to T€1,118,357 (prior year: T€896,146) to cover payment obligations, e.g. for dividends, and to cover ongoing liquidity requirements.

## Financing and Securing Liquidity

KDH AG provides strategic consulting and financing services to KDVS GmbH for an agreed compensation stipulated in the intercompany service agreement. This income represents an important source of liquidity for the Company. In addition, funding for the Company comes primarily from intercompany loans from KDVS GmbH, which is currently the main source of debt capital for KDH AG. The 2017 Senior Notes are not a significant source of debt for the Company, as they were passed on as loan in full to KDVS GmbH at a matching interest rate.

# 13.3 OVERALL ASSESSMENT OF RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

In summary, the Company's results of operations improved in the fiscal year just ended primarily due to the advance distribution by KDVS GmbH and deferred tax income, thereby enabling a net profit to be achieved. The advance distribution and the deferred tax assets, together with the loan to KDVS GmbH also affected the assets side of the balance sheet. The equity and liabilities side of the balance sheet was mainly affected by the increase in equity due to the net profit for the year, the 2017 Senior Notes, the other intercompany loans from KDVS GmbH, and the increase in the provision for personnel expenses. The financial position was not affected by the 2017 Senior Notes, as they were passed on as loan in full to KDVS GmbH at a matching interest rate, but was affected by the issue of additional loans from KDVS GmbH. This also caused a decrease in the interest result. The financial result, on the other hand, was positive, due to the income from equity investment from KDVS GmbH in the form of an advance distribution.

# 13.4 OPPORTUNITY AND RISK REPORT OF KDH AG

KDH AG is mainly dependent on the business performance of its operating subsidiary KDVS GmbH and the Group as a whole. The risk management system presented in section 8, the therein included internal control system and the opportunities and risks also presented in section 8 therefore also apply to KDH AG.

An additional risk is presented by the possibility of an impairment in the value of the equity investment in KDVS GmbH, since an impairment in value could affect the Company's ability to refinance its debts.

## 13.5 OUTLOOK

The Company is the management and holding company of the Group. As the parent company of the Group, KDH AG performs the typical tasks of a holding company, such as the strategic development of the Group and provision of central services, including financing activities for Group companies. The future business development of the holding company therefore depends crucially on the development and success of the operating companies of the Group, in particular KDVS GmbH. In view of the business outlook for the operating companies and the Group described in section 9, we are convinced that KDH AG will be able to continue covering its operating costs and – in particular due to the profit and loss transfer agreement with KDVS GmbH – continue earning net profits.

Unterfoehring, June 3, 2013

Kabel Deutschland Holding AG

Dr. Adrian v. Hammerstein
Chief Executive Officer

Dr. Manuel Cubero del Castillo-Olivares
Chief Operating Officer

Erik Adams
Chief Marketing Officer

Dr. Andreas Siemen
Chief Financial Officer

# Kabel Deutschland Holding AG
# Unterfoehring

# Consolidated Financial Statements

# For the Fiscal Year Ended March 31, 2013

## Kabel Deutschland Holding AG, Unterfoehring
## Consolidated Statement of Financial Position as of March 31, 2013 and as of March 31, 2012

| | Notes | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| Assets | | € | T€ |
| **Current assets** | | | |
| Cash and cash equivalents | 3.1 | 609,546,909.35 | 133,784 |
| Trade receivables | 3.2 | 131,226,171.83 | 88,808 |
| Inventories | 3.3 | 51,899,439.09 | 31,496 |
| Receivables from tax authorities | 3.4 | 1,851,496.28 | 284 |
| Other current financial assets | 3.5 | 16,430,107.25 | 15,618 |
| Prepaid expenses | 3.5 | 12,024,036.48 | 12,303 |
| **Total current assets** | | 822,978,160.28 | 282,292 |
| **Non-current assets** | | | |
| Intangible assets | 3.6 | 641,370,634.83 | 630,368 |
| Property and equipment | 3.7 | 1,308,864,074.96 | 1,198,018 |
| Equity investments in associates | 3.8 | 7,717,238.81 | 8,123 |
| Deferred tax assets | 4.9 | 38,534,000.00 | 612 |
| Other non-current financial assets | 3.9 | 7,023,000.00 | 7,793 |
| Prepaid expenses | 3.9 | 32,024,466.58 | 32,614 |
| **Total non-current assets** | | 2,035,533,415.18 | 1,877,528 |
| **Total assets** | | 2,858,511,575.46 | 2,159,820 |

| | Notes | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| Equity and liabilities | | € | T€ |
| **Current liabilities** | | | |
| Current financial liabilities | 3.12.1 | 40,130,054.48 | 27,921 |
| Trade payables | | 312,619,304.93 | 287,882 |
| Other current provisions | 3.14 | 8,549,936.15 | 21,678 |
| Liabilities due to income taxes | 4.9 | 58,108,507.08 | 72,799 |
| Other current liabilities [1] | 3.10 | 93,733,552.32 | 88,905 |
| Deferred income | 3.11 | 227,774,484.30 | 237,140 |
| **Total current liabilities** | | 740,915,839.26 | 736,325 |
| **Non-current liabilities** | | | |
| Non-current financial liabilities | 3.12.2 | 3,383,118,993.82 | 2,831,854 |
| Deferred tax liabilities | 4.9 | 1,142,000.00 | 41,347 |
| Provisions for pensions | 3.13 | 54,806,152.30 | 48,980 |
| Other non-current provisions | 3.14 | 33,133,966.05 | 24,793 |
| Other non-current liabilities [2] | 3.15 | 115,118,140.52 | 51,425 |
| Deferred income | 3.11 | 1,165,318.45 | 1,922 |
| **Total non-current liabilities** | | 3,588,484,571.14 | 3,000,322 |
| **Equity** | | | |
| Subscribed capital | 3.16 | 88,522,939.00 | 88,523 |
| Capital reserve | 3.16 | 68,058,337.94 | 68,058 |
| Legal reserve | 3.16 | 8,852,293.90 | 0 |
| Cash flow hedge reserve | 3.16 | (51,148,269.85) | (43,032) |
| Asset revaluation surplus | 3.16 | 638,706.34 | 817 |
| Accumulated deficit | 3.16 | (1,585,835,405.86) | (1,691,214) |
| | | (1,470,911,398.53) | (1,576,848) |
| Non-controlling interests | 3.16 | 22,563.59 | 21 |
| **Total equity (deficit)** | | (1,470,888,834.94) | (1,576,827) |
| **Total equity and liabilities** | | 2,858,511,575.46 | 2,159,820 |

[1] Included in other current liabilities are financial liabilities (see notes 3.10).

[2] Included in other non-current liabilities are financial liabilities (see notes 3.15).

The accompanying notes to this consolidated statement of financial position form an integral part of these consolidated financial statements.

## Kabel Deutschland Holding AG, Unterfoehring
## Consolidated Statement of Income
## for the Period from April 1, 2012 to March 31, 2013 and from April 1, 2011 to March 31, 2012

| | Notes | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|---|
| | | € | T€ |
| **Revenues** | **4.1** | **1,829,922,818.46** | **1,699,734** |
| Cost of services rendered thereof depreciation / amortization T€260,333 (prior year: T€250,378) | 4.2 | (835,598,774.00) | (784,287) |
| Other operating income | 4.3 | 12,614,665.32 | 12,112 |
| Selling expenses thereof depreciation / amortization T€76,844 (prior year: T€123,897) | 4.4 | (414,166,485.95) | (424,652) |
| General and administrative expenses thereof depreciation / amortization T€23,754 (prior year: T€21,661) | 4.5 | (166,810,857.51) | (130,008) |
| **Profit from ordinary activities** | | **425,961,366.32** | **372,900** |
| Interest income | 4.7 | 3,332,864.89 | 2,891 |
| Interest expense | 4.7 | (206,006,098.99) | (201,575) |
| Income from associates | 4.8 | 2,343,746.16 | 1,627 |
| **Profit before taxes** | | **225,631,878.38** | **175,842** |
| Income tax benefit / (expense) | 4.9 | 21,206,507.51 | (16,435) |
| **Net profit for the period** | | **246,838,385.89** | **159,408** |
| Attributable to: | | | |
| Equity holders of the parent | | 246,837,131.19 | 159,406 |
| Non-controlling interests | 4.10 | 1,254.70 | 1 |
| | | **246,838,385.89** | **159,408** |
| Earnings per share (in €): | | | |
| Basic earnings per share | 4.11 | 2.79 | 1.78 |
| Diluted earnings per share | 4.11 | 2.79 | 1.78 |

The accompanying notes to this consolidated statement of income form an integral part of these consolidated financial statements.

## Kabel Deutschland Holding AG, Unterfoehring
## Consolidated Statement of Comprehensive Income
## for the Period from April 1, 2012 to March 31, 2013 and from April 1, 2011 to March 31, 2012

| | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| | € | T€ |
| **Net profit for the period** | **246,838,385.89** | **159,408** |
| Changes in fair value of hedging instruments regarding interest and currency | (11,701,829.05) | (60,952) |
| Income tax | 3,585,646.00 | 17,920 |
| **Other comprehensive income** | **(8,116,183.05)** | **(43,032)** |
| **Total comprehensive income** | **238,722,202.84** | **116,375** |
| Attributable total comprehensive income to: | | |
| Equity holders of the parent | 238,720,948.14 | 116,374 |
| Non-controlling interests | 1,254.70 | 1 |

The accompanying notes to these consolidated statement of comprehensive income form an integral part of these consolidated financial statements.

## Kabel Deutschland Holding AG, Unterfoehring
## Consolidated Statement of Cash Flows
## for the Period from April 1, 2012 to March 31, 2013 and from April 1, 2011 to March 31, 2012

| | Notes | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|---|
| | | T€ | T€ |
| **1. Cash flows from operating activities** | | | |
| Net profit for the period | | 246,838 | 159,408 |
| Adjustments to reconcile net profit to cash flows from operating activities: | | | |
| Income tax (benefit) / expense | | (21,207) | 16,435 |
| Interest expense | | 206,006 | 201,575 |
| Interest income | | (3,333) | (2,891) |
| Accretion / depreciation and amortization on fixed assets | | 360,930 | 395,937 |
| (Gain) / (loss) on disposal / sale of fixed assets | | 3,534 | 102 |
| Income from associates | | (2,344) | (1,627) |
| | | 790,425 | 768,939 |
| Changes in assets and liabilities: | | | |
| (Increase) / decrease of inventories | | (20,403) | (15,252) |
| (Increase) / decrease of trade receivables | | (42,418) | (5,778) |
| (Increase) / decrease of other assets | | (597) | (16,944) |
| Increase / (decrease) of trade payables | | 24,570 | 21,463 |
| Increase / (decrease) of other provisions | | (14,426) | (10,886) |
| Increase / (decrease) of deferred income | | (10,122) | (211) |
| Increase / (decrease) of provisions for pensions | | 3,311 | 1,989 |
| Increase / (decrease) of other liabilities | | 69,020 | 19,749 |
| Cash provided by operations | | 799,359 | 763,069 |
| Income taxes (paid) / received | | (69,592) | (33,202) |
| Net cash from operating activities | | 729,767 | 729,867 |
| **2. Cash flows from investing activities** | | | |
| Cash received from disposal / sale of fixed assets | | 411 | 2,737 |
| Cash paid for investments in intangible assets | | (99,797) | (82,755) |
| Cash paid for investments in property and equipment | | (372,536) | (308,458) |
| Cash paid for purchased service contracts | | (3,702) | 0 |
| Cash paid for acquisitions, net of cash acquired | | (68) | (10,525) |
| Interest received | | 1,567 | 779 |
| Dividends received from associates | | 2,750 | 6,673 |
| Net cash used in investing activities | | (471,376) | (391,549) |
| **3. Cash flows from financing activities** | | | |
| Cash payments to shareholders for reacquiring treasury shares | | 0 | (60,000) |
| Cash payments to shareholders (dividends) | | (132,784) | 0 |
| Cash payments to non-controlling interests | | 0 | (108) |
| Cash received from non-current financial liabilities | 3.12 | 600,000 | 1,570,452 |
| Cash received from non-current financial liabilities – agio | | 13,500 | 0 |
| Cash repayments of current and non-current financial liabilities | 3.12 | (73,454) | (1,543,875) |
| Cash payments for reduction of finance lease liabilities | 3.7 | (2,225) | (10,673) |
| Interest and transaction costs paid | | (187,665) | (188,665) |
| Net cash used in financing activities | | 217,373 | (232,869) |
| **4. Cash and cash equivalents at the end of the period** | | | |
| Changes in cash and cash equivalents (subtotal of 1 to 3) | | 475,763 | 105,449 |
| Cash and cash equivalents at the beginning of the period | | 133,784 | 28,335 |
| Cash and cash equivalents at the end of the period | 3.1 | 609,547 | 133,784 |
| **Additional information** | | | |
| Investments relating to finance lease | | 2,104 | 4,262 |

The accompanying notes to this consolidated statement of cash flows form an integral part of these consolidated financial statements.

## Kabel Deutschland Holding AG, Unterfoehring
## Consolidated Statement of Changes in Equity
## for the Period from April 1, 2011 to March 31, 2013

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| in € | Subscribed capital | Capital reserve | Legal reserve | Cash flow hedge reserve | Asset revaluation surplus | Accumulated deficit | Total | Non-controlling interests | Total equity (deficit) |
| **Balance as of March 31, 2011 / April 1, 2011** | **90,000,000.00** | **126,495,478.93** | **0.00** | **0.00** | **995,193.70** | **(1,850,798,634.94)** | **(1,633,307,962.31)** | **291,632.08** | **(1,633,016,330.23)** |
| Net income for the period | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 159,406,312.93 | 159,406,312.93 | 1,225.73 | 159,407,538.66 |
| Other comprehensive income | 0.00 | 0.00 | 0.00 | (43,032,086.80) | 0.00 | 0.00 | (43,032,086.80) | 0.00 | (43,032,086.80) |
| *Total comprehensive income* | *0.00* | *0.00* | *0.00* | *(43,032,086.80)* | *0.00* | *159,406,312.93* | *116,374,226.13* | *1,225.73* | *116,375,451.86* |
| Dividend distribution to non-controlling interests | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | (7,789.29) | (7,789.29) |
| Other changes of non-controlling interests | 0.00 | 163,273.63 | 0.00 | 0.00 | 0.00 | 0.00 | 163,273.63 | (263,759.63) | (100,486.00) |
| Reclassification of asset revaluation surplus | 0.00 | 0.00 | 0.00 | 0.00 | (178,243.68) | 178,243.68 | 0.00 | 0.00 | 0.00 |
| Reacquired treasury shares | (1,477,061.00) | (58,600,414.62) | 0.00 | 0.00 | 0.00 | 0.00 | (60,077,475.62) | 0.00 | (60,077,475.62) |
| **Balance as of March 31, 2012** | **88,522,939.00** | **68,058,337.94** | **0.00** | **(43,032,086.80)** | **816,950.02** | **(1,691,214,078.33)** | **(1,576,847,938.17)** | **21,308.89** | **(1,576,826,629.28)** |
| Net income for the period | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 246,837,131.19 | 246,837,131.19 | 1,254.70 | 246,838,385.89 |
| Other comprehensive income | 0.00 | 0.00 | 0.00 | (8,116,183.05) | 0.00 | 0.00 | (8,116,183.05) | 0.00 | (8,116,183.05) |
| *Total comprehensive income* | *0.00* | *0.00* | *0.00* | *(8,116,183.05)* | *0.00* | *246,837,131.19* | *238,720,948.14* | *1,254.70* | *238,722,202.84* |
| Allocations to legal reserve | 0.00 | 0.00 | 8,852,293.90 | 0.00 | 0.00 | (8,852,293.90) | 0.00 | 0.00 | 0.00 |
| Reclassification of asset revaluation surplus | 0.00 | 0.00 | 0.00 | 0.00 | (178,243.68) | 178,243.68 | 0.00 | 0.00 | 0.00 |
| Dividend distribution to shareholders | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | (132,784,408.50) | (132,784,408.50) | 0.00 | (132,784,408.50) |
| **Balance as of March 31, 2013** | **88,522,939.00** | **68,058,337.94** | **8,852,293.90** | **(51,148,269.85)** | **638,706.34** | **(1,585,835,405.86)** | **(1,470,911,398.53)** | **22,563.59** | **(1,470,888,834.94)** |

The accompanying notes to this consolidated statement of changes in equity form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR KABEL DEUTSCHLAND HOLDING AG AS OF MARCH 31, 2013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# 1 GENERAL

Kabel Deutschland Holding AG ("KDH AG" or the "Company"), as the ultimate management and holding company and with its registered office in Unterfoehring, Betastrasse 6 - 8, is listed in the regulated market (Prime Standard) of the Frankfurt Stock Exchange under ISIN DE000KD88880. All 88,522,939 of the Company's shares are in free float as of March 31, 2013.

KDH AG together with its consolidated subsidiaries (together "KDH" or the "Group" and individually the "Group Entities") is the largest cable network operator in Germany in terms of residential units that can be connected to KDH's network ("homes passed") and subscribers, according to its own estimate. The Group's business is primarily conducted by the wholly owned operating subsidiary Kabel Deutschland Vertrieb und Service GmbH ("KDVS GmbH"). This company was created through the mergers ("Merger") of Kabel Deutschland Vertrieb und Service GmbH & Co. KG ("KDVS"), Kabel Deutschland Breitband Services GmbH ("KDBS"), BMH Berlin Mediahaus GmbH and six other non-operating entities[1] into Kabel Deutschland GmbH ("KDG") retroactively as of April 1, 2011. The Merger was completed in August 2011 including the change of name of KDG into KDVS GmbH. In order to meet its obligations, KDH AG is dependent on receiving payments from its subsidiaries which have limitations on distributions to KDH AG.

On June 3, 2013, the Management Board released the consolidated financial statements to the Supervisory Board pursuant to International Accounting Standard ("IAS") 10 "Events after the Reporting Period".

## 1.1 BASIS OF PREPARATION

The consolidated financial statements of the Group for the two fiscal years ended March 31, 2013 and 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU"), as well as in accordance with Section 315a para. 1 German Commercial Code (Handelsgesetzbuch – "HGB"). The Group therefore applied all IFRSs issued by the IASB and the interpretations issued by the IFRS Interpretations Committee ("IFRIC"), which were effective as of March 31, 2013, adopted by the EU and applicable to the Group. The designation IFRS also includes all valid IASs; the designation IFRIC also includes all valid interpretations of the Standing Interpretations Committee ("SIC").

## 1.2 BASIS OF PRESENTATION

The Group's fiscal year consists of the twelve-month period ending March 31.

The consolidated financial statements and notes have been prepared and are presented in Euros ("€"), which is the functional currency of the Company and each of its consolidated entities. All values are rounded to the nearest thousand ("T€") unless indicated otherwise. Totals in tables were calculated using precise figures and rounded to T€. The Group's consolidated financial statements have been prepared using consistent accounting and consolidation methods for all periods presented. The consolidated statement of income has been prepared using the cost of sales method under IFRS. The consolidated financial statements have been prepared using the acquisition cost principle except for derivative financial instruments and liabilities related to the Long-Term Incentive Plan ("LTIP"), which are valued at fair value.

[1] Kabel Deutschland Vertrieb und Service Beteiligungs Verwaltungs GmbH; Kabel Deutschland Vertrieb und Service Beteiligungs GmbH & Co. KG; Kabel Deutschland Verwaltungs GmbH; Kabel Deutschland Vermögen Beteiligungs Verwaltungs GmbH; Kabel Deutschland Vermögen Beteiligungs GmbH & Co. KG and Kabel Deutschland Vermögen GmbH & Co. KG.

# 1.3 CONSOLIDATION

## Scope of Consolidation

In addition to the parent company, KDH AG, the consolidated financial statements as of March 31, 2013 include all companies in which KDH AG holds a direct or indirect interest of more than 50% of the outstanding voting rights and / or are under the control of KDH AG as defined by IAS 27 "Consolidated and Separate Financial Statements".

Intercompany transactions, balances and intercompany profit or losses on transactions between KDH AG and its subsidiaries and between the subsidiaries are eliminated in consolidation. The accounting and valuation methods adopted by the Group Entities are consistent with the accounting and valuation methods of KDH AG. Acquisitions are accounted for in the consolidated financial statements using the acquisition method under IFRS 3 "Business Combinations".

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and cease to be fully consolidated from the date on which the Group loses control. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control.

Companies in which KDH AG has significant influence but not control over the business and the financial policies as defined by IAS 28 "Investments in Associates", are recorded in the consolidated financial statements using the equity method. Intercompany profits and losses of associated companies are eliminated in consolidation in relation to their shareholding ratio.

## Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the acquisition date, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it determines the identifiable assets and liabilities assumed for classification in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the fair value at the acquisition date of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any resulting gain or loss is recognized through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income ("OCI"). If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for in equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash generating units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

## Share Acquisitions

On May 21, 2012 KDH AG entered into a purchase agreement with Tele Columbus GmbH ("Tele Columbus"), a Level 4 network operator in Germany, to acquire the Tele Columbus Group. After this intended acquisition was prohibited by resolution of the German Federal Cartel Office ("FCO", Bundeskartellamt) dated February 22, 2013, Tele Columbus withdrew from the purchase agreement.

On April 30, 2008, KDVS GmbH acquired network businesses from Tele Columbus in eight German federal states where the Group also provides cable TV. Since August 2008, arbitration proceedings have been pending with regard to the final determination of the purchase price payable under the share purchase agreement. Upon the FCO's prohibition of the Tele Columbus acquisition agreed to through the purchase agreement dated May 21, 2012, KDVS GmbH waived the claims at issue against Tele Columbus in accordance with the terms of the agreement.

KDH AG has filed an appeal with the Higher Regional Court of Düsseldorf against the prohibition by the FCO of the Tele Columbus acquisition. The outcome of the proceedings is uncertain. It has no influence on the withdrawal of the purchase agreement and the waiver.

### Restructuring of Customer and Technical Service Centers

Effective November 1, 2012, the Group bundled all of its customer and technical service centers into a wholly owned subsidiary, Kabel Deutschland Kundenbetreuung GmbH ("KDK"), which resulted from the change of name of Kabel Deutschland Vierte Beteiligungsgesellschaft mbH. KDK has around 1,300 employees located mainly in Berlin, Bonn, Erfurt and Halle/Leipzig. KDK permanently hired approximately 600 previously temporary employees of the Group as part of the process of reorganizing the service centers.

## 1.4 CURRENCY TRANSLATION

### Functional and Reporting Currency

The items included in the financial statements of each Group company are valued on the basis of the currency that corresponds to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are presented in Euros, the functional and reporting currency of KDH AG.

### Transactions and Balances

Foreign currency transactions were converted to Euros at the exchange rate applicable on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies existing as of the balance sheet date are translated to Euros at the exchange rate of the European Central Bank on the balance sheet date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. These currency differences are recognized in the consolidated statement of income unless they are recognized in equity as qualified cash flow hedges (see section 2.6.2).

Non-monetary assets and liabilities denominated in foreign currencies existing as of the balance sheet date which are to be carried at fair value are converted to Euros at the European Central Bank rate as of the date that the fair value was determined.

The Group used the following exchange rates (spot rates):

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| €1 | US$1.2805 | US$1.3356 |

# 2 ACCOUNTING AND VALUATION METHODS

## 2.1 ACCOUNTING STANDARDS RECENTLY ISSUED BY THE IASB

### Accounting Standards issued by the IASB and now applied by the Group

The Company is applying the amendments to IFRS 7 "Financial Instruments: Disclosures" published in October 2010 starting with the fiscal year that began April 1, 2012 for the first time. The adoption of revised IFRS 7 did not have a material impact or additional disclosure requirements for the presentation of the Group's net assets, financial position and results of operations.

### New Accounting Standards issued by the IASB and not yet applied by the Group

#### The following Standards and Interpretations were issued by June 3, 2013 and have been endorsed by the EU

In June 2011, the IASB issued IFRS 13 "Fair Value Measurement". This standard is effective for fiscal years beginning on or after January 1, 2013. IFRS 13 specifies standardized and consistent regulations for determining and disclosing the fair values of financial and non-financial assets and liabilities where these are required or are permissible when applying other IFRSs. The adoption of the new IFRS 13 will not have a material impact on the presentation of the Group's net assets, financial position and results of operations.

In June 2011, amendments to IAS 1 "Presentation of Financial Statements" were issued and are effective for fiscal years beginning on or after July 1, 2012. The application of the revised regulations requires the adjustment of the prior year's figures. The amendments serve the purpose of dividing the items in other comprehensive income according to whether they are to remain permanently in equity or can be reclassified in the profit or loss section of the statement of income at a later date. The application of revised IAS 1 will have an impact on the classification of other comprehensive income and equity of the Group. The application of revised IAS 1 will have no impact on the presentation of the net assets, financial position and results of operations.

In June 2011, amendments to IAS 19 "Employee Benefits" were issued and are effective for fiscal years beginning on or after January 1, 2013. The application of the revised regulations requires the adjustment of the prior year's figures. The changes range from fundamental changes to simple clarifications and rewording. The main change is the recognition of actuarial gains and losses that are permanently recognized in other comprehensive income and a changed treatment of plan income in plan assets. Neither the corridor method nor the immediate recognition of actuarial gains and losses through profit or loss are permitted any longer. Because the Group has applied the corridor method to date, revised IAS 19 will have an impact on the consolidated financial statements. The current operating result for the fiscal year ended March 31, 2013 will increase by approximately €0.1 million. The actuarial losses of approximately €7.8 million and €6.6 million that have accumulated up to March 31, 2013 and March 31, 2012, respectively, and have not been amortized will be retroactively offset against equity with effect from March 31, 2013 and April 1, 2012, respectively. These two adjustments will increase provisions for pensions as of March 31, 2013 by a total of approximately €14.4 million.

In May 2012, the IASB issued "Annual Improvements 2009 - 2011 Cycle". The amendments affect five standards and are effective for fiscal years beginning on or after January 1, 2013. The adoption of the revised standards will not have a material impact on the presentation of the Group's results of the net assets, financial position and results of operations.

The following standards and/or amendments to standards will be taken into consideration on the dates when their application is required, but current determinations indicate that they do not materially impact the consolidated financial statements:

| Pronouncement | Date of Issue by the IASB | Title |
|---|---|---|
| Amendments to IAS 12 | December 2010 | Recovery of Underlying Assets |
| Amendments to IAS 27 | May 2011 | Separate Financial Statements |
| Amendments to IAS 28 | May 2011 | Investments in Associates and Joint Ventures |
| Amendments to IAS 32 | December 2011 | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities |
| Amendments to IFRS 7 | December 2011 | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| IFRS 10 | May 2011 | Consolidated Financial Statements |
| Amendments to IFRS 10 | June 2012 | Consolidated Financial Statements: Transition Guidance |
| IFRS 11 | May 2011 | Joint Arrangements |
| Amendments to IFRS 11 | June 2012 | Joint Arrangements: Transition Guidance |
| IFRS 12 | May 2011 | Disclosure of Interests in Other Entities |
| Amendments to IFRS 12 | June 2012 | Disclosure of Interests in Other Entities: Transition Guidance |
| IFRIC 20 | October 2011 | Stripping Costs in the Production Phase of a Surface Mine |

### The following Standards and Interpretations were issued by June 3, 2013 but have not yet been endorsed by the EU

In November 2009, the IASB issued IFRS 9 ''Financial Instruments''. The standard is the result of the first phase of a comprehensive three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement", and regulates the classification and measurement of financial assets. Phase one was completed with the issue of the regulations for the classification and measurement of financial liabilities in October 2010. Phases two and three are currently being developed by the IASB and include the impairment of financial instruments and hedge accounting. In December 2011, the IASB issued an amendment to IFRS 9, in which the date of initial application of January 1, 2013 was postponed to January 1, 2015. This is intended to ensure the simultaneous application of all regulations. The Group is currently assessing the impacts of the adoption on the Group's consolidated financial statements.

In October 2012, the IASB issued amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities", and IAS 27 "Separate Financial Statements". The amendments affect investment companies which have been removed from the scope of application of IFRS 10, and they become effective for fiscal years beginning on or after January 1, 2014. The amendments will not affect the Group's consolidated financial statements.

In May 2013, the IASB issued the interpretation IFRIC 21 "Levies", in which it is clarified, when a company should recognize a liability for a levy imposed by a public authority. IFRIC 21 is an interpretation related to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". IFRIC 21 becomes effective for the first time for fiscal years beginning on or after January 1, 2014. The Group is currently assessing the impacts on the consolidated financial statements.

Other recently adopted pronouncements issued by the IASB as well as pronouncements not yet adopted do not have a material impact on the Group's consolidated financial statements.

## 2.2 CHANGES IN ACCOUNTING ESTIMATES

The Group regularly reviews whether the useful lives of tangible and intangible assets for depreciation or amortization purposes can be retained. During the quarter ended September 30, 2011, the expected useful lives of cable networks, of the acquired customer lists in the segment Internet and Phone, of the capitalized subscriber acquisition costs in the segments TV Business (Premium-TV) and Internet and Phone as well as of smartcards were reassessed based on new facts and circumstances arising in the past years. This reassessment of the useful lives led to prospective changed depreciation and amortization. The changes in useful lives became effective as of August 1, 2011. For more detailed explanations please refer to sections 3.6 and 3.7.

## 2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are primarily comprised of cash on hand and other short-term, highly liquid investments with an original maturity of three months or less. Cash on hand and cash at banks are carried at nominal value.

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

## 2.4 TRADE RECEIVABLES

Trade receivables are disclosed at their nominal amount less bad debt allowances for any receivables deemed doubtful. The Group considers evidence of impairment for receivables both in form of specific and general allowances. All individually significant receivables are assessed for potential specific allowances (e.g. due to the probability of insolvency or significant financial difficulties of the debtor). Receivables that are not individually significant are not tested specifically for impairment but are assessed for general allowances by grouping together receivables with similar risk characteristics.

The carrying amount of receivables is reduced through use of an allowance account if necessary. Doubtful debts are written off when they are assessed as uncollectible.

## 2.5 INVENTORIES

Raw materials, consumables and supplies as well as merchandise are recorded at the lower of cost or net realizable value. Cost is calculated using the moving weighted average cost method in accordance with IAS 2 "Inventories". The entity's inventories are regularly reviewed for impairment.

## 2.6 FINANCIAL INSTRUMENTS

### Recognition and Write-Off of Financial Instruments

Financial assets and liabilities are recognized when the Group enters into a contractual relationship with the respective counterparty or issuer. A financial asset is written off when:

- the rights to receive cash flows from the financial asset expire; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all of the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is only written off when the obligation under the liability is discharged, canceled or expired.

Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a write-off of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recorded in the consolidated statement of income.

### 2.6.1 Financial Assets

Financial assets in the scope of IAS 39 are classified as:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets; or
- derivatives designated as hedging instruments in an effective hedge.

When financial assets are initially recognized they are measured at fair value plus, in the case of financial investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reevaluates this designation at each fiscal year-end. The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss as well as loans and receivables. All purchases and sales of financial assets are recognized on the trade date, which is the date that the Group enters into the commitment.

#### Financial Assets at Fair Value through Profit or Loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are also designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable

transaction costs are recognized in the consolidated statement of income as incurred. Such financial assets are presented at fair value, and changes are recognized in profit or loss.

### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost less any impairment losses. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired. Gains and losses resulting from the amortization process are also recognized in profit or loss.

Loans and receivables are composed of trade and other receivables (see section 2.4).

Cash and cash equivalents are also included in loans and receivables. Cash and cash equivalents are composed of cash balances and call deposits with original maturities of three months or less (see section 2.3).

## 2.6.2 Financial Liabilities

Financial liabilities (Senior Credit Facility, Senior Notes) are initially recognized at fair value net of any directly attributable transaction costs. In subsequent periods, liabilities are measured at amortized cost using the effective interest method with the exception of derivative financial instruments which are measured at their fair value.

### Derivative Financial Instruments including Hedge Accounting

Derivative financial instruments are used exclusively for the purpose of hedging foreign currency and interest rate risks arising from financing activities. The Group exercises the option of accounting for the currency hedge of a fixed obligation in the consolidated statement of income as a cash flow hedge instead of as a fair value hedge. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

In accordance with IAS 39, all derivative financial instruments are accounted for at fair value irrespective of the purpose or the intention for which they were incurred. Depending on whether it is a fair value hedge or a cash flow hedge, changes in the fair value of the derivative financial instruments for which hedge accounting is used are either reported in the statement of income or in the statement of comprehensive income under cash flow hedge reserve. In the case of changes in the fair value of cash flow hedges which are used to offset future cash flow risks arising from underlying transactions or planned transactions and which have proven to be 100% effective in accordance with IAS 39, unrealized gains and losses are initially recognized in equity as part of the cash flow hedge reserve.

If the cash flow hedge is not 100% effective, the ineffective portion of changes in the fair value of the derivative designated as a cash flow hedge is recognized in the consolidated statement of income. If hedge accounting cannot be used by the Group, the change in the fair value of derivative financial instruments is recorded in the consolidated statement of income.

The cash flow hedge reserve is reversed when the hedging instrument expires or is sold, ended or exercised without replacement or roll-over into another hedge relationship, or when the criteria for accounting for it as a hedge relationship are no longer fulfilled. The cumulative profits or losses, which have so far been recognized in the cash flow hedge reserve, remain in OCI in equity until the expected transaction or fixed obligation influences earnings, i.e. they are transferred to the statement of income in the period in which the hedged transaction influences the consolidated statement of income, e.g. when hedged financial income or expenses are recognized.

## 2.6.3 Equity investments in Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds – directly or indirectly – between 20% and 50% of the voting rights of another entity.

Investments in associates are accounted for using the equity method at the investor's share of equity pursuant to IAS 28. The Group's share of income, reduced by distributions and by the amortization associated with the purchase accounting, is disclosed in the analysis of fixed assets as a change in equity investment.

# 2.7 INTANGIBLE ASSETS

## 2.7.1 Goodwill

Please see section 1.3 Consolidation, subsection Business Combinations and Goodwill for information on the accounting for and valuation of goodwill.

## 2.7.2 Customer List

In connection with the initial acquisition of the cable business by the Group in March 2003, certain parts of the purchase price have been allocated to the acquired customer list. This part of the customer list was fully amortized during the fiscal year ended March 31, 2012 on the basis of its economic useful life of 8.5 years and recognized as a disposal in the analysis of fixed assets. In previous years further additions to the customer list were primarily related to the acquisition of Level 4 network operators and customer contracts and relationships in conjunction with both share and asset deals. The fair value of the customer lists at each acquisition date has been estimated using the multi-period excess earnings method.

## 2.7.3 Other Intangible Assets

Intangible assets that have been acquired as part of an acquisition of a business are capitalized at fair value if they can be reliably measured at the acquisition date. Intangible assets which are purchased separately are recorded at cost. Rebates, trade discounts and bonuses are deducted from the purchase price.

The Group recognizes internally generated intangible assets (consisting of software used by the Group) to the extent that the criteria in IAS 38 "Intangible Assets" are met. Development costs for internally generated intangible assets are recognized at cost to the extent KDH can demonstrate the technical feasibility of completing the asset, how the asset will generate future economic benefit, the availability of resources to complete the asset and the ability to reliably measure the expenditure during the development. The expenditures capitalized include the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and – as far as applicable – directly attributable borrowing costs. If the requirements for capitalization are not fulfilled, development costs are expensed as incurred.

The Group recognizes subscriber acquisition costs incurred to gain new subscribers if the costs are directly attributable to closing specific contracts, are incremental, can be measured reliably and meet the definition and recognition criteria of an intangible asset in accordance with IAS 38. Subscriber acquisition costs incurred to close new contracts without a minimum contract duration ("open-ended contracts") are expensed as incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.

## 2.7.4 Subsequent Costs

The costs of significant changes and additions are included in the carrying amount of the intangible asset if they qualify for recognition as an intangible asset and it is probable that future economic benefits in excess of the originally assessed standard of performance will be realized by the Group. Significant additions are amortized over the remaining useful life of the related asset.

## 2.7.5 Amortization of Intangible Assets

The estimated useful life of the customer list is based primarily on the average contract duration of individual user contracts, over which significant revenues are generated, taking into account the average churn rate.

The amortization of customer lists and other intangible assets with definite useful lives is based on the straight-line method over the assets' estimated useful lives. Amortization begins when the intangible asset is ready for use.

The Group recognizes subscriber acquisition costs incurred to gain new subscribers as part of the intangible assets if relevant preconditions are fulfilled (see section 2.7.3). The Group amortizes these costs over the average subscriber relationship period.

The amortization expense is recognized in the statement of income in the expense category consistent with the purpose of the intangible assets.

The useful lives are estimated as follows:

| Asset category | Useful lives |
|---|---|
| Customer list | 6.5 to 8.5 years |
| Subscriber acquisition costs | 6.5 to 8.5 years |
| Software, licences and other intangible assets | 1 to 15 years |

The intangible assets' net book values, useful lives and amortization methods are reviewed, and adjusted if appropriate, at each fiscal year end.

## 2.8 PROPERTY AND EQUIPMENT

### 2.8.1 General Information

Property and equipment are recognized at cost less accumulated scheduled depreciation and accumulated impairment losses. Rebates, trade discounts and bonuses are deducted from the purchase price.

For technical equipment located on leased property, historical costs include the present value of estimated future costs of dismantling and removing the items and restoring the site on which the items are located after termination of the lease agreement.

### 2.8.2 Leases

#### Operating Lease

A lease is accounted for as an operating lease when substantially all the risks and rewards incidental to the ownership of the leased item remain with the lessor. Operating lease payments are recorded on a straight-line basis over the lease term as an expense in the consolidated statement of income.

#### Operating Lease for Customer Premise Equipment ("CPE")

The Group offers products that contain signal delivery and the right to use CPE. The CPE are a necessary precondition for the connection to the Group's Internet and Phone services as well as for the use of certain digital TV services. The Group leaves the CPE to subscribers for use bundled with the services provided. This constitutes a lease under IFRIC 4 "Determining whether an Arrangement contains a Lease". Under IAS 17 "Leases", this is classified as an operating lease, for which KDH is the lessor (see also section 2.16.1). Therefore, the Group capitalizes the CPE as property and equipment based on acquisition cost and the cost of returning the asset at the end of the lease. These assets are depreciated over the useful life using the straight-line method.

#### Finance Lease Agreements

In accordance with IAS 17, assets leased under finance lease agreements are recognized at the inception of the lease at the lower of fair value or the present value of the minimum lease payments. The assets are depreciated using the straight-line method over the shorter of the estimated useful life or over the lease period. A liability is recognized in the amount of the capitalized leased asset. Using a constant rate of interest, the ongoing lease payments are apportioned between the financing costs and principal repayment of the lease liability. Financing costs are recognized directly in the consolidated statement of income.

### 2.8.3 Subsequent Costs

Repair and maintenance expenses ("cost of day-to-day servicing") are expensed as incurred. The cost of significant maintenance and extensions are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance will be realized by the Group. Significant maintenance are depreciated over the remaining useful life of the related asset.

### 2.8.4 Depreciation and Disposal of Property and Equipment

Depreciation is calculated based on the straight-line method over each asset's estimated useful life as follows:

| Asset category | Useful lives |
|---|---|
| Buildings on non-owned land | 3 to 10 years |
| Technical equipment | 3 to 30 years |
| Other equipment, furniture and fixtures | 3 to 15 years |

In case of disposal of an item of property and equipment, gains or losses are determined by comparing the proceeds from disposal with the carrying amount of the corresponding property and equipment. These gains or losses are recognized within other operating income or in other costs and expenses in the expense category (cost of services rendered, selling expenses as well as general and administrative expenses) respective with the purpose of the property and equipment, except for technical equipment losses, which are recognized in cost of materials and services within cost of services rendered.

The assets' net book values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each fiscal year end.

## 2.9 SHAREHOLDERS' EQUITY

Issued capital and capital reserves are stated at nominal value. Capital reserves are set up essentially for additional paid in capital and for changes relating to share-based payments if applicable. Incremental costs directly attributable to the issue of shares are deducted from equity, net of any potential tax effects.

## 2.10 IMPAIRMENT OF ASSETS

The carrying amount of intangible assets as well as property and equipment is assessed at each balance sheet date to determine whether there is any objective evidence of impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of other assets or groups of assets (cash generating units or "CGUs").

If such evidence exists or when annual impairment testing is required, the recoverable amount (see section 2.10.1) is determined. Impairment is necessary when the recoverable amount of an asset or the related cash generating unit is less than its carrying amount. The corresponding difference is expensed.

### Goodwill

Goodwill is tested for impairment annually (as of March 31) and whenever circumstances indicate that the carrying amount may be impaired. The determination of the recoverable amount of a CGU to which goodwill is allocated involves the use of estimates by management and is influenced, among other factors, by the volatility and conditions of capital and financial markets. The Company generally uses the fair value less cost to sell method based on discounted cash flow calculations to determine the recoverable amount. The discounted cash flow calculations use five-year projections that are based on financial plans approved by management. Cash flow projections consider past experience and represent management's best estimate about future business developments reflecting current uncertainties. Cash flows after the planning period are extrapolated using individual growth rates. Key assumptions on which management has based its determination of fair value less cost to sell include estimated growth rates, weighted average cost of capital and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognized. Impairment losses for goodwill are not reversed in subsequent periods.

### Loans and Receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the recoverable amount, i.e. the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of impaired receivables is reduced through use of an allowance account. Receivables are written off when they are assessed as uncollectible.

### 2.10.1 Determination of Recoverable Amount

The recoverable amount of an asset or CGU as defined in IAS 36 is the greater of its fair value less cost to sell and its value in use. Value in use is determined by discounting the estimated future cash flows to be derived from continuing use of the asset until its ultimate disposal. The discount rate is based on a pre-tax interest rate that reflects current market assessments regarding the level of interest rates and the risks specific to the asset.

For assets to which no cash flows can be directly attributed, the recoverable amount is determined for the CGU to which the asset belongs.

### 2.10.2 Reversal of Impairment Loss

Impairment losses on assets are reversed when assumptions relating to the recoverable amount of the assets change in a way that the expected recoverable amount is increased. Impairment losses are only reversed up to the carrying amount of the asset which would have been recorded if the asset had been subject to scheduled depreciation and amortization without impairment.

## 2.11 TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are recognized at amortized cost.

## 2.12 EMPLOYEE BENEFITS

### 2.12.1 Defined Benefit Plan

Under the Group's pension plans, Group Entities provide employees post-employment benefits under a defined benefit plan. The benefits are primarily unfunded.

The present value of future claims of participants is estimated using actuarial methods based on the amount of future benefit that employees have earned in return for their service in the current and prior periods. The liabilities to be recognized in the consolidated statement of financial position result from the present value of the defined benefit obligation adjusted for any actuarial gains or losses not yet recognized, and less any past service cost not yet recognized. The discount rate is determined by reference to the capital markets and takes into account the expected maturity of the obligation. KDH engaged qualified external actuaries to perform the necessary actuarial calculations. The obligation is determined using the projected unit credit method ("PUC method").

When the benefits of the pension plan are improved, the share of the increased benefit relating to the employee's previous years of service will be recognized as an expense on a straight-line basis over the period until the benefits become vested. If the benefits have already vested, the past service cost is expensed immediately.

In measuring the obligations arising from the defined benefit plans, actuarial gains and losses arising after April 1, 2003 are not recognized in the consolidated statement of income until the cumulative outstanding amounts exceed a corridor of 10% ("corridor approach") of the defined benefit obligation as of the measurement date. The portion of the amount exceeding the corridor is amortized to the consolidated statement of income over the remaining average service period of the employees entitled to pensions.

### 2.12.2 Share-based Payments

The Group applies IFRS 2 "Share-based Payment" to its share-based payment transactions. Under IFRS 2, plans which result in share-based payment transactions have to be accounted for as cash-settled if the participant will receive a payment in cash upon settlement rather than the underlying equity instruments. For such cash-settled share-based payment transactions, IFRS 2 requires the entity to account for the share-based payments to management as personnel expense and a corresponding increase in other liabilities.

During the fiscal year ended March 31, 2013, the Group had in place a Long-Term Incentive Plan ("LTIP") including two share-based payment components – a virtual performance share program with annual grant ("LTIP I") and a one-time grant of virtual stock options ("LTIP II"). For the existing LTIP the services received during the vesting period and, therefore, the corresponding liabilities, are remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the consolidated statement of income.

## 2.13 OTHER PROVISIONS

Other provisions are recognized in the consolidated statement of financial position pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if, as a result of a past event, the Group has a present

legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Non-current other provisions are stated at their discounted settlement value as of the balance sheet date using pre-tax rates where the interest rate effect is material.

## 2.14 REVENUE AND OTHER OPERATING INCOME

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and revenue can be measured reliably. The relevant types of revenue for KDH are recognized as follows:

### 2.14.1 Installation and Network Connection

Revenue from the installation of the cable and network connection is recognized when the services have been rendered, revenues and corresponding costs incurred can be measured reliably and the Group is not obliged to provide any future network access or installation services.

### 2.14.2 Rendering of Services

Revenue generated by the delivery of analog and digital TV signals, digital Pay-TV packages and Internet and phone services, as well as carriage fees paid by television broadcasters, are recognized when services have been provided, revenues and corresponding costs incurred can be measured reliably and the Group is not obliged to provide any future services. Prepayments are accounted for by deferring the received payments and amortizing them straight-line over the service period. If the Group acts as an agent, revenue is only recognized in the amount of the commissions.

When free months or graduated discounts are offered to customers in relation to a subscription, the Group recognizes the total amount of billable revenue in equal monthly installments over the term of the contract, provided that the Group has the contractual and enforceable right to deliver the customer with the products after the free of charge or discounted promotional period. When free months are offered to customers in relation to a subscription, without that the Group has the contractual and enforceable right to deliver the customer with the products after the free of charge promotional period, the Group does not recognize revenues during the promotional period, as the continuance of the customer relationship is not assured.

### 2.14.3 Sale of Goods

Revenue from the sale of digital receivers, cable modems, and other goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

### 2.14.4 Multiple Element Arrangements

For goods and services bundled in multiple element arrangements the Group recognizes revenue for each element on the basis of the relative fair value of each item in the transaction if fair value is measurable.

The Group's multiple element arrangements primarily comprise bundled products covering hardware leasing and service elements. Revenue regarding the hardware leasing component is recognized in conjunction with the revenue recognition principles applicable to such leases (see section 2.16.1). Revenue regarding service components is recognized according to IAS 18 "Revenue".

Multiple element arrangements with components from different segments are allocated to the respective segments based on their relative fair value.

## 2.15 TAXES ON INCOME

### Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount of income tax assets and liabilities are those that are enacted or substantively enacted at the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income. Management evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### Deferred Taxes

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and tax loss carryforwards, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and loss carryforwards can be offset, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be offset.

## 2.16 KEY JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with IFRS requires judgments, estimates and assumptions that affect the application of accounting and valuation methods and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### 2.16.1 Key Judgments

In the process of applying KDH's accounting policies, management has made in addition to estimates the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

#### Derivative Financial Instruments

All derivative financial instruments have been accounted for in accordance with IAS 39 at fair value irrespective of the purpose or the intention for which they were used. If appropriate, derivative financial instruments are designated in the financial statements in fair value or cash flow or net investment hedge relationships. The interest and currency swaps entered into in the fiscal year ended March 31, 2012 were all designated as cash flow hedges so that corresponding changes in value are recognized in other comprehensive income in equity. During the fiscal year ended March 31, 2012, the Group had also entered into four derivatives, which for accounting purposes could not be designated as components of a hedging relationship. See also sections 3.12.2 and 5.6.

#### KDH as the Lessor in Operating Leases

The Group offers products that contain signal delivery and the right to use CPE (see also section 2.8.2). The CPE are a necessary precondition for the signal delivery to the customer. Since the fulfillment of these arrangements is dependent on the use of the specific asset delivered to the customer and the arrangements defined by KDH convey a right to use the asset, these contracts containing signal delivery as well as the right to use the necessary CPE include an embedded lease in accordance with IFRIC 4 in which the Group entities are the lessor.

CPE is recognized as technical equipment in accordance with IAS 16 "Property, Plant and Equipment" taking into account the costs of returning the hardware at the end of the lease term and depreciated over their useful life.

#### KDH as the Lessee in Operating Leases

In certain cases KDH is the lessee in lease agreements that have been classified as operating leases in accordance with IAS 17. These lease agreements primarily relate to cable ducts of Deutsche Telekom AG ("DTAG") and fiber optics as well as backbone networks in certain areas for the transmission of Internet, phone and digital TV services. The Group has determined that it retains no significant risks and rewards of ownership neither from the cable ducts nor from the fiber optics or the backbone networks and, therefore, accounts for the leases as operating leases.

#### Finance Lease

The Group has leased parts of its network infrastructure in order to transmit video and audio signals via Level 2, 3 and 4 networks. Providing customers with digital pay video and audio signals has so far been carried out via Level 2 networks, inter alia through leased transponder capacity. As part of a comprehensive restructuring of signal transmission, the Group has replaced the transponder capacity that existed until April 2012 with backbones.

The Group has determined for parts of certain backbone contracts that specific rights have been transferred to the Group and that the lease term covers the major part of the economic useful life. The Group acts as the lessee. Therefore, the Group has classified and accounted for these leases as finance leases according to IAS 17.

#### Provisions for Pensions

With respect to the actuarial calculation of the provisions for pensions, the Group made assumptions concerning the future salary and pension increases and the discount rate, and for the fiscal year ended March 31, 2013, again selected the IAS 19 provision on the corridor method.

## 2.16.2 Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that involve a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next fiscal year are discussed below. The carrying amounts are presented in the consolidated statement of financial position or the additional notes relating to the specific assets and liabilities.

### Derivative Financial Instruments

The fair values of the derivative financial instruments of KDH cannot be determined based on quoted prices since quoted prices are not readily and regularly available for those instruments. Therefore, the fair values of the derivative financial instruments as of the balance sheet date have been estimated at the net present values (discounted by uncertain market yield curves) of the future payments and using standard discounted cash flow models in accordance with Level 2 as defined in IFRS 7 (fair value hierarchy).

### Share-based Payments

During the fiscal year ended March 31, 2013, the Group had a Long-Term Incentive Plan including virtual performance shares to be granted annually and a one-time grant of virtual stock options. The virtual performance shares and the virtual stock options are classified as cash-settled share-based payment transactions and accordingly revalued at every reporting date. The basis for the valuation of the virtual performance shares is the volume-weighted average closing price of the KDH AG share in XETRA trading over the last 30 trading days prior to the reporting date. The virtual stock options are revalued based on the fair value of the options using a Black-Scholes calculation. The determination of the resulting liability depends additionally on the expected target achievement of the performance conditions and is based on the expected allocation at the end of the vesting period.

### Useful Life of Certain Assets

The useful lives of property and equipment as well as intangible assets are subject to estimation uncertainty. In the fiscal year ended March 31, 2012, the expected useful lives of cable networks, the customer lists acquired for a consideration in the area Internet and Phone, the capitalized subscriber acquisition costs in the areas Internet and Phone and TV Business (Premium-TV) as well as smartcards were reassessed based on new facts and circumstances collected over the past years. The changes in useful lives became effective as of August 1, 2011.

A review of the technical usability of the Level 3 networks provided that through technological progress particularly in data transfer methods and through the actual implementation of new technologies in the Group's network, the cable networks are unchanged and technically fully operational and will also support the cable business in the mid- and long-term. To reflect these facts and circumstances, the expected useful life was increased from 20 to 30 years in August 2011.

The estimated useful life of the customer list is based primarily on the average contract duration of individual user contracts, over which significant revenues are generated, taking into account the average churn rate. Initially, because of a lack of historical data, the expected useful life of the Internet and Phone customer list was aligned with the useful life of 8.5 years of the Group's already existing customer list in the TV Business segment. Due to the experience gained over the past years regarding the average customer relationship period, the Group revised the estimated useful life of the Internet and Phone Business customer list from 8.5 years to 6.5 years, effective August 1, 2011.

The Group capitalizes sales commissions directly attributable to customer contracts related to its sales agents and the cost of external call center representatives if the concluded contracts generate future revenue streams. Capitalized subscriber acquisition costs are amortized over the expected customer relationship period. In the business areas TV Business (Premium-TV) as well as Internet and Phone Business, empirical data was collected in the past years regarding the expected customer relationship period so that by now reliable past evidence exists. Thus, beginning in August 2011, the estimated useful life of subscriber acquisition costs in the Internet and Phone Business was increased from 12 or 24 months, respectively, corresponding to the fixed minimum contract duration, to 6.5 years, which reflects the expected customer relationship period. In Premium-TV, the useful life of subscriber acquisition costs was increased from 12 or 24 months, respectively, corresponding to the fixed minimum contract duration, to 8.5 years, which also reflects the expected customer relationship period for all Basic Cable contracts. Amortization is calculated based on the straight-line method.

Assets such as modems, receivers and digital video recorders ("DVR"), which are CPE assets, are depreciated over three years using the straight-line method. The technical progress leading to high definition ("HD") technology and the associated rapid technical changes result in shorter innovation and product life cycles for smartcards. Consequently, the estimated useful life of smartcards has been decreased from 5 to 3 years. The change in useful life is effective from August 2011.

The useful lives of the assets in question have since changed as follows:

| Assets | Useful Life | |
|---|---|---|
| | until July 31, 2011 | since August 1, 2011 |
| Level 3 cable networks | 20 years | 30 years |
| Customer lists (Internet and Phone) | 8.5 years | 6.5 years |
| Subscriber acquisition costs (Internet and Phone) | 12 or 24 months | 6.5 years |
| Subscriber acquisition costs (Premium-TV) | 12 or 24 months | 8.5 years |
| Smartcards | 5 years | 3 years |

## Internally Generated Software and Customer List

The Group recognizes internally generated intangible assets (consisting of software used by the Group) to the extent that the criteria in IAS 38 are met. Development costs for internally generated intangible assets are recognized at cost to the extent the assets are economically usable and the costs can be reliably measured.

The customer list is amortized on a straight-line basis over 8.5 years for the TV Business area and 6.5 years for the Internet and Phone Business area. The estimated useful life is derived primarily from the average contract term of the underlying contracts based on empirical experience.

## Trade Receivables

Trade receivables are assessed for general allowances based on estimates regarding the probability of collection. These estimates are determined by taking into account historical evidence relating to the collectability of KDH's trade receivables by grouping them into different age buckets. Depending on the time for which trade receivables are overdue, the percentage of necessary general allowances has proven to increase with increasing overdue time. The estimates used for general allowances are reviewed at each balance sheet date and adjusted if necessary.

## Asset Retirement Obligations

The amount of the provision was calculated primarily based on an estimate of the costs expected for the demolition and restoration of broadband cables primarily located in leased cable ducts and of leased separated technical operating areas. Expectations regarding the lessor waiving the fulfillment of asset retirement obligations are considered in the calculation of best estimate of the obligation related to the leased cable ducts and technical operating areas under IFRS. Approximately 93% of the Group's obligations are related to network engineering. This primarily includes the leased technical operating areas and broadband cables in leased cable ducts of DTAG and other network operators. The conversion of signal delivery has changed the estimated schedule for the replacement of technical equipment. As a result, leases for technical operating areas were partially or completely canceled and demolition has been largely completed on the installations located there. KDH assumes that 14% of the technical equipment will be replaced by other technologies after no later than 10 years, 11% will be replaced after no later than 15 years and the remaining 75% of the technical equipment is expected to be replaced after no later than 30 years. The remaining 7% of the asset retirement obligations are divided into provisions for furniture and fixtures as well as miscellaneous restoration obligations.

# 3 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 3.1 CASH AND CASH EQUIVALENTS

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| Cash at banks | 609,519 | 133,757 |
| Cash on hand | 28 | 27 |
| **Cash and cash equivalents** | **609,547** | **133,784** |

The increase in cash at banks for the fiscal year ended March 31, 2013 is primarily due to the issuance of the 2017 Senior Notes in June 2012 and the increase in the 2018 Senior Secured Notes in July 2012. This increase was partially offset by the dividend that was paid in October 2012 and the partial repayment of Tranche C1 of the Senior Credit Facility in February 2013. Cash at banks was pledged under the Senior Credit Facility Agreement and corresponding amendments (see section 3.12) as security in favor of the relevant lending banks and was T€602,861 and T€132,099, as of March 31, 2013 and March 31, 2012, respectively. As of March 31, 2013, the pledged bank accounts reflect all the bank accounts of KDVS GmbH and exclude the other Group entities.

## 3.2 TRADE RECEIVABLES

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| Gross trade receivables | 157,108 | 114,111 |
| Bad debt allowance | (25,882) | (25,303) |
| **Trade receivables** | **131,226** | **88,808** |

### Allowances for doubtful trade receivables

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| Balance at the beginning of the period | (25,303) | (29,229) |
| Allowances for doubtful trade receivables | (14,602) | (14,220) |
| Write-Offs and other charges as well as income from reversal of bad debt allowances | 14,023 | 18,145 |
| **Balance at the end of the period** | **(25,882)** | **(25,303)** |

The increase in gross receivables is primarily due to the increase in revenue generating units ("RGU") and the receivables deferred for revenue recognition in this context. These receivables are proportionately accounted for and are billed and being paid spread over the minimum contract duration of these products. Furthermore, receivables from public broadcasters resulting from carriage fees are outstanding due to current legal proceedings (see section 5.3 Contingencies and Certain Lawsuits and Legal Proceedings). The simultaneous relative reduction of allowances for doubtful trade receivables is essentially based on the further optimization of the aging structure of the receivables as part of the continuous improvement of the collection process.

As of March 31, trade receivables that were not impaired were divided as follows:

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| Neither past due nor impaired | 64,977 | 40,165 |
| Net carrying amount past due but not impaired at the reporting date | | |
| less than 30 days | 31,188 | 29,683 |
| 31–60 days | 24,427 | 4,640 |
| 61–90 days | 7,355 | 11,629 |
| more than 90 days | 3,279 | 2,691 |
| Past due, not impaired total | 66,249 | 48,643 |
| **Total not impaired** | **131,226** | **88,808** |

Receivables with an invoice amount of in total T€18,970 and T€17,782, excluding VAT, as of March 31, 2013 and March 31, 2012, respectively, were determined not to be recoverable and were fully impaired.

Accounts receivable past due but not impaired are expected to ultimately be collected.

No indications of future cash loss are recognizable for accounts receivable that are neither past due nor impaired.

Receivables of KDVS GmbH with a carrying amount of T€127,178 and T€86,361 as of March 31, 2013 and March 31, 2012, respectively, were assigned in accordance with the Senior Credit Facility Agreement and corresponding amendments (see Section 3.12) as security in favor of the relevant lending banks.

## 3.3 INVENTORIES

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| Raw materials, consumables and supplies | 3,795 | 4,554 |
| Finished goods and merchandise | 48,104 | 26,942 |
| *thereof carried at net realizable value* | *0* | *232* |
| **Inventories** | **51,899** | **31,496** |

Depending upon specified use, CPE, included above in merchandise, is recognized as capital expenditures or operational expenditures at the time the item is put into service. The Group capitalizes the CPE as fixed assets when it is leased to the customer. The Group expenses CPE when it is purchased by the customer. Costs for maintenance and substitution of CPE are also expensed.

The total amount of inventories recognized as an expense amounted to T€12,053 and T€17,971 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively.

For the fiscal years ended March 31, 2013 and 2012, the expenses from the devaluation of inventories recognized in cost of services rendered totaled T€29 and T€274, respectively.

## 3.4 RECEIVABLES FROM TAX AUTHORITIES

Receivables from tax authorities relate to corporate income tax, trade tax and solidarity surcharge and amounted to T€1,851 and T€284 as of March 31, 2013 and March 31, 2012, respectively.

## 3.5 OTHER CURRENT FINANCIAL ASSETS AND CURRENT PREPAID EXPENSES

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Other current financial assets | | |
| Payments in advance for commission fees | 4,090 | 3,431 |
| Fair value derivatives | 2,854 | 3,506 |
| Deposits | 2,844 | 2,456 |
| Creditors with debit balance | 2,043 | 2,047 |
| Miscellaneous other receivables | 4,600 | 4,178 |
| **Other current financial assets** | **16,430** | **15,618** |
| Current prepaid expenses | | |
| Lease payments for cable networks | 5,780 | 5,849 |
| Software support | 3,059 | 3,525 |
| Maintenance and repair | 778 | 1,066 |
| Prepaid expenses for CPE | 645 | 211 |
| Insurance | 247 | 268 |
| Other | 1,516 | 1,384 |
| **Current prepaid expenses** | **12,024** | **12,303** |

Other current financial assets are comprised of financial assets in accordance with IAS 32 in form of paid deposits, creditors with debit balance, the current portion of the fair value of the derivative as well as miscellaneous other financial assets in the amount of T€10,631 and T€11,227 as of March 31, 2013 and 2012, respectively. The Group will receive cash at a later point in time from other current financial assets in accordance with IAS 32.

## 3.6 INTANGIBLE ASSETS

### Software and Licenses and other Contractual and Legal Rights

The item "Software and licenses and other contractual and legal rights" primarily consists of licenses for and costs related to standard business software, the customer care and billing system as well as software licenses related to KDH's fixed-line phone services. The software is being amortized on a straight-line basis over a period of three to six years.

For the fiscal years ended March 31, 2013 and March 31, 2012, subscriber acquisition costs in an amount of T€60,655 and T€54,447, respectively, were capitalized. The amortization of subscriber acquisition costs was T€20,213 and T€21,561 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively. In spite of the ongoing capitalization, the annual amortization decreased by T€1,348 for the fiscal year ended March 31, 2013, due to the prolongation of useful life during the fiscal year ended March 31, 2012 (see section 2.16.2 subsection Useful Life of Certain Assets).

### Internally Generated Software

For the fiscal years ended March 31, 2013 and March 31, 2012, development costs for internally generated software in the amount of T€8,964 and T€8,042, respectively, were capitalized. Included in development costs for internally generated software for the fiscal year ended March 31, 2013, were

T€3,950 for closed projects and T€5,014 for running projects. These amounts relate to costs incurred in the further and new development of company-specific software applications.

The remaining useful life of internally generated software is between 0.2 and 4.6 years.

As of March 31, 2013 and March 31, 2012, respectively, development costs for internally generated software with carrying amounts of T€18,834 and T€15,003 were capitalized.

For the fiscal years ended March 31, 2013 and March 31, 2012, T€12,804 and T€12,348, respectively, were recognized as development costs through profit or loss.

### Customer List

There were no additions to the customer list in the fiscal year ended March 31, 2013. The carrying amount of the customer list amounted to T€101,432 and T€137,494 as of March 31, 2013 and March 31, 2012, respectively. The amortization of the customer list totaled T€36,061 and T€70,592 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively.

The reduction in amortization in the fiscal year ended March 31, 2013 compared to the prior year is primarily due to the fact that the useful life of the original customer list related to the acquisition of the Group in March 2003 expired in September 2011, for which amortization in the amount of T€35,496 incurred in the prior year. To a minor degree, an opposing impact results from increased amortization due to the reduction in the useful life of the Internet and Phone Business customer list from 8.5 years to 6.5 years (see section 2.16.2 subsection Useful Life of Certain Assets). In comparison with the prior year, the amortization of the customer list in the Internet and Phone area existing at the time of the change of the useful life increased by T€1,258 in the fiscal year ended March 31, 2013.

The remaining useful life of the customer list resulting from the various network acquisitions and acquisitions is between 0.1 and 6.7 years.

### Goodwill

For the fiscal year ended March 31, 2013 the Group recorded no changes in goodwill due to acquisitions. The goodwill recognized totaled T€287,274 as of March 31, 2013 and March 31, 2012.

For further information relating to intangible assets, reference is made to analysis of fixed assets in Appendix 1 and Appendix 2 to the Notes.

## 3.7 PROPERTY AND EQUIPMENT

Property and equipment is primarily composed of network and IT assets, CPE as well as parts of the network infrastructure used under finance lease agreements. The Group's total property and equipment amounted to T€1,308,864 and T€1,198,018 as of March 31, 2013 and March 31, 2012, respectively. This sum primarily comprises technical and IT equipment related to cable networks including data centers, IP and IT platforms and CPE totaling T€1,259,148 (prior year: T€1,155,692) and includes additions in the amount of T€363,970 (prior year: T€301,180).

Included in the above mentioned paragraph are the following items:

### Level 3 Cable Networks

The depreciation amounted to T€23,327 and T€46,421 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively. Due to the change in useful life of the capitalized Level 3 cable networks existing at the time of the change the current fiscal year's annual depreciation decreased by T€24,611 compared to the prior year (see also section 2.16.2 subsection Useful Life of Certain Assets).

### Operating Lease for CPE

In the fiscal year ended March 31, 2012, the useful life of smartcards was adjusted from 5 to 3 years (see also section 2.16.2 subsection Useful Life of Certain Assets). At the time of transition, the immediate depreciation of smartcards which were already older than 3 years at the time of the change in useful life in August 2011 resulted in a one-time additional expense of T€1,785. As a result of this one-time effect in the prior year, depreciation for the fiscal year ended March 31, 2013 declined by T€879 compared to the previous year. Disregarding this one-time effect, depreciation for the fiscal year ended March 31, 2013 increased by T€906 as a result of the change in useful life.

As of March 31, 2013 and March 31, 2012, the net carrying amount of total CPE (modems, set-top boxes, DVRs and smartcards) amounted to T€145,200 and T€119,697, respectively. CPE is presented in the analysis of fixed assets as part of technical equipment.

The future minimum lease payments under non-cancelable operating lease agreements for CPE are as follows:

| Minimum lease payment in T€ | as of March 31, 2013 | 2012 |
|---|---|---|
| Within one year | 27,510 | 25,188 |
| After one year but not more than five years | 5,347 | 5,989 |
| After five years | 0 | 0 |
| **Total minimum lease payment** | **32,857** | **31,177** |

KDH is exposed to costs of returning CPE at the end of the lease term. For the fiscal years ended March 31, 2013 and March 31, 2012, additions of T€2,368 and T€1,948, respectively, were capitalized for CPE obligations. In the fiscal years ended March 31, 2013 and March 31, 2012, T€1,784 and T€1,493, respectively, were expensed as depreciation for capitalized CPE obligations.

## Finance Lease

The Group has capitalized various finance lease contracts with different terms as buildings on non-owned land and technical equipment for Level 2, 3 and 4 networks.

As of March 31, 2013 and March 31, 2012, the net carrying amount of the leased assets totaled T€11,096 and T€10,173, respectively. Additions in the amount of T€1,437 for technical rooms (buildings on non-owned land) and T€667 for Level 4 residential distribution networks (technical equipment) were recorded due to new finance lease contracts.

In the fiscal years ended March 31, 2013 and March 31, 2012, the Group recorded depreciation expenses of T€1,181 and T€7,487, respectively. The reason for the strong reduction in annual depreciation is the transition of signal transmission from transponders to a direct feed through fiber optic backbones. In February 2012, KDH's transponders for signal distribution were switched off. The lease contracts for transponders of the Level 2 networks expired in April 2012.

The Group also recorded interest expense related to these finance lease contracts of T€1,845 and T€1,479 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively, and ancillary costs of T€36 and T€1,517 through profit or loss. The Group paid T€2,225 and T€10,674, respectively, to reduce the financial liabilities.

Future minimum lease payments under finance lease contracts as well as the present value of the net minimum lease payments are as follows:

| | Minimum lease payment | Present value of payments | Minimum lease payment | Present value of payments |
|---|---|---|---|---|
| in T€ | 2013 | | 2012 | |
| Within one year | 2,709 | 900 | 3,261 | 1,454 |
| After one year but not more than five years | 10,334 | 4,482 | 9,488 | 3,291 |
| After five years | 9,052 | 6,029 | 10,906 | 6,786 |
| **Total minimum lease payment** | **22,094** | **11,411** | **23,655** | **11,531** |
| Less future interest expenses from finance leases | 10,683 | | 12,124 | |
| **Present value of minimum lease payment** | **11,411** | | **11,531** | |

## Asset Retirement Obligations included in Property and Equipment

KDH leases cable ducts predominantly from DTAG to house parts of KDH's cable network. Related to these leases, KDH is subject to contractual asset retirement obligations for these parts of its cable network. The original costs were estimated at T€17,477 and were recognized as provisions as of April 1, 2003 in connection with the transfer of the cable business from DTAG with a corresponding increase in the related assets. Further additions related to new asset retirement obligations were recognized subsequently and were T€6,217 and T€289 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively. This includes effects from interest rate and inflation adjustments of T€5,487 and T€-321, respectively. Depreciation is expensed over the expected useful life of the respective assets which resulted in a depreciation expense of T€4,125 and T€1,722 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively.

For further information relating to property and equipment, reference is made to the analysis of fixed assets in Appendix 1 and Appendix 2 to the Notes.

## 3.8 EQUITY INVESTMENTS IN ASSOCIATES

The carrying amount of equity investments in associates is increased by the share of income attributable to the Group and reduced by dividends received. Net changes in investments in associates amounted to T€-406 and T€-5,046 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively, and reflect KDH's share of income of the two associates Kabelfernsehen München Servicenter GmbH & Co. KG ("KMS KG") and Kabelfernsehen München Servicenter GmbH as well as a profit distribution of T€2,750 received by KDH from KMS KG in the fiscal year ended March 31, 2013 for the year 2010 and T€6,673 for the years 2004 – 2009 in the fiscal year ended March 31, 2012. These distributions were accounted for as a reduction in the carrying amount of equity investments in associates. The fiscal year of all associates is the period from January 1 to December 31. As of KDH's balance sheet date, the current financial statements for associates are not available and cannot be reliably estimated. Therefore, the amounts disclosed in the following table are for the associate's fiscal years ended December 31, 2011 and December 31, 2010, respectively.

| Combined balance sheets of both associates | Financial Statements of the associates as of December 31, | |
|---|---|---|
| in T€ | 2011 | 2010 |
| Assets | 92,902 | 87,100 |
| Liabilities | 64,116 | 43,500 |

| Combined revenues and profit of both associates | For the fiscal year of the associates from January 1 - December 31, | |
|---|---|---|
| in T€ | 2011 | 2010 |
| Revenues | 50,258 | 47,877 |
| Profit | 12,066 | 11,639 |

For further information relating to financial assets, reference is made to the analysis of fixed assets in Appendix 1 and Appendix 2 to the Notes.

## 3.9 OTHER NON-CURRENT FINANCIAL ASSETS AND NON-CURRENT PREPAID EXPENSES

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Other non-current financial assets | | |
| Fair value derivatives | 7,023 | 7,793 |
| **Other non-current financial assets** | **7,023** | **7,793** |
| Non-current prepaid expenses | | |
| Lease payments for cable networks | 30,469 | 32,347 |
| Prepaid expenses for CPE | 332 | 0 |
| Other | 1,223 | 267 |
| **Non-current prepaid expenses** | **32,024** | **32,614** |

Other non-current financial assets are comprised of financial assets in accordance with IAS 32 in form of the non-current portion of the fair value of the derivative in the amount of T€7,023 and T€7,793 as of March 31, 2013 and March 31, 2012, respectively. The Group will receive cash at a later point in time from other non-current financial assets in accordance with IAS 32.

## 3.10 OTHER CURRENT LIABILITIES

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Liabilities for personnel expenses | 43,047 | 39,671 |
| Liabilities to silent and limited partners | 21,590 | 21,291 |
| Value added tax and wage tax liabilities | 13,871 | 13,810 |
| Finance lease liabilities | 900 | 1,454 |
| Debtors with credit balances | 746 | 738 |
| Miscellaneous other liabilities | 13,579 | 11,941 |
| **Other current liabilities** | **93,734** | **88,905** |

Liabilities for personnel expenses include primarily liabilities from variable compensation components, commissions, holiday entitlement not yet taken as well as additional gratifications not yet paid. Liabilities for personnel expenses are accounted for at amortized cost.

Liabilities to silent and limited partners are accounted for at amortized cost and also include – besides liabilities to the silent partners of KABELCOM Braunschweig Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung ("KCB") and KABELCOM Wolfsburg Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung ("KCW") as well as liabilities to non-controlling interests in "Urbana Teleunion" Rostock GmbH & Co. KG – interest payments attributable to the silent and limited partners.

Other current liabilities are comprised of financial liabilities in accordance with IAS 32 primarily in form of liabilities to silent and limited partners, debtors with a credit balance as well as the current portion of finance lease liabilities in the amount of T€26,456 and T€23,919 as of March 31, 2013 and March 31, 2012, respectively. Cash will flow out from the Group at a later point in time from these other current financial liabilities.

## 3.11 DEFERRED INCOME

Deferred income primarily consists of customer prepayments on a quarterly, semi-annual or annual basis.

## 3.12 FINANCIAL LIABILITIES (CURRENT AND NON-CURRENT) AND SENIOR NOTES

### 3.12.1 Current Financial Liabilities

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Accrued interest related to | | |
| Senior Credit Facility | 22,292 | 16,845 |
| 2018 Senior Secured Notes | 7,583 | 5,417 |
| Derivatives | 5,922 | 5,660 |
| 2017 Senior Notes | 4,333 | - |
| **Current financial liabilities** | **40,130** | **27,921** |

On June 21, 2012, KDH AG issued new Senior Notes ("2017 Senior Notes") in the amount of T€400,000 with a coupon of 6.5% for which T€4,333 interest has been accrued (payable on January 31 and July 31 of each year beginning on January 31, 2013) (see also section "2017 Senior Notes" under 3.12.2).

On July 31, 2012, KDVS GmbH increased the 2018 Senior Secured Notes issued on June 17, 2011 and due on June 29, 2018, by a notional amount of T€200,000 with a coupon of 6.5% at an issue price of 106.75%. For all outstanding 2018 Senior Secured Notes in the notional amount of T€700,000, interest liabilities were accrued in the amount of T€7,583 and T€5,417 as of March 31, 2013 and March 31, 2012, respectively (payable on January 31 and July 31 of each year) (see also section "2018 Senior Secured Notes" under 3.12.2).

In the fiscal year ended March 31, 2013, interest and currency hedges in connection with various tranches of the Senior Credit Facility existed. Some of these are designated as hedging relationships. Derivatives are measured at fair value and recognized in accordance with their maturities either as short-term or as long-term financial assets or liabilities (see also sections 3.12.2 and 5.6).

Included in current liabilities for derivatives are T€1,769 in connection with the current portion of the remaining carrying amount of the option price for the purchased interest rate floors (see also section 3.12.2).

## 3.12.2 Non-current Financial Liabilities

As of March 31, 2013, non-current financial liabilities consisted of the Senior Credit Facility, the new 2017 Senior Notes issued in June 2012 and the 2018 Senior Secured Notes, which were increased by T€200,000 to T€700,000 in July 2012, including the derivatives designated as a hedge to the Senior Credit Facility and derivatives entered into and not designated as a hedge relationship, which developed as follows:

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Senior Credit Facility | 2,261,952 | 2,315,327 |
| 2018 Senior Secured Notes | 706,669 | 496,419 |
| 2017 Senior Notes | 395,744 | - |
| Derivatives | 18,754 | 20,107 |
| **Non-current financial liabilities** | **3,383,119** | **2,831,854** |

Of the nominal amounts recognized in non-current financial liabilities as of March 31, 2013, about 60% (prior year: 50%) are not exposed to any interest rate risk in relation to the term of the non-current financial liabilities or hedging instruments.

### Senior Credit Facility

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Senior Credit Facility Tranche B | 0 | 0 |
| Senior Credit Facility Tranche C | - | 71,319 |
| Senior Credit Facility Tranche D | 400,000 | 400,000 |
| Senior Credit Facility Tranche E | 500,000 | 500,000 |
| Senior Credit Facility Tranche F1 [1)] | 570,452 | 570,452 |
| Senior Credit Facility Tranche G | 781,988 | 781,988 |
| Senior Credit Facility (nominal amounts) [1)] | 2,252,440 | 2,323,758 |
| Accrued financing and transaction costs | (29,443) | (39,748) |
| Embedded Derivative | (12,821) | (14,703) |
| Interest Hedge | 45,531 | 34,892 |
| Currency Hedge | (8,464) | 19,277 |
| Foreign exchange rate effect | 14,709 | (8,148) |
| **Senior Credit Facility, net of financing and transaction costs** | **2,261,952** | **2,315,327** |

1) The Senior Credit Facility Tranche F is nominally TUS$750,000 and was converted with the hedged currency rate of 1.3147 US$/€ up to January 31, 2017; therefore, the converted amount in Euro is shown.

On May 12, 2006, KDVS entered into a Senior Credit Facility Agreement. This agreement was composed of two facilities, a fully drawn T€1,150,000 Term Loan ("Tranche A") and a T€200,000 revolving credit facility ("Tranche B"). According to the original agreement, Tranche A and Tranche B matured on March 31, 2012. On July 19, 2007, KDVS amended the Senior Credit Facility and increased Tranche B under the same terms and conditions to T€325,000. The Senior Credit Facility is secured by all material assets of KDVS GmbH and a first priority pledge on 100% of the shares of KDVS GmbH held by KDH AG.

The revolving credit facility ("Tranche B") may be borrowed, repaid and reborrowed up until one month prior to the final maturity date. Borrowings under Tranche B may be used for general corporate purposes. As of March 31, 2013 and March 31, 2012, €0 was drawn under Tranche B.

On October 22, 2007, KDVS signed a T€650,000 Senior Add-on Facility ("Tranche C"), which ranks pari passu with Tranches A and Tranche B. Proceeds in the amount of T€535,000 from the Senior Add-on Facility Tranche C have been drawn at April 30, 2008. On May 9, 2008, the Tranche C commitment was reduced to the amount drawn of T€535,000. The variable interest rate of Tranche C totals 3.25% above EURIBOR. Tranche C was originally scheduled to mature in March 2013.

On February 1, 2010 and December 3, 2010, the Group effectively reached agreements on several amendments to its Senior Credit Facility with 97.4% and 97.0% of the lenders consenting to the requested amendments, respectively.

As part of these two amendment processes, 88% of the original Tranche A lenders, 69% of the original Tranche B lenders and 92% of the original Tranche C lenders agreed to an extension of their existing Tranches A, B and C commitments. Accordingly, after the amendment processes, T€988,250 of Tranche A, T€224,030 of Tranche B and T€496,543 of Tranche C were available to the Group until maturity on March 31, 2014 in return for an increased interest margin.

On August 31, 2010, KDVS paid back T€25,000 of Tranche A of the Senior Credit Facility. Financing and transaction costs relating to the prepayment were recorded as interest expense and amounted to T€477.

On December 10, 2010, KDVS executed a T€400,000 Senior Add-on Facility ("Tranche D") with a final maturity of December 2016, ranking pari passu with existing outstandings under the Group's Senior Credit Facility. The floating rate loan was issued at EURIBOR plus 4.0% at an issue price of 99.75%. All financing and transaction costs were capitalized and deducted from the loan amount in accordance with IAS 39. The draw down date for Term Loan Tranche D was January 4, 2011. Proceeds were used to retire a portion of the Group's Senior Notes (Euro Senior Notes and US Dollar Senior Notes, together the "2014 Senior Notes").

On May 30, 2011, the Group reached an agreement with the lenders on an amendment to allow for a temporary step-up of the Senior Net Debt to EBITDA covenant (Senior Leverage Covenant) from less than 3.5:1 to less than 4.25:1 beginning June 30, 2011, and returning successively to the original level of less than 3.5:1 by December 31, 2012. The amendment increased the headroom under the Group's Senior Leverage Covenant and therewith improved its flexibility to issue new senior secured debt.

On June 6, 2011, KDVS executed a T€500,000 Senior Add-on Facility ("Tranche E") with a final maturity of June 2018, ranking pari passu with existing outstandings under the Group's Senior Credit Facility. The floating rate loan was issued at EURIBOR plus 3.25% at an issue price of 100.00%. All financing and transaction costs were capitalized and deducted from the loan amount in accordance with IAS 39. The draw down date for Term Loan Tranche E was June 28, 2011. The proceeds from Term Loan Tranche E, together with the proceeds from the newly issued 2018 Senior Secured Notes in the amount of T€500,000, were used to repay all the aggregate of the remaining PIK Loan, the drawings under the revolving credit facility Tranche B and T€250,000 of Term Loan Tranche A. Accelerated amortization of financing and transaction costs related to the partial repayment of T€250,000 of Tranche A was recorded as interest expense and amounted to T€3,756.

On June 15, 2011, the Group also extended the maturity of T€100,000 of its revolving credit facility Tranche B, which would have matured in March 2012, to June 2015. This Tranche ("B2") has been available since March 31, 2012 and will expire on June 30, 2015.

On January 20, 2012, KDVS GmbH executed a new TUS$750,000 Senior Add-on Facility ("Tranche F") with a final maturity in February 2019, ranking pari passu with existing outstandings under the Group's Senior Credit Facility. The floating rate loan was issued at US$-LIBOR plus 3.25% at an issue price of 100%. The permissible minimum LIBOR was set to 1.00%, resulting in a minimum interest rate of 4.25%. All financing and transaction costs were capitalized and deducted from the loan amount in accordance with IAS 39. Tranche F was drawn down on February 3, 2012. On February 9, 2012, the proceeds were used for early repayment of T€385,999 of Term Loan Tranche A and T€170,694 of Term Loan Tranche C. Financing and transaction costs relating to the repayment were recorded as interest expense and amounted to T€6,416.

In the period from January 23 to February 1, 2012, KDVS GmbH made an offer to the existing lenders of Tranches A and C to invest in a successor loan facility ("Tranche G"), thereby extending the term of their existing commitment by three years until March 2017. The commitments for this future facility became effective on February 10, 2012. Tranche G is a new pari passu Senior Add-on Facility of KDVS GmbH in the amount of T€781,988 (thereof T€489,001 from existing Tranche A lenders and T€292,987 from existing Tranche C lenders, transferred to Tranche G when the commitments took effect). The proceeds from the former Tranches A and C, now already reported as Tranche G, are already available to KDVS GmbH, and will be formally converted into this tranche effective March 31, 2014. Tranche G matures in March 2017. The variable interest rate of Tranche G in total as of March 31, 2013 is EURIBOR plus 3.5%.

In February 2012, as part of the debt restructuring, the Group also extended the maturity of T€140,400 of the revolving credit facility Tranche B, which would have matured in March 2014, until March 2017. This Tranche ("B3") becomes available on March 31, 2014 and will expire on March 31, 2017. The commitments for this facility became effective on January 20, 2012. The proceeds from the former Tranche B, already reported as Tranche B3, are already available to KDVS GmbH and will be formally converted into this tranche effective March 31, 2014.

In February 2013, with the consent of the lenders, the Group agreed an amendment to the terms of Tranche F ("Tranche F1"). Effective February 6, 2013 Tranche F1 bears interest of 2.75% above the US$-LIBOR. It was also stipulated that upon reaching a rating of BB and Ba2 from the rating agencies Standard & Poor's and Moody's, the interest margin will be decreased again by 0.25% to 2.50% above the US$-LIBOR. The permissible minimum LIBOR was set at 0.75% as of February 6, 2013. The rating was first reached in March 2013, so that with effect from March 18, 2013, the minimum interest rate is 3.25%.

On February 28, 2013, KDVS GmbH paid back T€71,319 of Tranche C of the Senior Credit Facility using available liquidity. Financing and transaction costs relating to the repayment were recorded as interest expense and amounted to T€788.

In addition, in April and May 2013 the Group also undertook other refinancing measures, including the transfer of the main portion of former Tranches D and G to Tranche H as well as of Tranche E in Tranche E1. For further information, please refer to section 5.8 "Particular Events after the Balance Sheet Date".

The following table shows the composition and the maturities of the Senior Credit Facility as of March 31, 2013:

| Senior Credit Facility | Notional amount in T€ | Margin | Commitment Fee | Maturity |
|---|---|---|---|---|
| **Tranche B (revolving credit facility)** [1] [4] | | | | |
| Tranche B1 | 83,630 | 3.50% | 1.40% | March 2014 |
| Tranche B2 | 100,000 | 3.25% | 1.30% | June 2015 |
| Tranche B3 | 140,400 | 3.50% | 1.40% | March 2017 |
| **Total Tranche B** | **324,030** | | | |
| **Tranche D** [6] | 400,000 | 4.00% | | December 2016 |
| **Total Tranche D** | **400,000** | | | |
| **Tranche E** [6] | 500,000 | 3.25% | | June 2018 |
| **Total Tranche E** | **500,000** | | | |
| **Tranche F1** [2] | 570,452 | 2.50% | | February 2019 |
| **Total Tranche F1** | **570,452** | | | |
| **Tranche G** [3] [5] | 781,988 | 3.50% | | March 2017 |
| **Total Tranche G** | **781,988** | | | |

1) Amount drawn as of the balance sheet date March 31, 2013 €0.

2) The Senior Credit Facility Tranche F1 is nominally TUS$750,000 and was converted with the hedged currency rate of 1.3147 US$/€ up to January 31, 2017; therefore, the converted amount in Euro is shown.

3) Extended portion from existing Tranche A and Tranche C lenders.

4) On April 19, 2013, a new revolving credit Tranche B4 was entered into, which will be available in March 2014, and runs until March 2019. The transaction limit starts with €84.6 million and rises gradually at maturity of the Tranche B2 in June 2015 to €159.6 million and at maturity of the Tranche B3 in March 2017 to €270.0 million. The margin is 2.75% above the 1-month-EURIBOR. A commitment fee of 1.10% p.a. is to be paid on undrawn amounts from March 2014.

5) Effective April 30, 2013, the previous Tranches D and G were extended until March 31, 2020 by a new Tranche H in the amount of €1,000 million. The non-extended portion of €182 million was reduced with existing liquidity at the same time. The margin is 2.75% above the 1-month-EURIBOR (see also section 5.8).

6) Effective Mai 14, 2013, the previous Tranche E was extended until June 2020 by Tranche E1 in an equal amount. The margin is 2.75% above the 1-month-EURIBOR (see also section 5.8).

Interest rates on Tranches B, D, E and G of the Senior Credit Facility can be based on one, two, three or six month EURIBOR as stipulated in the agreement, plus a variable margin. The future effective margin (margin including impact of commitment fees) is determined based on the ratio of consolidated senior net borrowings to consolidated EBITDA (as defined in the Senior Credit Facility Agreement). The margin for Tranches B, D, E and G is calculated as follows:

| Senior Credit Facility | Ratio of consolidated senior net borrowings to consolidated EBITDA (as defined in the Senior Credit Facility Agreement) | |
|---|---|---|
| Margin (in % p.a.) | Greater than 2:1 | Less than or equal 2:1 |
| **Tranche B (revolving credit facility)** | | |
| Tranche B1 | 3.500 | 3.250 |
| Tranche B2 | 3.250 | 3.000 |
| Tranche B3 | 3.500 | 3.250 |
| **Tranche D** | 4.000 | 3.750 |
| **Tranche E** | 3.250 | 3.000 |
| **Tranche G** [1)] | 3.500 | 3.250 |

[1)] Extended portion from existing Tranche A and Tranche C lenders

The Senior Credit Facility contains several affirmative and negative covenants. As part of the December 2010 amendment the consolidated senior net borrowings to consolidated EBITDA covenant (Senior Leverage Covenant) had been reset to 'less than 3.50:1' throughout the lifetime of the Senior Credit Facility. The current financial covenants include but are not limited to the following:

| Covenant Test | Requirement as of March 31, 2013 |
|---|---|
| Consolidated EBITDA to net interest expense | Greater than 3.00:1 |
| Consolidated senior net borrowings to consolidated EBITDA | Less than 3.50:1 |

As of March 31, 2013, the Group's ratio of EBITDA to net interest amounted to 7.98:1. The ratio of consolidated senior net borrowings to consolidated EBITDA amounted to 2.69:1.

In addition, the Senior Credit Facility contains certain negative covenants significantly restricting KDH's ability to, among other things:

- incur additional indebtedness;
- pay dividends or make other distributions;
- make certain other restricted payments and investments;
- create liens;
- pay dividends or make other payments via subsidiaries to KDH AG;
- transfer or sell assets;
- merge or consolidate with other entities; and
- enter into certain transactions with affiliates.

In the following circumstances, mandatory prepayments are due on borrowings under the Senior Credit Facility: (i) in full, upon a change of control (generally triggered if a person or group obtains control over more than 30% of the Company's total voting rights) or upon the sale of all significant assets of the Group, (ii) in part from the receipt of proceeds from specific third parties, particularly in connection with the sale of assets.

There is no amount drawn under Tranche B as of March 31, 2013. T€400,000 was outstanding under Tranche D at a hedged interest rate of 6.07%. Furthermore, T€500,000 under Tranche E at a hedged interest rate of 5.69%, T€570,452 under Tranche F1 at an interest rate of 3.43% (based on an average EURIBOR of 0.21%) as well as T€781,988 under Tranche G at an interest rate of 3.62% (based on an average EURIBOR of 0.21%) were drawn as of March 31, 2013. The average interest rate applying to all financing, including the 2017 Senior Notes and the 2018 Senior Secured Notes, which have been increased by T€200,000, was 5.16% as of March 31, 2013 (prior year: 5.04%).

## Senior Notes

| in T€ | Fiscal Year ended March 31, 2013 | March 31, 2012 |
|---|---|---|
| 2018 Senior Secured Notes | 700,000 | 500,000 |
| Agio due to the increase of the 2018 Senior Secured Notes | 12,077 | - |
| Accrued financing and transaction costs | (5,408) | (3,581) |
| **2018 Senior Secured Notes** | 706,669 | 496,419 |
| 2017 Senior Notes | 400,000 | - |
| Accrued financing and transaction costs | (4,256) | - |
| **2017 Senior Notes** | 395,744 | - |
| **Senior Notes** | **1,102,413** | **496,419** |

## 2018 Senior Secured Notes

On June 17, 2011, Kabel Deutschland Vertrieb und Service GmbH & Co. KG (now KDVS GmbH since the Merger) issued T€500,000 of 6.5% 2018 Senior Secured Notes due in 2018 at par. All financing and transaction costs were capitalized and deducted from the nominal value of the 2018 Senior Secured Notes in accordance with IAS 39. The 2018 Senior Secured Notes rank pari passu with the loans outstanding under the Senior Credit Facility and share the same securities. The proceeds from the Notes, together with the proceeds from the T€500,000 Term Loan Tranche E, were used to repay all of the remaining PIK Loan, the drawings under the revolving credit facility Tranche B and a portion of Term Loan Tranche A under the Senior Credit Facility.

On July 31, 2012, KDVS GmbH increased the principal of the 2018 Senior Secured Notes due on June 29, 2018 by a nominal amount of T€200,000 with coupon of 6.5% at an issue price of 106.75%, generating cash proceeds of T€213,500. All financing and transaction costs were capitalized and deducted from the nominal value of the 2018 Senior Secured Notes in accordance with IAS 39. KDVS GmbH intended to use the funds received for the acquisition of the Tele Columbus Group. Since the acquisition of the Tele Columbus Group could not be completed, the funds may be used now for general corporate purposes.

The notional amount of the 2018 Senior Secured Notes outstanding as of March 31, 2013 was T€700,000.

Their interest is payable on January 31 and July 31 of each year, beginning on January 31, 2012. They contain several covenants limiting, among other things, the ability of KDH to:

- incur additional indebtedness;
- pay dividends or make other distributions;
- make certain other restricted payments and investments;
- create liens;
- pay dividends or make other payments via subsidiaries to KDH AG;
- transfer, lease or sell assets;
- merge or consolidate with other entities;
- enter into certain transactions with affiliates; and
- impair the security interests of the holders of the Notes.

Under the Senior Secured Notes indenture, the amount of restricted payments (including dividends) that can be made by KDVS GmbH to KDH AG is, subject to certain adjustments and exceptions, limited in a way that the ratio of consolidated senior net borrowings to consolidated EBITDA on the date of any such restricted payment, after giving pro forma effect to such restricted payment, is not allowed to exceed 4.00:1.

Each of the covenants is subject to a number of important exceptions and qualifications.

At any time prior to June 30, 2014, the Group may redeem all or part of the 2018 Senior Secured Notes at a redemption price equal to the principal amount thereof plus accrued and unpaid interest plus a "make whole" premium. At any time thereafter the 2018 Senior Secured Notes may be redeemed at the following prices (as a percentage of the nominal value):

- on and after June 30, 2014: 103.250%;
- on and after June 30, 2015: 101.625%;
- on and after June 30, 2016: 100.000%.

Upon the incurrence of a change of control (which is defined in the indenture governing the 2018 Senior Secured Notes), subject to certain exceptions, each holder of the 2018 Senior Secured Notes has the right to require the issuer to repurchase such holder's 2018 Senior Secured Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date.

In addition, in the case of certain asset dispositions (which is defined in the indenture governing the 2018 Senior Secured Notes), subject to certain exceptions, each holder of the 2018 Senior Secured Notes has the right to require the issuer to repurchase such holder's 2018 Senior Secured Notes with the net available cash from such dispositions at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date.

The indenture governing the 2018 Senior Secured Notes provides for events of defaults which, if any occurs, would permit or require the principal amount of and accrued interest on the 2018 Senior Secured Notes to become or to be declared due and payable.

## 2017 Senior Notes

On June 21, 2012, KDH AG issued T€400,000 of 6.5% 2017 Senior Notes due on July 31, 2017 at par. All financing and transaction costs were capitalized and deducted from the nominal value of the 2017 Senior Notes in accordance with IAS 39. The 2017 Senior Notes are unsecured. The principal amount of the 2017 Senior Notes outstanding as of March 31, 2013 was T€400,000.

Their interest is payable on January 31 and July 31 of each year, beginning on January 31, 2013. They contain several covenants limiting, among other things, the ability of KDH AG to:

- incur additional indebtedness;
- pay dividends or make other distributions;
- make certain other restricted payments and investments;
- create liens;
- transfer, lease or sell assets;
- merge or consolidate with other entities;
- enter into unrelated sectors and undertake prohibited business activities; and
- enter into certain transactions with affiliates.

Under the Senior Notes indenture, the amount of restricted payments (including dividends) that can be made by KDH AG is, subject to certain adjustments and exceptions, limited in a way that the ratio of consolidated outstanding indebtedness less cash and cash equivalents to consolidated EBITDA on the date of any such restricted payment, after giving pro forma effect to such restricted payment, is not allowed to exceed 4.75:1.

Each of the covenants is subject to a number of important exceptions and qualifications.

At any time prior to June 30, 2014, the Group may redeem all or part of the 2017 Senior Notes at a redemption price equal to the principal amount thereof plus accrued and unpaid interest plus a "make whole" premium. At any time thereafter the 2017 Senior Notes may be redeemed at the following prices (as a percentage of the nominal value):

- on and after June 30, 2014: 104.875%;
- on and after June 30, 2015: 103.250%;
- on and after June 30, 2016: 101.625%;
- on and after January 31, 2017: 100.000%.

Upon the incurrence of a change of control (which is defined in the indenture governing the 2017 Senior Notes), subject to certain exceptions, each holder of the 2017 Senior Notes has the right to require the issuer to repurchase such holder's 2017 Senior Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date.

In addition, in the case of certain asset dispositions (which is defined in the indenture governing the 2017 Senior Notes), subject to certain exceptions, each holder of the 2017 Senior Notes has the right to require the issuer to repurchase such holder's 2017 Senior Notes with the net available cash from such dispositions at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date.

The indenture governing the 2017 Senior Notes provides for events of defaults which, if any occurs, would permit or require the principal amount of and accrued interest on the 2017 Senior Notes to become or to be declared due and payable.

KDVS GmbH intended to use the funds received for the acquisition of the Tele Columbus Group. Since the acquisition of the Tele Columbus Group could not be completed, the funds may be used now for general corporate purposes.

## Bridge Credit Agreement for the Acquisition of the Tele Columbus Group

The unsecured bridge loan (Bridge Credit Agreement) of up to T€600,000, which was granted by three banks to KDH AG on April 30, 2012 but never drawn down, was subsequently substituted in full by July 31, 2012 by the T€400,000 issue of the 2017 Senior Notes and the T€200,000 increase in the 2018 Senior Secured Notes. This bridge loan has not been available since that time.

## Derivatives

The Group has borrowed in US Dollars and Euros (mainly using secured bonds and bank loans) and is therefore exposed to interest rate and currency risk. In addition to the risk of changes in the interest rate of the variable rate tranches of the Senior Credit Facility, currency risk is associated with the Tranche F1 of the Senior Credit Facility which is denominated in US Dollars.

These market risks could adversely affect the financial position and results of operations of the Group. KDH manages its exposure to these market risks through its operating and financing activities and, when deemed appropriate or required by other agreements, through hedging strategies that utilize derivative financial instruments. A primary objective of the company is to avoid or reduce risks. Currency swaps are used to reduce currency risk, for example, and interest rate swaps and floors are used to reduce the risk of fluctuations in interest rate payments. Derivative financial instruments are only used to hedge existing or planned transactions. The Group does not engage in trading with derivative financial instruments.

The 2018 Senior Secured Notes with a nominal value of T€700,000 as well as the 2017 Senior Notes with a nominal value of T€400,000 are the only financial instruments of KDH that bear a fixed rate of interest and are subject to interest rate-related market value risk. The Senior Credit Facility has a nominal value of T€2,252,440, bears a variable rate of interest and is exposed to interest rate-related cash flow risk. Of this amount, Tranche F1 in the amount of T€570,452 is also exposed to currency risk. As of March 31, 2013 and March 31, 2012, respectively, the corresponding US Dollar nominal amount was TUS$750,000.

Risks were initially hedged by way of naturally closed positions in which the values or the cash flows of primary financial instruments were matched in terms of maturity and amounts. Any residual risks were mitigated by way of conventional derivative financial instruments, if deemed necessary.

The interest rate and currency swaps entered into were accounted as cash flow hedges as of March 31, 2013. Changes in the fair value of the interest and currency swaps were initially recognized directly under the cash flow hedge reserve in equity. If parts of the hedged transactions affected profit or loss for the year, the corresponding portion of changes in fair value of the hedge in the cash flow hedge reserve was recognized through profit or loss. The cumulative amount would have been recognized through profit or loss if the hedged transaction had been judged to be ineffective.

To hedge against fluctuations in future interest payments under various tranches of the Senior Credit Facility for which interest payments based on variable rates were agreed, and to hedge against currency risk arising from Tranche F1 of the Senior Credit Facility, the Group has entered into currency swaps, interest swaps and interest floor options with various banks during the fiscal year ended March 31, 2012.

As of March 31, 2013 and March 31, 2012, respectively, the following open interest swaps designated as cash flow hedges for interest rate risks as well as the following currency swaps designated as cash flow hedges for changes in the EUR/US$ exchange rate were in place:

| Type of Derivative | Number of Derivatives | Notional Amount | Fair Value (Net Asset) / Net Liability March 31, 2013 T€ | Fair Value (Net Asset) / Net Liability March 31, 2012 T€ |
|---|---|---|---|---|
| Interest Rate Swaps | 9 | T€900,000 | 66,620 | 49,925 |
| Currency Swaps | 5 | TUS$750,000 | (8,464) | 19,277 |

These derivative financial instruments were all entered into with different, leading global investment and commercial banks in order to mitigate as much as possible any potential credit risk.

With these interest swap agreements the variable portion (EURIBOR) of the interest rate on the Group's T€400,000 Senior Credit Facility Tranche D was effectively exchanged for a fixed interest rate of 2.07% from August 31, 2011 until December 31, 2016. Including the margin of 4.00%, the effective all-in rate for Tranche D is 6.07%.

In addition, the variable portion (EURIBOR) of the interest rate on the Group's T€500,000 Senior Credit Facility Tranche E was effectively exchanged for a fixed interest rate of 2.44% over six years from July 29, 2011 until June 30, 2017. Including the margin of 3.25%, the effective all-in rate for Tranche E is 5.69%.

To hedge against currency exchange risks associated with the US$-Tranche F, currency swaps were entered into in February 2012 for a term of five years (from February 3, 2012 until January 31, 2017). These will cover both the variable interest payments in US Dollars and the redemption amount of the nominal value. The hedged US$/EUR exchange rate is US$/EUR 1.3147. The US$-LIBOR plus 3.25% variable rate was originally exchanged for EURIBOR plus 3.30% during this period. In February and March 2013, the contracts for these currency swaps were adjusted to the lower margin of the Senior Credit Facility F. The US$-LIBOR plus 2.50% variable rate has been exchanged for EURIBOR plus 2.58% since March 18, 2013.

In addition, the original minimum LIBOR of 1.00% stipulated in Tranche F was effectively eliminated by the purchase of an interest floor for five years. Premiums for that interest floor are paid in equal monthly installments over the term and originally increased the interest margin in relation to the nominal value in Euros (T€570,452) by 0.58%, so that the effective hedged interest rate of Tranche F adjusted for the interest floor was EURIBOR plus 3.88%. With effect from February 6, 2013, these interest floors were adjusted due to the effective reduction of the minimum LIBOR rate to 0.75% on Tranche F1 at that time. This reduced the premiums for the remaining monthly installments and now increases the interest margin in relation to the nominal value in Euros (T€570,452) by just 0.40%, so that the effective hedged interest rate of Tranche F1 adjusted for the interest floor is EURIBOR plus 2.98%. This interest floor is not designated as a part of a hedging relationship and is therefore accounted for as a standalone derivative.

As a result of the derivative financial instruments described, the interest rate risk is hedged for about 40% of the notional amount outstanding under the Senior Credit Facility as of March 31, 2013. In addition, 100% of the risk relating to the principal amount of Tranche F1 resulting from variances in the exchange rate is also hedged.

The following tables show a breakdown of the present value of the future short-term and long-term cash flows for the interest and currency swaps, based on the contractually agreed schedule for expected cash flows:

| Type of Derivative | Current March 31, 2013 T€ | Non-current March 31, 2013 T€ | Total March 31, 2013 T€ |
|---|---|---|---|
| Interest Rate Swaps | 21,089 | 45,531 | 66,620 |
| Currency Swaps | 0 | (8,464) | (8,464) |

| Type of Derivative | Current March 31, 2012 T€ | Non-current March 31, 2012 T€ | Total March 31, 2012 T€ |
|---|---|---|---|
| Interest Rate Swaps | 15,033 | 34,892 | 49,925 |
| Currency Swaps | 0 | 19,277 | 19,277 |

Both types of hedge relationships are fully effective as of March 31, 2013 and March 31, 2012 according to IAS 39, both retrospectively since initial designation as well as prospectively. Therefore, the unrealized gains and losses from the effective portion of the changes in fair value of the hedge instruments are recognized in equity as part of the cash flow hedge reserve since the designation. The direct effects from the hedge instrument currently recorded in the cash flow hedge reserve are reclassified to the statement of income in the period in which the hedged transaction affects the result for the period in the form of interest or currency expenses. Gains and losses from the ineffective portion of changes in the fair value of the derivative designated as a cash flow hedge are recognized directly through profit or loss. No hedge ineffectiveness had to be recognized by the Group through profit or loss for the fiscal years ended March 31, 2013 and March 31, 2012.

The following table shows the allocation of the present value or the fair value of the derivatives not designated as part of a hedging relationship recognized under non-current financial liabilities:

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Fair value embedded Derivative | 12,962 | 9,463 |
| Present value liability US$-LIBOR Floor-Options | 5,792 | 10,645 |
| **Derivatives** | **18,754** | **20,107** |

During the fiscal year ended March 31, 2013, the Group had four derivative financial instruments that were not designated in a hedging relationship for accounting purposes. The derivatives were all entered into or arose as a consequence of the arrangement and accounting of Tranche F of the Senior Credit Facility in the prior year.

Three of these derivatives, all of which were interest floor options based on the 1-month-LIBOR, with an original strike rate of 1.00% and a maturity date in 2017, were not designated in a hedging relationship and are used for economic hedging of the Group's risk from changes in interest rates arising from an interest floor embedded into Tranche F. These do not meet the requirements of IAS 39 for hedge accounting and therefore could not be designated by the Group in a hedging relationship for accounting purposes. These interest floors were entered into with three different, leading global investment and commercial banks in order to mitigate as much as possible any potential credit risk. As part of the amendment to the conditions of Tranche F, the conditions of the purchased interest floor options have been adapted to the newly set minimum LIBOR of 0.75%. The change in the fair value of the purchased interest floor options and the related liability was recognized directly in equity as of February 6, 2013. The present value of the option price was recognized as a liability. The liability is repaid in monthly installments of T€190, consisting of an interest portion and a principal portion, through March 31, 2017. The interest portion is recognized through profit or loss over the term. The remaining carrying amount as of March 31, 2013 of the non-current liability related to this option price is T€5,792. The change in the fair value of T€4,232 in the fiscal year ended March 31, 2013 in the current and non-current portions of the embedded derivative was recognized as an expense in the consolidated statement of income.

The embedded interest floor is presented as a floor written (sold) to the lenders of Tranche F1 of the Senior Credit Facility with a strike rate of 0.75% and a maturity date in 2019 identical to the tranche's maturity date. This written interest floor must be accounted for separately. Changes in fair value must be recognized directly in the consolidated statement of income as required by the relevant accounting standards.

The outstanding principal amounts and fair values of the interest rate hedging transactions not designated in hedging relationships as of March 31, 2013 and March 31, 2012, respectively, are shown in the following table:

| Type of Derivative | Number of Derivatives | Notional Amount | Fair Value (Net Asset) / Net Liability March 31, 2013 T€ | Fair Value (Net Asset) / Net Liability March 31, 2012 T€ |
|---|---|---|---|---|
| Embedded Interest Rate Floor (sold) | 1 | TUS$750,000 | 17,115 | 12,883 |
| Interest Rate Floors (purchased) | 3 | TUS$750,000 | (9,877) | (11,299) |

The following tables show a breakdown of the present value of the future short-term and long-term cash flows for the interest floors, based on the contractually agreed schedule for expected cash flows:

| Type of Derivative | Current March 31, 2013 T€ | Non-current March 31, 2013 T€ | Total March 31, 2013 T€ |
|---|---|---|---|
| Embedded Interest Rate Floor (sold) | 4,153 | 12,962 | 17,115 |
| Interest Rate Floors (purchased) | (2,854) | (7,023) | (9,877) |

| Type of Derivative | Current March 31, 2012 T€ | Non-current March 31, 2012 T€ | Total March 31, 2012 T€ |
|---|---|---|---|
| Embedded Interest Rate Floor (sold) | 3,420 | 9,463 | 12,883 |
| Interest Rate Floors (purchased) | (3,506) | (7,793) | (11,299) |

Changes in the fair value of the three interest floors entered into with financial institutions (including the associated interest payments and accruals) are recognized directly in the consolidated statement of income. They amounted to an income of T€1,766 for the current and non-current portion of the purchased interest floors in the fiscal year ended March 31, 2013 and to an expense of T€1,940 in the fiscal year ended March 31, 2012.

In connection with the transactions that were entered into as a hedge against interest rate and currency exchange risks arising from the Senior Credit Facility and which were designated in hedging relationships, changes in the effective portion of the fair value resulted in an amount of T€8,116 (prior year: T€43,032) deferred as a net loss in the cash flow hedge reserve within equity. The details regarding the changes are described in the following tables:

| | Interest Rate Swaps April 1, 2011 - March 31, 2012 T€ | Currency Swaps April 1, 2011 - March 31, 2012 T€ | Total April 1, 2011 - March 31, 2012 T€ |
|---|---|---|---|
| **Cash flow hedge reserve April 1, 2011** | **0** | **0** | **0** |
| Net loss deferred in Cash flow hedge reserve due to the effective portion of the change in the fair value of the derivatives | 56,626 | 19,268 | 75,894 |
| Reclasses from Cash flow hedge reserve to expense | | | |
| Related to hedges of the EURIBOR | (6,795) | | (6,795) |
| Related to hedges of the EUR/USD exchange rate for the notional amount of Tranche F | | (8,148) | (8,148) |
| Net amount of reclasses from Cash flow hedge reserve to expense | (6,795) | (8,148) | (14,943) |
| Deferred taxes recognized in equity | (14,650) | (3,269) | (17,919) |
| Net change of the Cash flow hedge reserve | 35,181 | 7,851 | 43,032 |
| **Cash flow hedge reserve March 31, 2012** | **35,181** | **7,851** | **43,032** |

| | Interest Rate Swaps April 1, 2012 - March 31, 2013 | Currency Swaps April 1, 2012 - March 31, 2013 | Total April 1, 2012 - March 31, 2013 |
|---|---|---|---|
| | T€ | T€ | T€ |
| **Cash flow hedge reserve April 1, 2012** | **35,181** | **7,851** | **43,032** |
| Net loss deferred in Cash flow hedge reserve due to the effective portion of the change in the fair value of the derivatives | 35,402 | (27,727) | 7,674 |
| Reclasses from Cash flow hedge reserve to expense | | | |
| Related to hedges of the EURIBOR | (18,830) | | (18,830) |
| Related to hedges of the EUR/USD exchange rate for the notional amount of Tranche F1 | | 22,857 | 22,857 |
| Net amount of reclasses from Cash flow hedge reserve to expense | (18,830) | 22,857 | 4,028 |
| Deferred taxes recognized in equity | (5,005) | 1,419 | (3,586) |
| Net change of the Cash flow hedge reserve | 11,567 | (3,451) | 8,116 |
| **Cash flow hedge reserve March 31, 2013** | **46,749** | **4,400** | **51,148** |

## 3.13 PROVISIONS FOR PENSIONS

The Group has several defined benefit pension plans for different groups of employees (collective agreement ("CA") employees, non-collective agreement ("NCA") employees and other). The majority of the plans are salary-related plans, which are in accordance with regulations applicable for public servants. These plans were continued with substantially the same terms upon the acquisition of the business from DTAG. The plans for other employees represent individual commitments.

The annual contributions for CA and NCA employees are 2.5% of their annual base salaries, with an additional contribution made for NCA employees equal to 7.5% of the amount by which their annual base salaries exceed the contribution ceiling of the statutory pension scheme. Each contribution is translated into an insured sum.

The insured sum is calculated by multiplying the contribution by the respective age factor of the employee and is credited to a pension account. From the age of 61 to the onset of retirement, each employee receives an additional annual bonus sum amounting to 5% of the most recent pension account balance. The contribution rates for individual pension commitments are determined on an individual basis.

In the fiscal year ended March 31, 2012, the Group revised its pension commitments. These changes to the post-employment benefit plans, especially the reduction in contribution for NCA employees from 9% to 7.5% of the amount by which their annual base salaries exceed the contribution ceiling of the statutory pension scheme as well as the reduction of the interest on the pension account from the age of 61 from 6% to 5%, led to a reduction of the provisions for pensions and a resulting one-time effect amounting to T€1,289, which was recognized in the previous year through profit or loss as negative past service cost.

Plan assets amount to T€632 and consist of pledged pension plan reinsurances.

The following tables summarize the components of net benefit expense recognized in the statement of income and amounts recognized in the statement of financial position for the defined benefit plans:

## Net Benefit Expenses recognized in the Consolidated Statement of Income

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Current service cost | 4,182 | 4,013 |
| Interest expenses | 2,516 | 2,397 |
| Expected return on plan assets | (21) | (20) |
| Actuarial net losses | 74 | 0 |
| Past service cost | 0 | (1,289) |
| Plan disbursements | (54) | 8 |
| **Net benefit expenses** | **6,696** | **5,109** |

The expenses arising from the accrual of interest on pension obligations are recorded in interest expense.

The recognized expense is recorded in the following items in the statement of income:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Cost of services rendered | 1,064 | 506 |
| Selling expenses | 1,781 | 1,225 |
| General and administrative expenses | 1,410 | 992 |
| Other | (75) | (12) |
| Interest expenses | 2,516 | 2,397 |
| **Net benefit expenses** | **6,696** | **5,109** |

## Benefit liability

| | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Defined benefit obligation | 69,818 | 56,229 |
| Fair value of plan assets | (632) | (605) |
| | 69,186 | 55,624 |
| Unrecognized actuarial losses | (14,379) | (6,644) |
| **Benefit liability** | **54,806** | **48,980** |

## Changes in the Present Value of the Defined Benefit Obligation are as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| **Defined benefit obligation at April 1** | 56,229 | 46,066 |
| Current service cost | 4,181 | 4,013 |
| Interest cost | 2,516 | 2,397 |
| Actual benefit payments | (693) | (574) |
| Retransfers to DTAG | (231) | (141) |
| Past service cost | 0 | (1,289) |
| Actuarial losses | 7,816 | 5,756 |
| **Defined benefit obligation at March 31** | **69,818** | **56,229** |

The principal assumptions used in determining the Group's pension benefit obligations are shown below:

## Underlying actuarial Assumptions

| in % | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Discount rate as of March 31 | 3.70 | 4.50 |
| Future salary increases | 3.25 | 3.25 |
| Future pension increases [1] | 1.00 - 1.50 | 1.00 - 1.50 |
| Average staff turnover | 6.10 | 6.11 |

[1] Fixed due to contractual agreements.

## Amounts for the current and the previous four Periods are as follows:

| Fiscal Year ended March 31, in T€ | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Defined benefit obligation | 69,818 | 56,229 | 46,066 | 40,382 | 32,257 |
| Plan assets | (632) | (605) | (580) | 0 | 0 |
| Deficit | 69,186 | 55,624 | 45,486 | 40,382 | 32,257 |
| Experience adjustments on plan liabilities | 326 | 122 | 19 | (26) | (1,366) |

## 3.14 OTHER PROVISIONS (CURRENT AND NON-CURRENT)

| in T€ | Balance as of April 1, 2012 | Utilization | Reversal | Addition | Interest | Balance as of March 31, 2013 |
|---|---|---|---|---|---|---|
| Asset retirement / CPE obligations | 31,276 | (5,058) | (1,692) | 3,063 | 6,644 | 34,233 |
| Restructuring | 8,929 | (3,849) | (54) | 487 | 0 | 5,513 |
| Jubilee payments | 129 | (20) | 0 | 12 | 0 | 121 |
| Other | 6,138 | (4,594) | 0 | 274 | 0 | 1,817 |
| **Total other provisions** | **46,472** | **(13,520)** | **(1,746)** | **3,836** | **6,644** | **41,684** |

As of March 31, 2013, other provisions can be segregated into current obligations (T€8,550) and non-current obligations (T€33,134).

| in T€ | Balance as of April 1, 2011 | Utilization | Reversal | Addition | Interest | Balance as of March 31, 2012 |
|---|---|---|---|---|---|---|
| Asset retirement / CPE obligations | 29,763 | (140) | (1,745) | 2,512 | 886 | 31,276 |
| Restructuring | 19,162 | (13,504) | (414) | 3,685 | 0 | 8,929 |
| Jubilee payments | 138 | (16) | 0 | 7 | 0 | 129 |
| Other | 8,658 | (2,609) | 0 | 89 | 0 | 6,138 |
| **Total other provisions** | **57,721** | **(16,269)** | **(2,159)** | **6,293** | **886** | **46,472** |

As of March 31, 2012, other provisions can be segregated into current obligations (T€21,678) and non-current obligations (T€24,793).

## Provisions for Asset Retirement and CPE Obligations

All asset retirement obligation calculations as of March 31, 2013 utilize an inflation rate of 1.72% (20-year OECD average ("OECD" – Organization for Economic Co-operation and Development); prior year: 1.89%). The obligation is compounded to the expected payment amount using the effective interest method. As of March 31, 2013 and March 31, 2012, the asset retirement obligations, mainly for broadband cables located in leased cable ducts and for leased separate technical operating areas, amounted to T€28,839 and T€27,067, respectively.

Additions for new asset retirement obligations recognized in the fiscal years ended March 31, 2013 and March 31, 2012 increased the provision by T€730 and T€605, respectively.

For obligations related to returns of CPE, an inflation rate and a risk-free refinancing interest rate based on the expected length of time until CPE is returned were utilized. Because the estimated useful life of smartcards had been adjusted from 5 to 3 years since August 2011, all obligations related to CPE returns are henceforth calculated based on an inflation rate of 1.73% and a refinancing interest rate of 1.52%, for a return horizon of 3 years. The obligation is also compounded to the expected payment amount using the effective interest method. The amount of the provision for such costs is based on an estimate of the expected costs. Obligations related to these costs amounted to T€5,395 and T€4,209 as of March 31, 2013 and March 31, 2012, respectively.

Additions for new CPE obligations recognized in the fiscal years ended March 31, 2013 and March 31, 2012 increased the provisions by T€2,333 and T€1,907, respectively.

Additions for the interest portion of the provision for asset retirement / CPE obligations for the fiscal year ended March 31, 2013 amounted to T€6,644 (prior year: T€886). Included is the expensed accretion of T€1,123 as well as an interest adjustment of T€5,521 recognized directly in equity through a parallel increase in the corresponding fixed assets (see section 3.7 subsection Asset Retirement Obligations included in Property and Equipment).

## Provisions for Restructuring

In the fiscal year ended March 31, 2013, a total of T€487 was added to provisions for restructuring measures. The increase was undertaken both for the strategic realignment of a specific segment of the sales organization, which is responsible for the provision of basic services to American military bases and military personnel, and for the optimization of the organization of the customer service centers and the technical service centers. Of the provision amount of T€8,929 from the prior year, T€3,849 was utilized and T€54 was reversed during the fiscal year ended March 31, 2013. As a result, as of March 31, 2013, there was a balance of provisions for restructuring measures totaling T€5,513, which was primarily composed of personnel expenses.

## Other

As of March 31, 2013, other provisions amounted to T€1,817. During the fiscal year ended March 31, 2013, T€4,594 was utilized. This was primarily in connection with the legal dispute relating to the 2008 acquisition of parts of the Tele Columbus Group, which ended during the fiscal year.

## 3.15 OTHER NON-CURRENT LIABILITIES

| in T€ | Fiscal Year ended March 31, 2013 | Fiscal Year ended March 31, 2012 |
|---|---|---|
| Liabilities related to share-based payments | 101,884 | 37,833 |
| Finance lease contracts | 10,511 | 10,078 |
| Provision of smartcards | 708 | 1,493 |
| Other | 2,015 | 2,022 |
| **Other non-current liabilities** | **115,118** | **51,425** |

The increase in other non-current liabilities is primarily due to by T€64,051 higher liabilities arising from share-based payments (LTIP) based on the current positive performance of KDH AG share, vesting and additional grant of virtual performance shares.

Other non-current liabilities consist of financial liabilities according to IAS 32 in form of finance lease liabilities and liabilities from the provision of smartcards in the amount of T€11,220 and T€11,571 as of March 31, 2013 and March 31, 2012, respectively. Cash will flow out from the Group at a later point in time from these other non-current financial liabilities.

## 3.16 SHAREHOLDERS' EQUITY

### Subscribed Capital

The subscribed capital of KDH AG remained unchanged at T€88,523 as of March 31, 2013 and comprises 88,522,939 bearer shares with no par value and a pro rata portion of the share capital of €1.00 per share. KDH AG's subscribed capital is fully paid in.

Every share confers rights to one vote at the Shareholders' Meeting.

By unanimous resolution of the extraordinary Shareholders' Meeting of KDH AG of March 15, 2010, the Management Board was authorized in accordance with Section 71 para. 1 no. 8 German Stock Corporation Act (Aktiengesetz – "AktG"), subject to the approval of the Supervisory Board, to acquire treasury shares until March 14, 2015 in a volume of up to 10% of the share capital in the amount of T€90,000 existing at the time of the adoption of the resolution. As part of the resolution, the Management Board was also authorized to retire the treasury shares thus acquired without such retirement or its implementation requiring a further Shareholders' Meeting resolution (retirement authorization pursuant to Section 71 para. 1 no. 8 sentence 6 AktG).

In the fiscal year ended March 31, 2012, the Management Board, with consent of the Supervisory Board, repurchased on the stock exchange a total of 1,477,061 no par value shares, with a pro rata amount of share capital equal to T€1,477 at a total purchase price of approximately T€60,000 (excluding transaction costs) and retired these treasury shares by reducing the share capital.

### Dividend Distribution

At the General Shareholders' Meeting on October 11, 2012, the Company's shareholders approved the proposed dividend of €1.50 per share for the fiscal year ended March 31, 2012. The dividend totaling T€132,784 was paid out the day after the Shareholders' Meeting.

### Authorized Capital and Contingent Capital

As of March 31, 2013, KDH AG had the following authorized capital and contingent capital in place:

| | Amount in T€ | No par value bearer shares in thousand | Purpose |
|---|---|---|---|
| Authorized Capital 2010/I | 45,000 | 45,000 | Increase in equity (until February 18, 2015) [1)] |
| Contingent Capital 2010/I | 45,000 | 45,000 | Granting bearer shares to holders or creditors of convertible and/or warrant bonds (until March 14, 2015) [1)] |

1) Subject to the approval of the Supervisory Board.

## Authorized Capital

Subject to the approval of the Supervisory Board, the Management Board is authorized by a shareholders' resolution of February 19, 2010 to increase the registered share capital of the Company on one or more occasions through February 18, 2015 by a total amount of up to T€45,000 by issuing up to 45,000,000 new bearer shares with no par value against contributions in cash and / or in kind ("Authorized Capital 2010/I").

In principle the new shares are to be offered for subscription to the shareholders; they can also be subscribed to by credit institutions or business enterprises within the meaning of Section 186 para. 5 sentence 1 AktG with the obligation to offer them for subscription to the shareholders.

Shareholders' subscription rights can be excluded wholly or in part.

The Management Board is authorized to determine the further details of the capital increases from the Authorized Capital 2010/I and their implementation subject to the approval of the Supervisory Board.

## Contingent Capital

The Company's share capital is increased conditionally by resolution of the Shareholders' Meeting of March 15, 2010 by up to T€45,000 through the issuance of up to 45,000,000 new bearer shares with no par value ("Contingent Capital 2010/I"). The purpose of the contingent capital increase is to grant bearer shares with no par value to the holders and lenders of bonds issued until March 14, 2015 on the basis of the Shareholders' Meeting authorization of March 15, 2010 in return for cash payments, and to provide for conversion or option rights to bearer shares of the Company with no par value or represent a conversion obligation.

The issue of new bearer shares with no par value from the Contingent Capital 2010/I may take place only at a conversion or option price that meets the requirements specified in the authorization granted by resolution of the Shareholders' Meeting of March 15, 2010. The contingent capital increase shall be carried out only to the extent that option or conversion rights are utilized or holders and lenders required to convert their bonds fulfill their conversion obligation, and to the extent that no compensation in cash is granted or treasury shares of the Company or new shares are issued out of authorized capital to service these rights and obligations. The new bearer shares with no par value participate in earnings from the beginning of the fiscal year in which they are created through exercise of option or conversion rights or through fulfillment of conversion obligations. The Management Board is authorized to specify the further details regarding the implementation of the contingent capital increase.

## Capital Reserve

For the fiscal years ended March 31, 2013 and March 31, 2012, the capital reserve amounted to T€68,058 in each case. The capital reserve represents primarily the consideration of share-based payments of prior years.

## Legal Reserve

An amount of T€8,852 was contributed from the net income for the fiscal year ended of KDH AG to the legal reserve in accordance with the provisions of Section 150 AktG. The legal reserve thus corresponds to 10% of the share capital. The use of the legal reserve is generally subject to restrictions. It can be used only in accordance with the conditions specified under Section 150 para. 3 and para. 4 AktG.

## Cash Flow Hedge Reserve

Changes in the fair value of the foreign currency cash flow hedges and of cash flow hedges based on variable interest rates are recognized directly in equity under cash flow hedge reserve if they have been designated in a hedging relationship. The accumulated amount is released to the consolidated statement of income insofar as the hedged transaction affects profit or loss of the relevant year (see also section 3.12.2).

The reclassification from the cash flow hedge reserve to income or expense is to offset the deviations in the statement of income in actual interest payments from hedged interest rates (via interest swaps) as well as the deviation of the fair value of the US Dollar denominated Tranche F1 of the Senior Credit Facility from the hedged amount (via currency swaps) recorded in the statement of income.

## Asset Revaluation Surplus

During the fiscal year ended March 31, 2009, KDH acquired additional shares in companies, in which KDH already held interest. These acquisitions resulted in control of these companies by KDH from that point on and therefore represented a step acquisition. The difference in the proportionate fair value of the acquired assets as of the original acquisition date and the proportionate value of those assets at the date of transfer of control was presented in an asset revaluation surplus. The asset revaluation surplus in equity relates directly to the identifiable asset customer list acquired in this step acquisition and is therefore reclassified directly to the accumulated deficit as the asset is amortized.

## Accumulated Deficit

For the fiscal years ended March 31, 2013 and March 31, 2012, the accumulated deficit was T€1,585,835 and T€1,691,214, respectively.

## Non-controlling Interests

Non-controlling interests (minority interests) are the portion of equity ownership in a subsidiary not attributable to the parent company, which has a controlling interest and consolidates the subsidiary's financial results with its own. Non-controlling interests exist in Verwaltung "Urbana Teleunion" Rostock GmbH. Until March 2012, there were also minority interests in KABELCOM Braunschweig Gesellschaft für Breitbandkabel-Kommunikation mbH and KABELCOM Wolfsburg Gesellschaft für Breitbandkabel-Kommunikation mbH. Dividends distributed to non-controlling interests amounted to €0 in the fiscal year ended March 31, 2013 (prior year: T€8).

# 4 NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

## 4.1 REVENUES

Revenues were generated in Germany as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| TV Business revenues | 1,191,638 | 1,158,382 |
| Internet and Phone Business revenues | 638,284 | 541,352 |
| **Total revenues** | **1,829,923** | **1,699,734** |

Included in TV Business revenues are Basic Cable subscription fees in the amount of T€842,915 and T€859,763 for the fiscal years ended March 31, 2013 and 2012, respectively, excluding recurring revenues and proceeds from basic services provided to American military bases and military personnel, as well as recurring subscription fees for service options from cable subscribers.

## 4.2 COST OF SERVICES RENDERED

Cost of services rendered relates primarily to costs associated with our business activities which are directly attributable to generating revenues. These include costs and expenses related to the operation and maintenance of the KDH network as well as other costs directly associated with the provision of products and services over the Group's network. The largest cost component are expenses associated with service level agreements. Cost of services rendered includes four categories of expenses as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| **Cost of materials and services** | 455,486 | 418,482 |
| Thereof: | | |
| Service Level Agreements ("SLAs") renting and leasing DTAG | 180,370 | 172,237 |
| Thereof cable ducts | 103,388 | 103,304 |
| Content costs | 76,552 | 59,432 |
| Connectivity and other network costs | 43,692 | 36,738 |
| Interconnection expenses | 42,907 | 42,487 |
| Maintenance and repair | 41,123 | 35,794 |
| Other expenses | 70,842 | 71,793 |
| **Personnel expenses** | 45,139 | 37,827 |
| Thereof: | | |
| Expenses related to LTIP (IFRS 2) [1)] | 8,110 | 2,813 |
| Expenses / (income) related to restructuring / legal reorganization | 101 | (414) |
| **Depreciation and amortization** | 260,333 | 250,378 |
| Thereof: | | |
| Intangible assets | 11,306 | 8,326 |
| Tangible assets | 249,026 | 242,053 |
| **Other costs and expenses** | 74,641 | 77,600 |
| Thereof: | | |
| Expenses related to restructuring / legal reorganization | 433 | 0 |
| **Cost of services rendered** | **835,599** | **784,287** |

1) Will be cash settled under certain conditions at the end of the program. See section 5.5.

## 4.3 OTHER OPERATING INCOME

In the fiscal year ended March 31, 2013, other operating income rose by T€503 to T€12,615 from T€12,112 and primarily consists of other service income, especially returned direct debit fees in the amount of T€4,185 (prior year: T€3,522), commissions for shared advertising measures in the amount of T€2,750 (prior year: T€2,364), indemnifications in the amount of T€1,511 (prior year: T€1,261), as well as various other positions of minor importance.

## 4.4 SELLING EXPENSES

Selling expenses are expenses incurred to support the Group's sales and marketing effort with respect to its products and services. They are divided into four categories as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| **Cost of materials and services** | **35,601** | **32,455** |
| **Personnel expenses** | **123,624** | **98,082** |
| Thereof: | | |
| Expenses related to LTIP (IFRS 2) [1] | 17,034 | 5,967 |
| Expenses related to restructuring / legal reorganization | 1,515 | 1,826 |
| **Depreciation and amortization** | **76,844** | **123,897** |
| Thereof: | | |
| Intangible assets | 63,021 | 100,610 |
| Tangible assets | 13,823 | 23,287 |
| **Other costs and expenses** | **178,098** | **170,218** |
| Thereof: | | |
| Expenses related to restructuring / legal reorganization | 971 | 58 |
| **Selling expenses** | **414,166** | **424,652** |

[1] Will be cash settled under certain conditions at the end of the program. See section 5.5.

## 4.5 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are expenses that are not directly allocated to the cost of services rendered or to selling expenses. General and administrative expenses are divided into three categories as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| **Personnel expenses** | **94,930** | **63,930** |
| Thereof: | | |
| Expenses related to LTIP (IFRS 2) [1] | 38,907 | 11,680 |
| Expenses related to acquisitions and changes in norms | 874 | - |
| Expenses related to restructuring / legal reorganization | 374 | 729 |
| **Depreciation and amortization** | **23,754** | **21,661** |
| Thereof: | | |
| Intangible assets | 18,169 | 16,637 |
| Tangible assets | 5,585 | 5,024 |
| **Other costs and expenses** | **48,128** | **44,417** |
| Thereof: | | |
| Expenses related to acquisitions and changes in norms | 6,923 | - |
| Expenses related to restructuring / legal reorganization | 169 | 3,990 |
| **General and administrative expenses** | **166,811** | **130,008** |

[1] Will be cash settled under certain conditions at the end of the program. See section 5.5.

In the fiscal year ended March 31, 2013, the auditor of the Group received a total fee of T€3,542 (prior year: T€2,482) broken down in T€772 for auditing services (prior year: T€872), T€2,451 for other consulting services (prior year: T€1,337) and T€319 for tax consulting services (prior year: T€273), which was recorded within other costs and expenses under general and administrative expenses.

## 4.6 PERSONNEL EXPENSES

Personnel expenses are comprised of the following:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Wages and Salaries | 229,407 | 169,896 |
| Social Security | 34,286 | 29,942 |
| **Total personnel expenses** | **263,693** | **199,838** |

| Expenses included in wages and salaries in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Expenses related to LTIP (IFRS 2) | 64,051 | 20,459 |
| Thereof: | | |
| Cost of services rendered | 8,110 | 2,813 |
| Selling expenses | 17,034 | 5,967 |
| General and administrative expenses | 38,907 | 11,680 |
| Expenses / (income) related to restructuring / legal reorganization | 1,990 | 2,141 |
| Thereof: | | |
| Cost of services rendered | 101 | (414) |
| Selling expenses | 1,515 | 1,826 |
| General and administrative expenses | 374 | 729 |

For further information regarding restructuring plans see section 3.14.

| Included in social security are, inter alia, the following expenses in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Personnel expenses related to the defined benefit pension plan | 4,256 | 2,723 |
| Thereof: | | |
| Cost of services rendered | 1,064 | 506 |
| Selling expenses | 1,781 | 1,225 |
| General and administrative expenses | 1,410 | 992 |
| Statutory social security contribution | 26,623 | 23,826 |
| Thereof: | | |
| Cost of services rendered | 7,548 | 6,707 |
| Selling expenses | 12,665 | 11,017 |
| General and administrative expenses | 6,411 | 6,102 |

For the fiscal years ended March 31, 2013 and 2012, social security costs included T€13,859 and T€12,657, respectively, for expenses related to the statutory pension scheme.

During the fiscal years ended March 31, 2013 and 2012 an average of 3,157 and 2,781 people were employed, respectively.

| Average number of employees by functions | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Technology and IT | 1,010 | 931 |
| Customer and Technical Service Center | 958 | 707 |
| Sales and Marketing | 711 | 672 |
| Overhead | 478 | 471 |
| **Total** | **3,157** | **2,781** |

The increase in personnel in the customer and technical service center results primarily from the regular employment of former temporary personnel in KDK's customer and technical service (see section 1.3 subsection Restructuring regarding customer and technical services). The increase in the technical areas of the Group is due, inter alia, to a build-up of own staff in order to provide construction and other services by Kabel Deutschland Field Services GmbH in the region of western and southern Bavaria as well as due to organic employee growth in all areas.

## 4.7 FINANCIAL RESULTS

### Interest Expenses

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| Interest expenses on financial instruments that are not at fair value through profit or loss | | |
| Senior Credit Facility | 109,678 | 120,884 |
| Senior Notes | 59,966 | 25,639 |
| Bridge Credit Agreement | 817 | - |
| PIK Loan | 0 | 9,735 |
| Amortization of capitalized financing and transaction costs | 19,469 | 34,982 |
| Finance Lease | 1,845 | 1,479 |
| Other | 4,404 | 2,953 |
| Interest expenses on financial instruments that are at fair value through profit or loss | 6,114 | 2,231 |
| Interest expenses on provisions and non-financial liabilities | | |
| Pensions | 2,516 | 2,397 |
| Asset retirement and CPE obligations | 1,123 | 1,155 |
| Other | 75 | 120 |
| **Total Interest Expenses** | **206,006** | **201,575** |

Interest expenses include interest accrued from bank loans, Senior Notes, the amortization of financing and transaction costs, interest on finance leases and other. In the fiscal year ended March 31, 2013, interest expenses increased overall by T€4,431 from T€201,575 to T€206,006.

Interest expenses on financial instruments at fair value through profit or loss include effects from fair value measurement of such financial instruments.

(See the definition of all terms above in section 3.12 and 5.6).

### Interest Income

Interest income for the fiscal years ended March 31, 2013 and March 31, 2012 amounted to T€3,333 and T€2,891, respectively, and, inter alia, related to income from changes in fair value of stand alone derivatives (interest floors), default interest and interest income on bank deposits and fixed term deposits.

## 4.8 INCOME FROM ASSOCIATES

Income from associates for the fiscal years ended March 31, 2013 and March 31, 2012 amounted to T€2,344 and T€1,627, respectively.

## 4.9 TAXES ON INCOME

The corporate income tax expenses for the fiscal years ended March 31, 2013 and March 31, 2012 break down as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| **Consolidated statement of income** | | |
| *Current income tax* | | |
| Current income tax expense | 53,078 | 21,549 |
| Prior year income tax expense / (benefit) | 256 | (531) |
| *Deferred income tax* | (74,541) | (4,583) |
| **Income tax (benefit) / expense reported in the consolidated statement of income** | **(21,207)** | **16,435** |

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| **Consolidated statement of changes in equity** | | |
| *Deferred income tax* | | |
| Net deferred costs on revaluation of hedges | (3,586) | (17,920) |
| **Income tax (benefit) / expense reported in equity** | **(3,586)** | **(17,920)** |

The tax rate of 29.6% for the fiscal year ended March 31, 2013 (prior year: 29.4%) is based on the corporate income tax rate of 15% (prior year: 15%), a solidarity surcharge of 5.5% (prior year: 5.5%) on corporate income tax and a trade tax rate of 13.8% (prior year: 13.6%).

The slight increase in the trade tax rate is due to adjusted apportionment criteria to reflect changes in the payroll structure according to section 29 para. 1 no. 1 of the German Trade Tax Act (Gewerbesteuergesetz – "GewStG").

A reconciliation of income taxes for the fiscal year ended March 31, 2013 using a combined statutory rate of 29.6% (prior year: 29.4%) for corporate income and trade tax to actual income taxes as recorded in the statement of income, is as follows:

| in T€ | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|
| (Benefit) / loss before income tax | (225,632) | (175,842) |
| Notional tax (benefit) / expense at KDH's statutory income tax rate of 29.6% (prior year: 29.4%) | 66,787 | 51,698 |
| Adjustments in respect of current income tax of previous years | 256 | (531) |
| Unrecognized tax losses | (105,039) | (43,795) |
| Non-deductible expenses | 14,409 | 11,583 |
| Untaxed income portions | 129 | (468) |
| Adjustments in respect of changes in the tax rate | 452 | (1,878) |
| Other | 1,799 | (174) |
| **Income tax expense / (benefit) according to the statement of income** | **(21,207)** | **16,435** |

## Deferred Taxes

Deferred taxes as of March 31, 2013 and March 31, 2012 are comprised as follows:

| in T€ | Consolidated statement of financial position as of March 31, | | Consolidated statement of income | |
|---|---|---|---|---|
| | 2013 | 2012 | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
| *Deferred tax liabilities* | | | | |
| Intangible assets | 71,108 | 64,774 | 6,334 | 883 |
| Property and equipment | 46,019 | 49,889 | (3,870) | (10,362) |
| Trade receivables | 6,439 | 1,261 | 5,178 | 4,467 |
| Gross deferred income tax liabilities | 123,567 | 115,924 | | |
| Offsetting with deferred tax assets | (122,425) | (74,577) | | |
| Net deferred tax liabilities | 1,142 | 41,347 | | |
| *Deferred tax assets* | | | | |
| Other non-current liabilities | 11,130 | 4,922 | (2,622) | 726 |
| Other non-current provisions | 6,526 | 6,913 | 387 | 5,381 |
| Provisions for pensions | 1,726 | 2,067 | 341 | (117) |
| Tax loss carryforwards | 141,576 | 61,287 | (80,289) | (5,560) |
| Gross deferred tax assets | 160,959 | 75,189 | | |
| Offsetting with deferred tax liabilities | (122,425) | (74,577) | | |
| Net deferred tax assets | 38,534 | 612 | | |
| **Deferred tax income** | | | **(74,541)** | **(4,583)** |

For the fiscal years ended March 31, 2013 and March 31, 2012, deferred tax assets were recognized for corporate income tax loss carry forwards by KDH in the amount of T€241,891 and T€241,682, respectively, for trade tax loss carry forwards by KDH in the amount of T€159,900 and T€89,160, respectively, as well as for interest carried forward by KDH in the amount of T€310,866 and T€42,212, respectively.

Deferred tax assets on further corporate income tax loss carry forwards by KDH in an amount of T€77,101 and T€212,930, respectively, and on trade tax loss carry forwards in the amount of T€0 and T€135,972, respectively, as well as on interest under the German interest barrier rules in the amount of T€0 and T€245,164, respectively, have not been recognized for the fiscal years ended March 31, 2013 and March 31, 2012 due to uncertain recoverability, since KDH is unable to offset these tax loss carry forwards against positive income within the Group.

## Liabilities Due to Income Taxes

The liabilities due to income taxes of T€58,109 and T€72,799, respectively, for the fiscal years ended March 31, 2013 and March 31, 2012 in the consolidated statement of financial position relate to corporate income and trade tax.

## 4.10 PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests is comprised of KDH's portion of the profit attributable to the different minority shareholders in the Group's fully consolidated subsidiaries. Profit attributable to non-controlling interests amounted to T€1 for each of the fiscal years ended March 31, 2013 and March 31, 2012, respectively. Due to the acquisition of the remaining minority interests in KCB and KCW in the fiscal year ended March 31, 2012, the only non-controlling interests now remaining within the Group relate to Verwaltung "Urbana Teleunion" Rostock GmbH.

## 4.11 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated in accordance with IAS 33 "Earnings per share" as follows:

| Basic earnings per share | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Profit / (loss) attributable to the equity holders of the parent | 246,837 | 159,406 |
| Reconciling items | - | - |
| **Adjusted net income / (loss) (basic)** | **246,837** | **159,406** |
| Weighted average number of no par value bearer shares issued | 88,522,939 | 89,408,169 |
| Instruments affecting earnings per share | - | - |
| **Adjusted weighted average number of no par value bearer shares (basic)** | **88,522,939** | **89,408,169** |
| **Basic earnings per share (in €)** | **2.79** | **1.78** |

| Diluted earnings per share | Fiscal Year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Profit / (loss) attributable to the equity holders of the parent | 246,837 | 159,406 |
| Reconciling items | - | - |
| Adjusted net profit / (loss) (basic) | 246,837 | 159,406 |
| Dilutive effects on net profit / (loss) | - | - |
| **Net profit / (loss) (diluted)** | **246,837** | **159,406** |
| Weighted average number of no par value bearer shares issued | 88,522,939 | 89,408,169 |
| Instruments affecting earnings per share | - | - |
| Adjusted weighted average number of no par value bearer shares (basic) | 88,522,939 | 89,408,169 |
| Dilutive shares | - | - |
| **Weighted average number of no par value bearer shares (diluted)** | **88,522,939** | **89,408,169** |
| **Diluted earnings per share (in €)** | **2.79** | **1.78** |

# 5 OTHER NOTES

## 5.1 SEGMENT REPORTING

For the purpose of segment reporting, the Group's activities are split into operating segments in accordance with IFRS 8. The Group has two operating segments, TV Business as well as Internet and Phone Business, which report and are managed separately. The headquarter functions and financing activities are represented through a reconciliation. The operating segments are defined based on the internal organizational structure of the Group and the converging economic characteristics of the business areas. The business activities of KDH AG and its subsidiaries focus on the operation of cable television networks in Germany. Risks and rewards do not differ within the German cable network business. Therefore, a geographical segmentation is not suitable for the Group. Accordingly, the focus of review of the key decision makers is based on a product and service differentiation, which is reflected in the segment reporting.

The measurement principles used by the Group in preparing this segment reporting are the same as for the consolidated financial statements and are based on IFRS as adopted by the EU. These measurement principles are also the basis for the segment performance assessment.

There are no significant relationships between the individual segments, and therefore no intersegment relationships need to be eliminated. Any intrasegment transactions have been eliminated.

### TV Business

The Group's TV Business consists of Basic Cable and Premium-TV products and services.

The Group's Basic Cable products consist of analog and digital TV and radio services. Premium-TV products include Pay-TV products, such as "Kabel Premium HD", "Premium Extra" or "Kabel International", DVR products, such as "Kabel Komfort HD", as well as Video-on-Demand ("VoD").

Revenues from carriage fees and signal transport services are generated from public and private broadcasters as well as third party Pay-TV providers.

### Internet and Phone Business

The Internet and Phone Business offers broadband Internet access, fixed-line and mobile phone services, mobile data services, as well as additional options to those homes which can be connected to KDH's upgraded network.

In the Phone sector we additionally offer mobile phone and data services in cooperation with a German mobile network operator.

Revenues for the Internet and Phone Business segment include recurring revenues from monthly usage dependent and fixed subscription fees and phone interconnection revenues generated by phone traffic of third party carriers' customers being terminated in KDH's network. Also included in revenues are non-recurring revenues from installation fees, the sale of CPEs, mobile phone commissions and other miscellaneous revenues.

### Headquarter Functions / Reconciliation to the Consolidated Financial Statements

Headquarter functions include functions such as managing directors, legal and regulatory, finance, human resources, internal audit, corporate communications, investor relations, purchasing, and IT which are not allocated to the operating segments.

## Segment information by business segment is as follows:

| in T€ | TV Business | | Internet and Phone Business | | Headquarter Functions / Recon. to the Consolidated Financial Statements | | Total Group | |
|---|---|---|---|---|---|---|---|---|
| | April 1 2012 - March 31 2013 | April 1 2011 - March 31 2012 | April 1 2012 - March 31 2013 | April 1 2011 - March 31 2012 | April 1 2012 - March 31 2013 | April 1 2011 - March 31 2012 | April 1 2012 - March 31 2013 | April 1 2011 - March 31 2012 |
| Revenues | 1,191,638 | 1,158,382 | 638,284 | 541,352 | - | - | 1,829,923 | 1,699,734 |
| Other operating income | 8,774 | 7,889 | 3,566 | 4,012 | 275 | 211 | 12,615 | 12,112 |
| Costs and expenses | (824,830) | (832,072) | (421,803) | (374,119) | (169,943) | (132,755) | (1,416,576) | (1,338,946) |
| thereof depreciation / amortization | (181,075) | (230,690) | (153,010) | (140,871) | (26,845) | (24,375) | (360,930) | (395,937) |
| thereof share-based payment (LTIP) | (19,789) | (6,587) | (5,355) | (2,193) | (38,907) | (11,680) | (64,051) | (20,459) |
| Profit or loss from ordinary activities | 375,582 | 334,199 | 220,048 | 171,245 | (169,668) | (132,544) | 425,961 | 372,900 |
| Financial result[1] | - | - | - | - | (200,329) | (197,057) | (200,329) | (197,057) |
| Profit or loss before taxes | 375,582 | 334,199 | 220,048 | 171,245 | (369,998) | (329,601) | 225,632 | 175,842 |
| Taxes | - | - | - | - | 21,207 | (16,435) | 21,207 | (16,435) |
| Net profit for the period | | | | | | | 246,838 | 159,408 |
| Additions to fixed assets | 209,994 | 185,580 | 246,810 | 186,951 | 29,920 | 22,944 | 486,724 | 395,475 |

[1] The financial result includes interest income and interest expenses as well as income from associates.

# 5.2 IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to the TV Business and Internet and Phone Business CGUs which are also reportable operating segments for impairment testing.

## Carrying amount of goodwill allocated to each of the CGUs:

| in T€ | TV Business as of March 31, | | Internet and Phone Business as of March 31, | | Total as of March 31, | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Goodwill | 220,339 | 220,339 | 66,934 | 66,934 | 287,274 | 287,274 |

## Disclosures on Impairment Test

The Group performed its annual goodwill impairment test as of March 31, 2013 and considered the relationship between the market capitalization of KDH and the carrying amount of KDH's equity, among other factors, when reviewing for indicators of impairment. As of March 31, 2013, the market capitalization of the Group was above the carrying amount of KDH's equity and gave neither an indication for a potential impairment of goodwill nor for an impairment of assets of any operating segment.

The recoverable amount of the two CGUs has been determined based on a fair value less costs to sell calculation using cash flow projections covering a five-year period.

The following paragraphs summarize key assumptions used to determine fair values less costs to sell for the impairment test regarding the two CGUs to which goodwill is allocated.

The weighted average cost of capital after tax used for calculation of the recoverable amount for the two CGUs was determined to be 5.7% (prior year: 5.9%) for the fiscal year ended March 31, 2013.

The measurement of the CGUs is founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the detailed planning horizon are extrapolated using a growth rate of 1% (prior year: 1%) for the fiscal year ended March 31, 2018. The key assumptions on which management has based its execution of the impairment test were primarily derived from internal sources and in particular reflect past experience regarding, among others: development of revenues, subscriber acquisition and retention costs, churn rates, capital expenditure, market shares, and growth rates. These key assumptions are based on management estimates of how the business will perform in the future given the anticipated environment in the German cable industry. Discount rates were determined on the basis of external figures derived from the capital market. Any significant future changes in the aforementioned key figures would have an impact on the fair values of the cash generating units.

On the basis of information available on the reporting date and expectations with respect to the markets and competitive environment, the recoverable amounts were estimated to be higher than the carrying amounts of the net assets of the CGU. Management therefore did not identify any impairments.

With regard to the assessment of fair value less costs to sell for the two cash generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying amount of the net asset of the CGU to exceed its recoverable amount.

## 5.3 OTHER FINANCIAL OBLIGATIONS, CONTINGENCIES AND CERTAIN LAWSUITS AND LEGAL PROCEEDINGS

### Leasing and Rental Obligations

KDH has entered into several long-term service agreements with DTAG. These agreements include but are not limited to usage and access agreements for underground cable ducts, fiber optic cables, technical rooms and energy supply. The agreements primarily have fixed prices, either based on a monthly or unit basis, and have a term of up to 30 years. However, KDH can terminate the agreements with a notice period of 12 to 24 months.

The financial obligations as of March 31, 2013 and March 31, 2012 include the obligations arising due to the earliest possible termination date of KDH and are as follows:

| Type of obligation | March 31, 2013 | | | | March 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | due | due | | | due | due | | |
| in T€ | less than 1 year | between 1 and 5 years | more than 5 years | Total | less than 1 year | between 1 and 5 years | more than 5 years | Total |
| 1. Agreements with DTAG and subsidiaries | 208,328 | 140,379 | 4,128 | 352,835 | 208,800 | 259,073 | 73,950 | 541,823 |
| 2. License, rental and operating lease commitments | 71,793 | 152,645 | 55,624 | 280,062 | 38,813 | 82,472 | 27,472 | 148,757 |
| 3. Other | 57,214 | 31,707 | 2,393 | 91,313 | 90,348 | 40,250 | 15,467 | 146,065 |
| **Total** | **337,334** | **324,731** | **62,145** | **724,209** | **337,961** | **381,795** | **116,889** | **836,645** |

The lease payments for cable ducts are T€103,388 and T€103,304 for the fiscal years ended March 31, 2013 and March 31, 2012, respectively. While the Group has the legal right to cancel the agreements for the lease of the cable ducts with a notice period of 12 to 24 months, the technological requirements to replace leased capacity represent economic costs, the extent of which makes renewal of the leases advantageous with reasonable certainty for a certain period of time. Thus, the anticipated lease term through March 31, 2018 arises, or, in consideration of all contractual renewal periods for the majority of the existing agreements, through March 31, 2033. After these dates, the lease can be canceled by DTAG. Taking into account the advantageous extension of the leases, financial obligations for cable duct leases were recognized in the amount of T€1,600,609 and T€1,703,874 as of March 31, 2013 and March 31, 2012, respectively.

For the fiscal years ended March 31, 2013 and March 31, 2012, the leasing costs of KDH were T€193,946 and T€186,086, respectively. These amounts include the majority of the expenses related to the SLAs.

## Contingencies and Certain Lawsuits and Legal Proceedings

In the course of its business, KDH is regularly confronted with court proceedings or disputes the outcome of which is generally dependent on an uncertain future event and can therefore not be predicted with any degree of certainty. Apart from a number of individual cases with only insignificant effects, there are as of March 31, 2013, the following material issues:

An arbitration process at the arbitration board responsible for copyright is pending between KDVS GmbH and GEMA regarding the question if and at which amount copyright fees would have to be paid by KDVS GmbH for its marketed Pay-TV packages. The arbitration process is not yet settled, the parties are currently negotiating about an amicable settlement of the lawsuit.

Between KDVS GmbH and VG Media, certain legal proceedings exist regarding the question if and at which amount copyright fees would have to be paid by KDVS GmbH for the distribution of its Free-TV offer. Currently, VG Media claims title of a medium range two digit million € amount. The legal proceedings are not yet completed.

Under applicable German copyright law KDVS GmbH is jointly liable with foreign DVR suppliers to pay copyright fees, if KDVS GmbH is deemed an importer according to Section 54b of the German Act on Copyright and Related Rights (Urheberrechtsgesetz – "UrhG"). KDVS GmbH also has in this constellation agreed with these suppliers that the suppliers will indemnify KDVS GmbH for any such copyright fees and does not expect to bear related expenses.

Pepcom Süd GmbH, the controlling shareholder of Kabelfernsehen München Servicenter Gesellschaft mit beschränkter Haftung – Beteiligungsgesellschaft ("KMS GmbH") and the limited partner of KMS KG, extended existing litigation proceedings against KDG (today KDVS GmbH), which is a minority shareholder of KMS GmbH and a limited partner of KMS KG, in November 2009. In the litigation, pepcom Süd GmbH claims to exclude KDVS GmbH as shareholder of KMS GmbH and limited partner of KMS KG, respectively. By judgment dated October 15, 2012, the District Court of Munich I found in favor of these claims and excluded KDVS GmbH. KDVS GmbH as well as the plaintiff have meanwhile both filed an appeal against this ruling. Since the case has not yet been closed, KDVS GmbH is currently still a shareholder of KMS GmbH and a limited partner of KMS KG.

In June 2012, the public service broadcasting authorities incorporated within ARD, ZDF, ARTE and Deutschlandradio terminated the contracts for carriage fees with the major German cable network operators, including KDVS GmbH, with effect as of December 31, 2012. KDVS GmbH has filed several lawsuits based on the termination of the contracts for carriage fees against the public broadcasters. Meanwhile, the first judgments of the courts of first instance have been delivered, which dismissed the claims in their entirety. KDVS GmbH has appealed and will appeal these unfavorable decisions, as it still presumes its claim for the carriage fees is legally valid.

KDVS GmbH filed a lawsuit against Telekom Deutschland GmbH ("Telekom") in the District Court of Frankfurt in April 2012. It originally claimed to obtain (i.) a reduction of the annual price payable to Telekom for the co-use of cable ducts, and (ii.) a refund of fees paid in the past plus accrued interest. The lawsuit is based upon the alleged abuse of a dominant position by Telekom by charging excessive prices. KDVS GmbH has replied to Telekom's statement of defense and Telekom has again responded. The date for oral hearing was postponed until June 12, 2013. The outcome of the proceedings is uncertain.

KDVS GmbH filed a lawsuit regarding fulfillment of contract against Telekom in the District Court of Munich in April 2012. Its legal position is that Telekom is contractually liable to build and operate the backbones for KDVS GmbH such that an availability of 99.99% is assured and that the fixed data connections coming from or ending at each site will be integrated into two independently running fiber optic lines – i.e. in two separate and not in the same cable ducts. Based on a proposal by the presiding judge the proceedings have been transferred into a mediation process which is still ongoing.

A lawsuit has been filed against KDVS GmbH in the District Court of Munich for alleged infringement of patents related to the "electronic program guide". The amount in dispute was set by the court at €2.0 million. KDVS GmbH is of the opinion that there is no violation of any patents and has also filed patent nullity actions in this context.

## General Risks

In the course of its business activities, the Group faces general economic risks which may result from relationships with customers, suppliers and employees. In addition, general risks exist regarding its legal obligations and obligations against tax authorities. Currently there are no substantial proceedings related to these risks besides those mentioned in the section above.

## 5.4 RELATED PARTIES

### Related Party Transactions

The following related party transactions took place in the fiscal years ended March 31, 2013 and March 31, 2012:

On May 19, 2010, KDH AG and Providence Equity LLP, which at times held an indirect interest of more than 20% in KDH AG during the fiscal year ended March 31, 2012, entered into an agreement for consultancy services. The services to be provided by Providence Equity LLP related in particular to the periodic review and further development of KDH's strategy, funding issues, increased operational and organizational efficiency and performance, process optimization as well as continuous analysis of the financial performance and the development of the annual budget. A monthly lump-sum fee of T€10 was stipulated as remuneration for Providence Equity LLP. This agreement was terminated as of July 31, 2011. Fees of T€0 and T€40 were recognized through profit or loss in the fiscal years ended March 31, 2013 and March 31, 2012, respectively.

KDVS GmbH provided T€3,473 and T€3,714 in deliveries and services to KMS KG in the fiscal years ended March 31, 2013 and March 31, 2012. The deliveries and services provided are related to signal delivery agreements with KMS KG and were provided in the ordinary course of business.

KDH AG and Prof. Dr. Heinz Riesenhuber, Honorary Chairman of the Supervisory Board, i.e. an honorary member without the legal status of a regular member of the Supervisory Board, entered into an agreement for consultancy services to be provided by the Honorary Chairman, effective October 16, 2011. The Honorary Chairman advises the Chairman of the Supervisory Board and, if necessary, the Deputy Chairman of the Supervisory Board of KDH AG, on all matters arising in the Supervisory Board. The Honorary Chairman also advises the Group on its business and strategic matters. He receives a T€30 remuneration annually for his services.

In addition, other related party transactions resulted from previously existing employment contracts between Group companies and employee representatives only from the time they were appointed to the Supervisory Board. The remuneration is appropriate for the scope of the contractually agreed services.

Disclosures with respect to the compensation received by Management Board and Supervisory Board members are provided in the following sections.

### Transactions with Members of the Management Board

As of March 31, 2013, the Management Board of KDH AG comprises four members who also hold positions as managing directors of KDVS GmbH. The contracts of all the members of the Management Board were extended in March 2013 to March 31, 2015.

Members of the Management Board received a total remuneration, including the recorded service cost of pension benefits, of T€4,920 (prior year: T€5,182) for the fiscal year ended March 31, 2013. This includes the fair value at the date of the grant of the new performance shares based on the LTIP of the Group in the fiscal year ended March 31, 2013 in the amount of T€1,693 (prior year: T€1,706).

The total currently non-cash amount, which was calculated in accordance with IFRS and recognized through profit or loss in the fiscal year just ended, resulted from share price-induced changes in value, current vesting and new grants under the long-term LTIP and was T€25,184 for the fiscal year ended March 31, 2013 (thereof Dr. Adrian von Hammerstein T€8,526, Dr. Manuel Cubero T€7,053, Erik Adams T€6,716, Dr. Andreas Siemen T€2,889). In the prior year this figure amounted to T€8,675 (thereof Dr. Adrian von Hammerstein T€2,948, Dr. Manuel Cubero T€2,438, Erik Adams T€2,308, Dr. Andreas Siemen T€981).

Individualized disclosures regarding the compensation of the Management Board are presented in the combined management report and there in section 12 "Compensation Report"; further details on share-based compensation can also be found in section 5.5.

### Former Members of Management / the Management Board and their Surviving Dependents

In the fiscal year ended March 31, 2013, former members of management / the Management Board of the Group and their surviving dependents received total compensation in the amount of T€302 (prior year: T€11). For the fiscal year ended March 31, 2013, provisions for pensions in a total amount of T€112 (prior year: T€116) for former managing directors were recognized.

### Supervisory Board

During the fiscal year ended March 31, 2013, there were changes in the Supervisory Board of KDH AG only with respect to employee representatives. By virtue of a court ruling on September 13, 2012, Florian Landgraf was appointed to the Supervisory Board of KDH AG as executive employee. He succeeds Helmut von der Lieck, who resigned from the Supervisory Board following his appointment as managing director of KDK on August 23, 2012.

For members of the Supervisory Board, remuneration in the amount of T€556 (prior year: T€568) has been recognized as an expense for the fiscal year ended March 31, 2013. Details regarding the compensation system relating to the members of the Supervisory Board are set out in the combined management report in section 12 "Compensation Report".

## 5.5 LONG-TERM INCENTIVE PLAN ("LTIP")

Effective April 1, 2010, a new compensation structure for certain employees of the Group in conformity with the requirements of the German Stock Corporation Act (Aktiengesetz – "AktG") and German Corporate Governance Code was implemented.

With this new compensation structure, also effective April 1, 2010, KDH AG and its subsidiaries have introduced a new long-term, performance-based variable compensation component based on an LTIP. This LTIP comprises two stock-based elements: an annual virtual performance share program (LTIP I) and a one-time grant of virtual stock options (LTIP II), both for members of the Management Board and selected members of senior management.

### Virtual Performance Shares (LTIP I)

On the basis of the first LTIP component, members of the Management Board were allotted a total of 121,947 virtual performance shares for the fiscal years ended March 31, 2011 and March 31, 2012. These virtual performance shares were based on a grant price of €22.00 per share in the first annual grant and €37.77 per share in the second annual grant, resulting in a total value at the grant date of T€1,760 for the first annual grant and T€1,620 for the second annual grant, respectively. In connection with the retroactive granting of virtual performance shares based on the second annual grant in the third quarter of the fiscal year ended March 31, 2012, a waiver was made on 2,284 of the virtual performance shares originally allocated in the second grant.

Based on an authorization granted by the Supervisory Board, the Management Board additionally issued a total of 203,798 virtual performance shares to members of senior management for the fiscal years ended March 31, 2011 and March 31, 2012. The grant prices equal those of the respective grant to Management Board members. As of the grant date, the total value of the virtual performance shares issued to members of senior management was T€2,475 for the first annual grant and T€3,670 for the second annual grant. The grant dates for all virtual performance shares issued as a component of LTIP were April 1, 2010 for the first annual grant and April 1, 2011 for the second annual grant.

On the basis of the third annual grant under LTIP I, members of the Management Board were allotted 37,528 virtual performance shares in the fiscal year ended March 31, 2013, based on a grant price of €45.12 per share. The total value as of the grant date was T€1,693. Additionally, the Management Board was authorized by the Supervisory Board to allot 69,320 virtual performance shares based on the third annual grant to members of senior management (also with a grant price of €45.12 per share, resulting in a total value of all these virtual performance shares of T€3,128 at grant date). The grant date for all virtual performance shares issued under the third annual grant was April 1, 2012.

Due to the departure of employees from the Company, a total of 3,993 (prior year: 19,049) of the virtual performance shares allotted to members of the Management Board and of senior management forfeited during the fiscal year ended March 31, 2013.

| LTIP I Virtual Performance Shares (Management Board and Senior Management) | | | | |
|---|---|---|---|---|
| Annual Grant | Number of Virtual Performance Shares March 31, 2013 | Grant Date | Exercise Price € | Total Value at Grant Date T€ |
| Virtual Performance Shares First Grant (2010) | | | | |
| *granted* | 192,500 | April 1, 2010 | 22.00 | 4,235 |
| *forfeited* | (19,235) | April 1, 2010 | 22.00 | (423) |
| Total | 173,265 | | | 3,812 |
| Virtual Performance Shares Second Grant (2011) | | | | |
| *granted* | 133,245 [1)] | April 1, 2011 | 37.77 | 5,290 |
| *forfeited* | (3,807) | April 1, 2011 | 37.77 | (144) |
| Total | 129,438 | | | 5,146 |
| Virtual Performance Shares Third Grant (2012) | | | | |
| *granted* | 106,848 [2)] | April 1, 2012 | 45.12 | 4,821 |
| Total | 106,848 | | | 4,821 |
| Total Virtual Performance Shares | 409,551 | - | - | 13,779 |

1) Of these 133,245 virtual performance shares, 24,994 were granted in the third and fourth quarter of the fiscal year ended March 31, 2012 retroactively as of April 1, 2011. Also retroactively, the exercise price was fixed at €37.77. The fair value at grant date per each virtual performance share was €48.06.

2) The 106,848 virtual performance share granted in the fiscal year ended March 31, 2013 have been allotted in the first quarter (37,528) and in the second quarter (69,320) retroactively with a grant date as of April 1, 2012.

Depending on the attainment of certain performance targets, the performance shares will be due for payout four years after they are granted ("vesting period"). The performance targets are assessed based on the performance of the total shareholder return ("TSR") on KDH AG shares compared to the MDAX during the four-year vesting period. Payout is made in cash and is determined by the number of payable performance shares multiplied by the volume-weighted average closing price of KDH AG shares in XETRA trading during the last 30 trading days ("average price") prior to the time of full vesting. If the performance of the total shareholder return on KDH AG shares in the vesting period is equal to the performance of the MDAX, there is 100% achievement of the performance targets and 100% of the performance shares granted are paid out. If the total shareholder return on KDH AG shares during the vesting period outperforms the MDAX, the number of payable performance shares rises, depending on the extent of the outperformance relative to the MDAX, up to a maximum of 200% of the performance shares originally granted. The 200% limit is reached if the MDAX is outperformed by 40 percentage points or more. If the total shareholder return on KDH AG shares in the vesting period underperforms the MDAX by up to 20 percentage points (inclusive), the number of payable performance shares is reduced, depending on the extent of the underperformance, to up to 50%. Straight-line interpolation is applied between the upper and lower limits. The performance target is missed, and the performance shares will expire worthless, if the MDAX is underperformed by more than 20 percentage points. The performance shares will likewise expire worthless if the MDAX is underperformed and, at the same time, the price of KDH AG shares at the time of full vesting (the relevant price being the volume-weighted average closing price of KDH AG shares in XETRA trading during the last 30 trading days before the time of full vesting) plus any dividends paid out during the vesting period falls below the exercise price of the performance shares.

In the event of unusual developments, the Supervisory Board may limit the number of virtual performance shares subject to payout.

The fair value of the virtual performance shares which is used as a measurement basis for the calculation of expenses under LTIP I is based on observable market prices on each balance sheet date. Pursuant to the agreement, no other elements were included in the valuation of the virtual performance shares. The KDH AG share price (including dividend payments) is the sole factor determining the fair value of such virtual performance shares.

For the fiscal years ended March 31, 2013 and March 31, 2012, the Group recognized total personnel expenses related to all annual grants of virtual performance shares of T€20,129 and T€6,510, respectively, based on changes in the fair value, the third annual grant and additional vesting. Fair value changes resulted primarily from the significant increase in the average share price of KDH AG shares to €68.71 as of March 31, 2013, and to a minor degree, from the increased number of virtual performance shares expected to be subject to payout due to the above-average performance of the KDH AG share compared to the MDAX.

The total liability due to virtual performance shares issued as an element of LTIP and recognized in the consolidated statement of financial position amounted to T€30,279 as of March 31, 2013 and T€10,150 as of March 31, 2012. This liability was recorded in other non-current liabilities.

## Virtual Stock Options (LTIP II)

Members of the Management Board were given a one-time grant of 800,001 virtual stock options on April 1, 2010. Additionally, the Management Board has been entitled by the Supervisory Board to grant such virtual stock options also to selected members of senior management, also effective as of April 1, 2010. The total number of virtual stock options that could be granted to such managers was 1,125,000. The Management Board has fully allocated these virtual stock options.

Due to the departure of employees from the Company, a total of 206,667 of the virtual stock options allotted to members of the Management Board and senior management have forfeited.

Depending on the achievement of specific performance targets, the virtual stock options vest in several tranches on March 31, 2012 (40% of the options), on March 31, 2013 (another 30% of the options), and on March 31, 2014 (the remaining 30% of the options). The performance targets that were set are target EBITDA levels which must be achieved during a specific time period as well as price targets for KDH AG shares that must be achieved within defined performance time frames. If the respective price targets are not achieved within the relevant performance time frame, the options may also become vested subsequently, up to the expiration of the exercise period, if and when the price target for one of the following performance time frames is achieved either before the start of such next performance time frame or during it, insofar as the relevant Management Board member is in office at the time the target is achieved (so-called "catch-up vesting"). The virtual stock options can be exercised for the first time four years after being granted and within a two-year exercise period. In the event of a material adverse change of the capital markets, the Supervisory Board may also extend the term of the options and the exercise period by up to two years. Virtual stock options not exercised within the (if necessary extended) exercise period shall be forfeited without compensation. Upon exercise of the virtual options, the difference between the IPO issue price of KDH AG shares (€22) and the volume-weighted average closing price of KDH AG shares in XETRA trading during the last 30 days ("average price") prior to the exercise date will be paid out in cash.

In the event of unusual developments, the Supervisory Board may limit the number of virtual stock options subject to payout.

The following table summarizes the information regarding the virtual stock options granted as part of the LTIP:

| | LTIP II Virtual Stock Options (Management Board and Senior Management) | |
|---|---|---|
| | Number of Virtual Stock Options | Weighted Average Exercise Price € |
| **Outstanding as of March 31, 2011** | **1,925,001** | **22.00** |
| Granted | 0 | - |
| Forfeited | (191,667) | - |
| Exercised | 0 | - |
| Expired | 0 | - |
| **Outstanding as of March 31, 2012** | **1,733,334** | **22.00** |
| Granted | 0 | - |
| Forfeited | (15,000) | - |
| Exercised | 0 | - |
| Expired | 0 | - |
| **Outstanding as of March 31, 2013** | **1,718,334** | **22.00** |
| Vested, nonforfeitable virtual stock options as of March 31, 2013 | 1,202,834 | 22.00 |

All virtual stock options outstanding as of March 31, 2013 have an exercise price as of that date of €22.00 and a remaining contractual life of three years, consisting of one year of residual vesting and an exercise period of two years.

The measurement of the fair value of the virtual stock options at grant date and each consecutive date is based on the Black-Scholes Option Pricing Model. The main parameters are the fair value of the KDH AG share based on the market price on the Frankfurt Stock Exchange, the expected volatility of the value of the KDH AG share, the estimated term of the options and the risk-free interest rate on the valuation dates (based on the estimated average life of the options of six years). Implications of expected future dividend payments on the valuation have been included in the calculation as far as applicable.

The information on how the fair value of the virtual stock options has been measured is summarized in the following table:

| | LTIP II Virtual Stock Options (Management Board and Senior Management) | | | | |
|---|---|---|---|---|---|
| Grant Date | Number of Virtual Stock Options | Risk-Free Interest Rate at Grant Date | Fair Value of Options at Grant Date (per Option) | Exercise Price | Fair Value of Options at Measurement Date (per Option) |
| | | % | € | € | € |
| April 1, 2010 | 1,718,334 | 2.51 | 5.91 | 22.00 | 45.03 |

For the fiscal years ended March 31, 2013 and March 31, 2012, the Group recognized personnel expenses totaling T€43,922 and 13,949, respectively, in connection with the virtual stock options, based on the change in fair value and vesting. Fair value changes resulted primarily from the increased fair value of the underlying due to the increase in the share price of KDH AG shares to €71.98 as of March 31, 2013, as well as increased expectations regarding future dividend payments.

A total liability of T€71,605 is reported in the consolidated statement of financial position as of March 31, 2013 for vested virtual stock options issued under the LTIP. In the consolidated statement of financial position as of March 31, 2012, the total liability amounted to T€27,682. This liability was recorded in other non-current liabilities.

## 5.6 FINANCIAL INSTRUMENTS

The activities of the Group expose KDH to a number of financial risks: credit risk, market risk (including currency risk, interest rate-related market value risk and interest rate-related cash flow risk) and liquidity risk.

### Credit Risk

Credit risk is the risk of a financial loss for the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The exposure to credit risk primarily exists based on receivables due from customers. Credit risk varies from customer to customer. For all payments underlying the primary financial instruments, collateral-like guarantees may be requested, and historical data of prior business relations may be used in order to minimize the credit risk depending on the nature and extent of the respective payments. Without consideration of securities or other credit risk reducing agreements, the carrying amount of primary financial instruments comprised of cash and cash equivalents, trade receivables and other current financial assets of T€748,540 (prior year: T€230,312) represents the maximum exposure to credit risk for those financial instruments. Impairment losses are recognized for any identifiable credit risks associated with the financial assets.

The credit risk associated with derivative financial instruments is minimized in a way that only transactions with counterparties with top credit ratings are closed. For derivative financial instruments the maximum exposure to credit risk is their fair value amounting to T€9.877. For this reason, the general credit risk relating to the derivative financial instruments used by the Group is not considered to be significant. No concentration of credit risks from business relations with individual debtors is evident.

### Interest Rate Risk

As of the balance sheet date, T€1,352,440 (prior year: T€1,423,759) of KDH's total financial liabilities of T€3,352,440 (prior year: T€2,823,758) are exposed to risks from interest rate fluctuations and the resulting cash flows. Hence, any significant increase in base rates will directly lead to a significant increase of KDH's interest expenses. KDH therefore monitors the interest rate environment closely and is prepared to engage in further interest rate hedging transactions when this appears advisable.

Interest rates on the Senior Credit Facility of T€2,252,440 (prior year: T€2,323,758) are based on one, two, three or six month EURIBOR. Of this amount, loans with a nominal value of T€900,000 have been hedged against interest rate risks for the majority of their terms using the derivative financial instruments described in section 3.12.2.

## Liquidity Risk

Liquidity risk represents the risk that existing liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. In order to ensure the Group's liquidity the Group has unused credit lines under the Senior Credit Facility (Tranche B) amounting to T€324,030 as of March 31, 2013 and March 31, 2012. Future cash outflows arising from financial liabilities that are recognized in the consolidated statement of financial position are presented in the following table. This includes all payments to settle the liabilities and interest payments as well as cash outflows from cash settled derivative financial instruments with a negative market value in the prior year. Financial liabilities that are repayable on demand are included on the basis of the earliest date of repayment according to the contractual terms. Cash flows for variable interest liabilities are determined with reference to the market conditions at the balance sheet date.

| Fiscal year ended March 31, 2013<br>in T€ | Up to 1 year | Between 1 and 3 years | Between 3 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Senior Notes | 71,500 | 143,000 | 530,000 | 718,958 | **1,463,458** |
| Senior Credit Facility | 83,941 | 164,751 | 1,296,826 | 1,091,203 | **2,636,721** |
| Trade payables | 312,616 | 713 | 25 | 0 | **313,354** |
| Finance lease liabilities | 2,709 | 5,336 | 4,998 | 9,052 | **22,094** |
| Other financial liabilities | 25,560 | 0 | 0 | 0 | **25,560** |
| Derivatives | 22,167 | 43,956 | 22,471 | 0 | **88,593** |
| **Total** | **518,492** | **357,756** | **1,854,320** | **1,819,213** | **4,549,781** |

| Fiscal year ended March 31, 2012<br>in T€ | Up to 1 year | Between 1 and 3 years | Between 3 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Senior Notes | 27,083 | 65,000 | 65,000 | 546,042 | **703,125** |
| Senior Credit Facility | 93,540 | 252,558 | 1,356,036 | 1,133,217 | **2,835,351** |
| Trade payables | 287,882 | 1,426 | 139 | 0 | **289,447** |
| Finance lease liabilities | 3,261 | 4,744 | 4,744 | 10,906 | **23,655** |
| Other financial liabilities | 22,465 | 0 | 0 | 0 | **22,465** |
| Derivatives | 20,273 | 40,360 | 38,173 | 2,517 | **101,323** |
| **Total** | **454,504** | **364,088** | **1,464,092** | **1,692,682** | **3,975,366** |

## Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating to reduce risks from its highly leveraged financing structure. Thereby the ratios of consolidated senior net borrowings to EBITDA and EBITDA to net interest expenses are controlled (see section 3.12.2). KDH keeps in close contact with its lenders and rating agencies in order to be highly transparent for the investors. The Group is constantly in discussions with banks and other financial experts to monitor capital market conditions and to find ways to optimize KDH's capital structure.

The Group's ability to repay and to refinance its debt, as well as to fund future operations and capital expenditures, will depend on the Group's operating performance and the ability to generate sufficient cash. Accordingly the Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the fiscal years ended March 31, 2013 and 2012, respectively.

## Financial Assets and Liabilities at Carrying Amount and Fair Value

The following table presents the carrying amounts and fair values of financial assets and liabilities in accordance to the definitions and categories of IAS 39 described under section 2.6.

| in T€ | Category according to IAS 39 | Fiscal year ended March 31, 2013 Carrying Amount | Fiscal year ended March 31, 2013 Fair Value | March 31, 2012 Carrying Amount | March 31, 2012 Fair Value |
|---|---|---|---|---|---|
| **Financial assets measured at fair value through profit or loss** | | | | | |
| Derivatives without a hedging relationship | FAHfT | 9,877 | 9,877 | 11,299 | 11,299 |
| **Total financial assets measured at fair value through profit or loss** | | 9,877 | 9,877 | 11,299 | 11,299 |
| **Financial assets measured at cost or amortized cost** | | | | | |
| Cash and cash equivalents | LaR | 609,547 | 609,547 | 133,784 | 133,784 |
| Trade receivables | LaR | 131,226 | 131,226 | 88,808 | 88,808 |
| Other current financial assets | LaR | 7,777 | 8,308 | 7,720 | 8,297 |
| **Total loans and receivables** | LaR | 748,550 | 749,081 | 230,312 | 230,889 |
| **Financial liabilities measured at cost or amortized cost** | | | | | |
| Current financial liabilities | FLAC | 14,888 | 14,888 | 9,468 | 9,468 |
| Trade payables | FLAC | 312,616 | 312,616 | 287,882 | 287,882 |
| Other financial liabilities | FLAC | 31,352 | 58,719 | 33,110 | 57,437 |
| Senior Notes | FLAC | 1,102,413 | 1,172,370 | 496,419 | 525,950 |
| Senior Credit Facility | FLAC | 2,309,412 | 2,309,412 | 2,261,158 | 2,261,158 |
| **Total financial liabilities measured at cost or amortized cost** | | 3,770,681 | 3,868,005 | 3,088,037 | 3,141,895 |
| Other current liabilities | | | | | |
| Finance lease liabilities | - | 900 | 1,916 | 1,454 | 2,267 |
| Other non-current liabilities | | | | | |
| Finance lease liabilities | - | 10,511 | 16,203 | 10,078 | 15,256 |
| **Financial liabilities measured at fair value through profit or loss** | | | | | |
| Derivatives without a hedging relationship | FLHfT | 17,115 | 17,115 | 12,883 | 12,883 |
| Derivatives in a hedging relationship | - | 58,156 | 58,156 | 69,202 | 69,202 |
| **Total financial liabilities measured at fair value through profit or loss** | | 75,271 | 75,271 | 82,085 | 82,085 |

The terms have the following respective meanings:

FAHfT: Financial Assets Held for Trading

LaR: Loans and Receivables

FLAC: Financial Liabilities Measured at Amortized Cost

FLHfT: Financial Liabilities Held for Trading

The carrying amounts of the Group's cash and cash equivalents, trade receivables and payables, short-term loans, as well as other current liabilities, in view of their short terms as of March 31, 2013 and March 31, 2012, are effectively equal to their fair values as they have interest rates based on variable interest rates that change in line with the market. Using a discounted cash flow analysis based on the current interest rate for an identical loan term, the fair value of the Group's long-term, fixed-rate liabilities is estimated as the net present value of future payments, using yield curves obtained by banks and money market observations. Due to the complexity inherent in such an estimate, the estimate may not necessarily reflect actual market values. Different market assessments or estimate procedures may therefore significantly influence the fair value estimate. For derivatives the Group used the hierarchy level 2 as valuation technique for determining and disclosing the fair value of financial instruments. Level 2 valuation techniques are characterized as other techniques for which all input parameters that have a significant effect on the recorded fair value are either directly or indirectly observable.

The following table shows net gains or losses of financial instruments according to categories of IAS 39 recognized in the consolidated statement of income:

| in T€ | Fiscal year ended March 31, 2013 | 2012 |
|---|---|---|
| Loans and receivables | (20,024) | (19,734) |
| Financial assets and liabilities at fair value through profit or loss (held for trading) | (2,466) | 171 |
| Financial liabilities measured at amortized cost | (10,630) | (13,562) |
| **Net gains or losses** | **(33,120)** | **(33,125)** |

Net losses on loans and receivables contain primarily changes in allowances for trade receivables, gains or losses on write-offs as well as recoveries of amounts previously written off.

Net gains or losses on financial assets and liabilities at fair value through profit or loss include the effects from the fair value measurement of derivative financial instruments that are not part of a hedge accounting relationship. For the fiscal year ended March 31, 2013, the derivative financial instruments consisted solely of interest floors.

Net losses on financial liabilities measured at amortized cost include effects from early settlement.

## Sensitivity Analysis

The Group is aware that changes in certain risk variables, such as the interest rates and exchange rates, could affect future cash inflows and outflows as well as the associated fair values of KDH's derivatives as well as amounts recognized in equity or in the statement of income for the period. KDH therefore examined the following:

(a) changes to risk variables that were reasonably possible as of the balance sheet date, and

(b) the effects of such changes on the statement of income for the period and equity, if they were to occur.

Interest rate risks result from the variable interest rates (EURIBOR and US$-LIBOR) on KDH's bank loans (Senior Credit Facility). The table below shows the negative/positive effects on the statement of income for the period and equity due to what was considered to be an adequate potential increase/decrease in the base interest rate of 10, 50 or 100 basis points:

| Risk Variables | Change of Risk Variables [1] bps | Change in Value March 31, 2013 T€ | Impact on (Profit) or Loss April 1, 2012 - March 31, 2013 T€ | Impact on Equity April 1, 2012 - March 31, 2013 T€ |
|---|---|---|---|---|
| EURIBOR/LIBOR | (10) | (5,302) | (1,662) | (3,640) |
| EURIBOR/LIBOR | 50 | 26,368 | 8,436 | 17,931 |
| EURIBOR/LIBOR | 100 | 52,119 | 16,703 | 35,416 |

[1] As of the reporting date March 31, 2013, the EURIBOR interest level was at approximately 12 basis points.

The fixed rate Senior Notes are measured at amortized cost so that changes in interest rates did not affect the statement of income for the period.

Exchange rate risks generally arise from changes in the EUR/US$ exchange rate in connection with the US Dollar Tranche F1 of KDH's bank loan (Senior Credit Facility). The effects from changes in the exchange rate of the US Dollar are completely hedged by the closed hedging instruments until January 2017. The negative/positive effect due to what was considered to be an adequate potential increase/decrease in the exchange rate of 5% or 10% on equity is presented in the table below.

| Risk Variables | Change of Risk Variables | Change in Value March 31, 2013 | Impact on (Profit) or Loss April 1, 2012 - March 31, 2013 | Impact on Equity April 1, 2012 - March 31, 2013 |
|---|---|---|---|---|
| | % | T€ | T€ | T€ |
| EUR/US$ exchange rate | (10) | 6,067 | 0 | 6,067 |
| EUR/US$ exchange rate | (5) | 2,874 | 0 | 2,874 |
| EUR/US$ exchange rate | 5 | (2,600) | 0 | (2,600) |
| EUR/US$ exchange rate | 10 | (4,964) | 0 | (4,964) |

## 5.7 GROUP COMPANIES

| Fully consolidated companies (IFRS 3) | Registered Office | Share- holding in % |
|---|---|---|
| 1 Kabel Deutschland Holding AG | Unterfoehring | |
| 2 Kabel Deutschland Vertrieb und Service GmbH | Unterfoehring | 100.00 |
| 3 Kabel Deutschland Kundenbetreuung GmbH | Unterfoehring | 100.00 |
| 4 TKS Telepost Kabel-Service Kaiserslautern Beteiligungs-GmbH | Kaiserslautern | 100.00 |
| 5 TKS Telepost Kabel-Service Kaiserslautern GmbH & Co. KG [1)] | Kaiserslautern | 100.00 |
| 6 Kabel Deutschland Field Services GmbH | Nuremberg | 100.00 |
| 7 "Urbana Teleunion" Rostock GmbH & Co. KG [1)] | Rostock | 70.00 |
| 8 Verwaltung "Urbana Teleunion" Rostock GmbH | Rostock | 50.00 |
| 9 KABELCOM Braunschweig Gesellschaft für Breitbandkabel- Kommunikation mit beschränkter Haftung | Braunschweig | 100.00 |
| 10 KABELCOM Wolfsburg Gesellschaft für Breitbandkabel- Kommunikation mit beschränkter Haftung | Wolfsburg | 100.00 |
| 11 Kabel Deutschland Dritte Beteiligungsgesellschaft mbH | Unterfoehring | 100.00 |
| 12 Kabel Deutschland Fünfte Beteiligungsgesellschaft mbH | Unterfoehring | 100.00 |
| 13 Kabel Deutschland Sechste Beteiligungs GmbH | Unterfoehring | 100.00 |
| 14 Kabel Deutschland Siebte Beteiligungs GmbH | Unterfoehring | 100.00 |
| 15 Kabel Deutschland Achte Beteiligungs GmbH | Unterfoehring | 100.00 |
| 16 Kabel Deutschland Neunte Beteiligungs GmbH | Unterfoehring | 100.00 |

1) These companies apply Section 264b HGB and are therefore released from the preparation, audit and publication of annual financial statements as of March 31, 2013.

| Companies consolidated at equity (IAS 28) | Registered Office | Share- holding in % |
|---|---|---|
| 17 Kabelfernsehen München Servicenter Gesellschaft mit beschränkter Haftung | Munich | 24.00 |
| 18 Kabelfernsehen München Servicenter GmbH & Co. KG | Munich | 30.22 |

## 5.8 PARTICULAR EVENTS AFTER THE BALANCE SHEET DATE

On April 19, 2013, the Group was able to improve the terms and conditions of its €400 million Tranche D and €782 million Tranche G by reducing the interest margin to 2.75% (previously 4.00% and 3.50% respectively) above the 1-month-EURIBOR. The changes were implemented by rolling the majority of the former Tranches D and G into the €1,000 million Tranche H effective April 30, 2013. At that time, the remaining financial liabilities of the Facilities D and G of the Group were correspondingly reduced by €182 million from existing liquidity. Tranche H matures in March 2020, which means that also an extension of the term of approximately three years was reached. All other contractual terms and conditions remained unchanged. The interest hedges entered into for Tranche D remain in place and from April 30, 2013 will be used to hedge the new Tranche H.

In addition, on April 19, 2013 the Group entered into a new revolving credit tranche B4, which will be available in March 2014 and run until March 2019. Tranche B4 starts with a drawing limit of €84.6 million, which increases to €159.6 million in June 2015 and to €270.0 million in March 2017. The margin of Tranche B4 is 2.75% above the 1-month-EURIBOR. A commitment fee of 1.10% p.a. is to be paid on the undrawn balance from March 2014.

On May 3, 2013, the Group was able to improve the terms and conditions of its €500 million Tranche E by reducing the interest margin to 2.75% (previously 3.25%) above the 1-month-EURIBOR. The changes were implemented by rolling the former Tranche E into Tranche E1 effective May 14, 2013. Tranche E1 matures in June 2020, which means that also an extension of the term of two years was reached. All other contractual terms and conditions remained unchanged. The interest hedges entered into for Tranche E remain in place and from May 14, 2013 will be used to hedge the new Tranche E1.

## 5.9 MANAGEMENT AND SUPERVISORY BOARD

### Management Board

The Management Board of the Group was comprised of the following members during the fiscal year ended March 31, 2013:

| Name / Position | Member of Supervisory Boards or similar supervisory bodies |
|---|---|
| **Dr. Adrian v. Hammerstein**<br>**Chairman of the Management Board**<br>Chief Executive Officer | Vice President of ANGA Verband Deutscher Kabelnetzbetreiber e.V.<br>Board member of Münchner Kreis - Übernationale Vereinigung für Kommunikationsforschung e.V.<br>Board member of BITKOM Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V.<br>Member of the Supervisory Board of msg systems AG |
| **Dr. Manuel Cubero del Castillo-Olivares**<br>Chief Operating Officer | Vice President of Cable Europe (European Cable Communications Association) |
| **Erik Adams**<br>Chief Marketing Officer | None |
| **Dr. Andreas Siemen**<br>Chief Financial Officer | None |

### Supervisory Board

The Supervisory Board of the Group was comprised of the following members during the fiscal year ended March 31, 2013:

| Name / Position | Member of other Supervisory Boards or similar supervisory bodies |
|---|---|
| **Representatives of the Shareholders:** | |
| **Tony Ball**<br>**Chairman of the Supervisory Board**<br>Entrepreneur | Non-executive board director of ONO SA<br>Board member of Olympic Delivery Authority (ODA) London 2012<br>Non-executive board director of British Telecom Group PLC<br>Chairman of advisory counsel of Portland PR |
| **Annet Aris**<br>Adjunct Professor of Strategy at INSEAD | Supervisory Board member of Jungheinrich AG<br>Supervisory Board member of Tomorrow Focus AG<br>Deputy Chairman of the Supervisory Board of V-Ventures B.V.<br>Supervisory Board member of ASR Nederland<br>Supervisory Board member of Sanoma Group<br>Deputy Chairman of the Supervisory Board of Hansa Heemann AG |
| **Catherine Mühlemann**<br>Entrepreneur and co-owner of Andmann Media Holding GmbH | Board member of Swisscom AG<br>Member of the Supervisory Board of Messe Berlin GmbH<br>Member of the Advisory Board of Luxodo GmbH<br>Board member of Schweiz Tourismus |
| **Martin David Stewart**<br>Chief Executive Officer of EurotaxGlass's International AG | Non-executive director and Chair of the Audit Committee of the London Organising Committee for the Olympic and Paralympic Games (Locog) Ltd.<br>Non-executive director and Chair of the Audit Committee of SIS Ltd. |

| Name / Position | Member of other Supervisory Boards or similar supervisory bodies |
| --- | --- |
| **Paul Stodden**<br>Managing Partner of Antevorte Performance Management GmbH & Co. KG | |
| **Torsten Winkler**<br>Partner of Vitruvian Partners LLP | |
| **Representatives of the Employees:** | |
| **Joachim Pütz**<br>**Deputy Chairman of the Supervisory Board**<br>Secretary of the Workers Union at the ver.di- Bundesverwaltung | |
| **Susanne Aichinger**<br>Workers' council of the region of Bavaria | |
| **Petra Ganser**<br>Secretary of the Workers Union at the ver.di- Bundesverwaltung | Member of the Supervisory Board of Trenkwalder Personaldienste GmbH |
| **Irena Gruhne**<br>Workers' council for the customer service area | |
| **Ronald Hofschläger**<br>Workers' council in the KDVS GmbH headquarters | |
| **Florian Landgraf**<br>(since September 13, 2012)<br>Executive employee (Director Cable TV, Content & Productmanagement) | |
| **Helmut von der Lieck**<br>(until August 23, 2012)<br>Executive employee (Director Customer Service & Ordermanagement) | |

## 5.10 OTHER MANDATORY DISCLOSURES ACCORDING TO GERMAN COMMERCIAL CODE

### Declaration of Compliance with the German Corporate Governance Code in Accordance with Section 161 AktG (German Stock Corporation Act)

In accordance with Section 161 AktG, the Management Board and the Supervisory Board of KDH AG have issued the mandatory Declaration of Compliance and made it available to shareholders on the Kabel Deutschland website. The full text of the Declaration of Compliance can be found on the Kabel Deutschland website (www.kabeldeutschland.com).

Unterfoehring, June 3, 2013

Kabel Deutschland Holding AG

Dr. Adrian v. Hammerstein
Chief Executive Officer

Dr. Manuel Cubero del Castillo-Olivares
Chief Operating Officer

Erik Adams
Chief Marketing Officer

Dr. Andreas Siemen
Chief Financial Officer

| in T€ | Acquisition and production costs | | | | | Accumulated depreciation and amortization | | | | | | Net book value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Analysis of Fixed Assets for the Period from April 1, 2012 to March 31, 2013 | April 1, 2012 | Additions | Disposals | Reclassifications | March 31, 2013 | April 1, 2012 | Additions | Disposals | Reclassifications | Change in equity investments in associates | March 31, 2013 | March 31, 2013 |
| **I. Intangible assets** | | | | | | | | | | | | |
| 1. Software and licences and other contractual and legal rights | 533,282 | 82,957 | 89,947 | 7,469 | 533,761 | 354,755 | 51,302 | 89,946 | 0 | 0 | 316,111 | 217,650 |
| 2. Internally generated software | 37,551 | 8,964 | 0 | 0 | 46,515 | 22,548 | 5,133 | 0 | 0 | 0 | 27,681 | 18,834 |
| 3. Customer list | 274,809 | 0 | 3,483 | 0 | 271,327 | 137,316 | 36,061 | 3,483 | 0 | 0 | 169,894 | 101,432 |
| 4. Goodwill | 287,274 | 0 | 0 | 0 | 287,274 | 0 | 0 | 0 | 0 | 0 | 0 | 287,274 |
| 5. Prepayments | 12,071 | 11,579 | 0 | (7,469) | 16,180 | 0 | 0 | 0 | 0 | 0 | 0 | 16,180 |
| | 1,144,987 | 103,499 | 93,429 | 0 | 1,155,057 | 514,619 | 92,496 | 93,429 | 0 | 0 | 513,686 | 641,371 |
| **II. Property and equipment** | | | | | | | | | | | | |
| 1. Buildings on non-owned land | 33,301 | 6,798 | 93 | 3,388 | 43,394 | 14,731 | 4,614 | 83 | 27 | 0 | 19,288 | 24,105 |
| 2. Technical equipment | 2,854,058 | 291,753 | 95,974 | 27,339 | 3,077,176 | 1,754,019 | 253,297 | 92,192 | 6 | 0 | 1,915,129 | 1,162,048 |
| 3. Other equipment, furniture and fixtures | 91,276 | 12,457 | 1,587 | 40 | 102,185 | 67,520 | 10,524 | 1,437 | (33) | 0 | 76,574 | 25,611 |
| 4. Construction in progress | 55,653 | 72,217 | 2 | (30,767) | 97,100 | 0 | 0 | 0 | 0 | 0 | 0 | 97,100 |
| | 3,034,287 | 383,225 | 97,657 | 0 | 3,319,855 | 1,836,270 | 268,434 | 93,712 | 0 | 0 | 2,010,991 | 1,308,864 |
| **III. Financial assets** | | | | | | | | | | | | |
| Equity investments in associates | 1,801 | 0 | 0 | 0 | 1,801 | (6,322) | 0 | 0 | 0 | 406 | (5,916) | 7,717 |
| | 1,801 | 0 | 0 | 0 | 1,801 | (6,322) | 0 | 0 | 0 | 406 | (5,916) | 7,717 |
| | **4,181,075** | **486,724** | **191,086** | **0** | **4,476,713** | **2,344,566** | **360,930** | **187,142** | **0** | **406** | **2,518,761** | **1,957,952** |

## Kabel Deutschland Holding AG, Unterfoehring
## Appendix 2 to the notes

Analysis of Fixed Assets for the Period from April 1, 2011 to March 31, 2012

| in T€ | Acquisition and production costs | | | | | Accumulated depreciation and amortization | | | | | | Net book value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | April 1, 2011 | Additions | Disposals | Reclassifications | March 31, 2012 | April 1, 2011 | Additions | Disposals | Reclassification | Change in equity investments in associates | March 31, 2012 | March 31, 2012 |
| **I. Intangible assets** | | | | | | | | | | | | |
| 1. Software and licences and other contractual and legal rights | 454,446 | 68,356 | 10 | 10,490 | 533,282 | 303,691 | 51,074 | 10 | 0 | 0 | 354,755 | 178,527 |
| 2. Internally generated software | 29,509 | 8,042 | 0 | 0 | 37,551 | 18,642 | 3,906 | 0 | 0 | 0 | 22,548 | 15,003 |
| 3. Customer list | 964,297 | 33 | 689,548 | 27 | 274,809 | 756,271 | 70,592 | 689,548 | 0 | 0 | 137,316 | 137,494 |
| 4. Goodwill | 287,274 | 0 | 0 | 0 | 287,274 | 0 | 0 | 0 | 0 | 0 | 0 | 287,274 |
| 5. Prepayments | 16,263 | 6,324 | 0 | (10,516) | 12,071 | 0 | 0 | 0 | 0 | 0 | 0 | 12,071 |
| | 1,751,789 | 82,756 | 689,558 | 0 | 1,144,987 | 1,078,604 | 125,572 | 689,558 | 0 | 0 | 514,619 | 630,368 |
| **II. Property and equipment** | | | | | | | | | | | | |
| 1. Buildings on non-owned land | 25,407 | 3,447 | 12 | 4,458 | 33,301 | 10,775 | 3,916 | 7 | 47 | 0 | 14,731 | 18,570 |
| 2. Technical equipment | 2,649,163 | 262,773 | 95,732 | 37,854 | 2,854,058 | 1,590,368 | 256,735 | 93,098 | 14 | 0 | 1,754,019 | 1,100,039 |
| 3. Other equipment, furniture and fixtures | 83,451 | 8,093 | 822 | 554 | 91,276 | 58,540 | 9,713 | 673 | (61) | 0 | 67,520 | 23,756 |
| 4. Construction in progress | 60,164 | 38,407 | 52 | (42,866) | 55,653 | 0 | 0 | 0 | 0 | 0 | 0 | 55,653 |
| | 2,818,186 | 312,720 | 96,618 | 0 | 3,034,287 | 1,659,683 | 270,364 | 93,778 | 0 | 0 | 1,836,270 | 1,198,018 |
| **III. Financial assets** | | | | | | | | | | | | |
| Equity investments in associates | 1,801 | 0 | 0 | 0 | 1,801 | (11,368) | 0 | 0 | 0 | 5,046 | (6,322) | 8,123 |
| | 1,801 | 0 | 0 | 0 | 1,801 | (11,368) | 0 | 0 | 0 | 5,046 | (6,322) | 8,123 |
| | **4,571,775** | **395,475** | **786,176** | **0** | **4,181,075** | **2,726,919** | **395,937** | **783,336** | **0** | **5,046** | **2,344,566** | **1,836,509** |

# RESPONSIBILITY STATEMENT

## Kabel Deutschland Holding AG, Unterfoehring

### Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Group management report, which is combined with the management report of Kabel Deutschland Holding AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Unterfoehring, June 3, 2013

Dr. Adrian v. Hammerstein
Chief Executive Officer

Dr. Manuel Cubero del Castillo-Olivares
Chief Operating Officer

Erik Adams
Chief Marketing Officer

Dr. Andreas Siemen
Chief Financial Officer

# AUDIT OPINION

We have audited the consolidated financial statements prepared by the Kabel Deutschland Holding AG, Unterfoehring, comprising the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of Kabel Deutschland Holding AG, for the fiscal year from April 1, 2012 to March 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ['Handelsgesetzbuch': 'German Commercial Code'] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, Germany, June 3, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| *[signed]* | *[signed]* |
| Dahmen | Christ |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# Kabel Deutschland Holding AG
# Unterfoehring

# Annual Financial Statements

# For the Fiscal Year Ended March 31, 2013

## Kabel Deutschland Holding AG, Unterfoehring
## Balance Sheet as of March 31, 2013

| Assets | | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| | € | € | T€ |
| **A. Fixed Assets** | | | |
| **Financial Assets** | | | |
| 1. Investments in Affiliates | 1,515,498,000.00 | | 1,515,498 |
| 2. Loans to Affiliates | 400,000,000.00 | | 0 |
| | | 1,915,498,000.00 | 1,515,498 |
| **B. Current Assets** | | | |
| **I. Receivables and Other Assets** | | | |
| 1. Receivables from Affiliates | 230,981,869.06 | | 17,379 |
| 2. Other Assets | 2,565.95 | | 4 |
| | | 230,984,435.01 | 17,382 |
| **II. Cash on Hand and Bank Balances** | | 5,100,434.69 | 100 |
| | | 236,084,869.70 | 17,482 |
| **C. Prepaid Expenses** | | 158,249.99 | 151 |
| **D. Deferred Tax Assets** | | 132,937,727.72 | 0 |
| | | **2,284,678,847.41** | **1,533,131** |

| Equity and Liabilities | | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| | € | € | T€ |
| **A. Equity** | | | |
| **I. Subscribed Capital** | | 88,522,939.00 | 88,523 |
| **II. Capital Reserves** | | 376,638,006.06 | 376,638 |
| **III. Legal and Other Reserves** | | | |
| 1. Legal Reserve | 8,852,293.90 | | 0 |
| 2. Other Reserves | 7,118,091.53 | | 0 |
| | | 15,970,385.43 | 0 |
| **IV. Accumulated Profit** | | **221,307,347.50** | **135,000** |
| | | 702,438,677.99 | 600,161 |
| **B. Provisions** | | | |
| 1. Provisions for Pensions | 1,964,537.04 | | 1,695 |
| 2. Other Provisions | 47,950,331.67 | | 17,745 |
| | | 49,914,868.71 | 19,440 |
| **C. Liabilities** | | | |
| 1. Bonds | 400,000,000.00 | | 0 |
| 2. Trade Payables | 55,546.03 | | 84 |
| 3. Liabilities to Affiliates | 1,121,950,620.52 | | 902,821 |
| 4. Other Liabilities | 10,319,134.16 | | 10,623 |
| thereof for Taxes €10,318,382.34 (prior year: T€10,622) | | | |
| | | 1,532,325,300.71 | 913,528 |
| **D. Deferred Tax Liabilities** | | 0.00 | 2 |
| | | 2,284,678,847.41 | 1,533,131 |

## Kabel Deutschland Holding AG, Unterfoehring
## Statement of Income
## for the Period from April 1, 2012 to March 31, 2013

| | | April 1, 2012 - March 31, 2013 | April 1, 2011 - March 31, 2012 |
|---|---|---|---|
| | € | € | T€ |
| 1. Revenues | 14,448,391.65 | | 2,910 |
| 2. Other Operating Income | 25,004.94 | | 9 |
| | | 14,473,396.59 | 2,919 |
| 3. Personnel Expenses | | | |
| a) Wages and Salaries | (29,304,655.49) | | (10,816) |
| b) Social Security and Pension Costs | (304,256.48) | | (274) |
| thereof for old-age pensions €216,411.59 (prior year: T€191) | | | |
| 4. Other Operating Expenses | (5,351,313.37) | | (3,849) |
| | | (34,960,225.34) | (14,939) |
| 5. Income from Equity Investments | 200,000,000.00 | | 0 |
| thereof from affiliates €200,000,000.00 (prior year: T€0) | | | |
| 6. Interest and Similar Income | 20,222,222.23 | | 4 |
| thereof from affiliates €20,222,222.23 (prior year: T€0) | | | |
| 7. Interest and Similar Expenses | (97,613,252.69) | | (56,250) |
| thereof to affiliates €64,960,764.61 (prior year: T€46,411) | | | |
| thereof to accumulation €104,014.00 (prior year: T€76) | | | |
| | | 122,608,969.54 | (56,246) |
| 8. Result from Ordinary Business Activities | | 102,122,140.79 | (68,265) |
| 9. Income Taxes | | 132,940,000.64 | 24 |
| thereof income from changes in recognized deferred taxes €132,940,000.00 (prior year: T€24) | | | |
| 10. Net Profit / Loss for the Year | | 235,062,141.43 | (68,241) |
| 11. Accumulated Profit / Losses of the Prior Year | 135,000,000.00 | | (83,707) |
| Dividend Distribution to Shareholders | (132,784,408.50) | | 0 |
| Accumulated Profit / Losses Brought Forward | | 2,215,591.50 | |
| 12. Transfer from Capital Reserves | | 0.00 | 286,948 |
| 13. Transfer from Capital Reserves for the Purchase and Retirement of Treasury Shares in the Account of Accumulated Profit | | 0.00 | 60,000 |
| 14. Expenses from the Purchase and Retirement of Treasury Shares | | 0.00 | (60,000) |
| 15. Income from Reduction of Subscribed Capital | | 0.00 | 1,477 |
| 16. Contribution to Appropriated Capital Reserves Pursuant to Section 237 (5) AktG | | 0.00 | (1,477) |
| 17. Contribution to Legal Reserve | | (8,852,293.90) | 0 |
| 18. Contribution to Other Reserves | | (7,118,091.53) | 0 |
| 19. Accumulated Profit | | 221,307,347.50 | 135,000 |

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# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR KABEL DEUTSCHLAND HOLDING AG AS OF MARCH 31, 2013


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# 1 BASIS OF PREPARATION

These annual financial statements of Kabel Deutschland Holding AG ("KDH AG" or the "Company") were prepared in accordance with Sections 242 et seq. and Sections 264 et seq. of the German Commercial Code (Handelsgesetzbuch – "HGB") and the supplementary regulations of the German Stock Corporation Act (Aktiengesetz – "AktG"). The Company is capital market-oriented as defined in Section 264d HGB and is therefore considered to be a large capital corporation in accordance with Section 267 para. 3 sentence 2 HGB. The statement of income has been prepared using the total cost method pursuant to Section 275 para. 2 HGB.

The Company's fiscal year ends on March 31.

# 2 ACCOUNTING AND VALUATION METHODS

The Company's financial statements were prepared unchanged in accordance with the following accounting and valuation methods and on the premise that the company is a going concern.

## 2.1 FINANCIAL ASSETS

Investments in affiliates are stated at acquisition cost. Loans to affiliates are also stated at acquisition cost; which is the amount paid (nominal value). The Company recognizes impairment losses when there are decreases in the values of the financial assets.

## 2.2 RECEIVABLES AND OTHER ASSETS

Receivables and other assets are stated at their nominal value. Identifiable individual risks are taken into account through allowances. Non-interest bearing or low interest bearing receivables with a remaining term of more than one year are discounted.

## 2.3 PREPAID EXPENSES

Costs incurred prior to the reporting date are recorded as prepaid expenses if they represent expenses for a certain period after this date.

## 2.4 DEFERRED TAXES

Deferred taxes are calculated by valuing the temporary or timing differences between the carrying amounts of assets, liabilities, prepaid expenses or deferred income in the statutory accounts and their tax carrying amounts, as well as the tax loss carryforwards usable within the next five years, using the tax rates that are specific to the Company.

Deferred tax assets and liabilities are in general presented net. Exercising the option provided for by Section 274 para. 1 sentence 2 HGB, any surplus of deferred tax assets over deferred tax liabilities is recognized as a deferred tax asset. In this case, distribution is restricted in accordance with Section 268 para. 8 HGB.

## 2.5 PROVISIONS FOR PENSIONS

Provisions for pensions and similar obligations are recognized according to actuarial principles, based on the use of the projected unit credit method ("PUC method"). Salary and pension increases expected in the future are taken into account when determining the present value of direct benefits. The average market interest rate published by Deutsche Bundesbank at the time is used as a flat rate for discounting purposes for a remaining term of 15 years. Pensions are calculated using the Heubeck 2005 G Guidelines.

## 2.6 OTHER PROVISIONS

Other provisions are recognized at the required amount to be paid according to reasonable business judgment, taking into account expected future price and cost increases. Provisions falling due in more than one year are discounted for the remaining term at the average market interest rate of the past seven fiscal years, as set and published by Deutsche Bundesbank.

## 2.7 SHARE-BASED PAYMENTS

During the fiscal year ended March 31, 2013 there was a Long-Term Incentive Plan ("LTIP") in place at KDH AG together with its subsidiaries ("KDH" or the "Group") including two share-based payment components – a virtual performance share program with annual grant ("LTIP I") and a one-time grant of virtual stock options ("LTIP II"). When the conditions are met that are linked to both the virtual performance shares issued in the context of LTIP I and the virtual stock options issued in the context of LTIP II, these shares and options are not settled as equity instruments, but in cash. The cost of the virtual performance shares issued in the context of LTIP I and the virtual stock options in the context of LTIP II are remeasured at each balance sheet date based on the total value as calculated on this date. On the basis of this estimate, the cost is allocated over the entire vesting period, taking into consideration the vesting conditions, with recognition of a corresponding liability.

## 2.8 LIABILITIES

Liabilities are recognized at their amount repayable. All financing costs relating to the issuing of bonds are expensed in the statement of income as incurred.

# 3 NOTES TO THE BALANCE SHEET

## 3.1 FINANCIAL ASSETS

As of March 31, 2013, the financial assets of KDH AG amounting to T€1,915,498 (prior year: T€1,515,498) comprise unchanged its 100% equity investment in Kabel Deutschland Vertrieb und Service GmbH ("KDVS GmbH") in the amount of T€1,515,498. In addition, a loan to KDVS GmbH of T€400,000 exists. The proceeds from the 2017 Senior Notes, which have been issued by the Company in June 2012 (see section 3.6.1), were passed on to KDVS GmbH in equal amount by this loan.

The shareholdings of KDH AG are presented in the following table:

| | Name of company | Registered Office | Shareholding in % | Equity T€ | Net profit / net loss for the year T€ |
|---|---|---|---|---|---|
| **A.** | **Direct holdings** | | | | |
| | Kabel Deutschland Vertrieb und Service GmbH | Unterfoehring | 100.00 | 43,081 | 1,139 |
| **B.** | **Indirect holdings** | | | | |
| | **Name of company** | **Registered Office** | **Shareholding in %** | **Equity T€** | **Net profit / net loss for the year T€** |
| 1. | TKS Telepost Kabel-Service Kaiserslautern GmbH & Co. KG | Kaiserslautern | 100.00 | 41,132 | 65 |
| 2. | TKS Telepost Kabel-Service Kaiserslautern Beteiligungs-GmbH | Kaiserslautern | 100.00 | 114 | 6 |
| 3. | Kabel Deutschland Field Services GmbH | Nuremberg | 100.00 | 958 | 441 |
| 4. | Kabel Deutschland Kundenbetreuung GmbH | Unterfoehring | 100.00 | 532 | 6 |
| 5. | "Urbana Teleunion" Rostock GmbH & Co. KG | Rostock | 70.00 | 8,002 | 5,441 |
| 6. | Verwaltung "Urbana Teleunion" Rostock GmbH | Rostock | 50.00 | 44 | 2 |
| 7. | KABELCOM Braunschweig Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung | Braunschweig | 100.00 | 1,967 | 338 |
| 8. | KABELCOM Wolfsburg Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung | Wolfsburg | 100.00 | 1,186 | 297 |
| 9. | Kabel Deutschland Dritte Beteiligungsgesellschaft mbH | Unterfoehring | 100.00 | 309 | 12 |
| 10. | Kabel Deutschland Fünfte Beteiligungsgesellschaft mbH | Unterfoehring | 100.00 | 19 | 0 |
| 11. | Kabel Deutschland Sechste Beteilungs GmbH | Unterfoehring | 100.00 | 25 | 0 |
| 12. | Kabel Deutschland Siebte Beteiligungs GmbH | Unterfoehring | 100.00 | 25 | 0 |
| 13. | Kabel Deutschland Achte Beteiligungs GmbH | Unterfoehring | 100.00 | 24 | (1) |
| 14. | Kabel Deutschland Neunte Beteiligungs GmbH | Unterfoehring | 100.00 | 24 | (1) |
| 15. | Kabelfernsehen München Servicenter GmbH & Co. KG[1] | Munich | 30.22 | 25,393 | 9,229 |
| 16. | Kabelfernsehen München Servicenter Gesellschaft mit beschränkter Haftung – Beteiligungsgesellschaft[1] | Munich | 24.00 | 3,393 | 2,837 |

Unless otherwise stated the fiscal year is from April 1, 2012 to March 31, 2013.

[1] Fiscal year from January 1, 2011 to December 31, 2011

As of March 31, 2013, the equity of KDVS GmbH amounted to T€43,081 (prior year: T€241,942) and the net profit for the year to T€1,139 (prior year: T€27,541). The reduction in the equity of KDVS GmbH resulted primarily from an advance distribution of T€200,000 to KDH AG approved in March 2013.

In order to verify the book value of the equity investment in KDVS GmbH, the value of the company or the value of its equity is calculated on the basis of a current business plan according to "Application of the Principles of IDW S 1 in the Valuation of Investments and Other Equity Interests for the Purposes of Commercial Financial Statements" (IDW AcP HFA 10), taking into account "Principles for the Performance of Business Valuations" (IDW S 1).

The value of the equity is calculated based on the discounted cash flow method. The business plan used as a basis for calculations includes a detailed planning phase covering a period of a total of eight years based on the budget for fiscal year 2013/2014 and another two-year calculation period and a subsequent calculation with a perpetual annuity.

Based on the corresponding calculation of equity, the recoverability of the equity value of KDVS GmbH in the balance sheet of KDH AG, recognized at T€1,515,498 as of March 31, 2013, was confirmed. In addition, the stock market valuation of KDH AG indirectly provided a fair value indicator for the investment in KDVS GmbH.

## 3.2 RECEIVABLES FROM AFFILIATES

Receivables from affiliates comprise the following:

| in T€ | Fiscal year ended March 31, 2013 | Fiscal year ended March 31, 2012 |
|---|---|---|
| Receivables from KDVS GmbH | 230,477 | 17,016 |
| Receivables from other affiliated companies | 504 | 362 |
| **Receivables from affiliates** | **230,982** | **17,379** |

Receivables from KDVS GmbH resulted primarily from the advance distribution of T€200,000 approved by KDVS GmbH in March 2013. Additional receivables from KDVS GmbH include receivables from VAT consolidation amounting to T€13,940 (prior year: T€9,851), receivables for strategic development, consulting and services, among others in connection with financing activities, totaling T€12,204 (prior year: T€6,019) as well as interest receivables related to the loan to KDVS GmbH (see section 3.1) amounting to T€4,333.

Receivables from other affiliated companies amount to T€504 (prior year: T€362) and consist of VAT in connection with VAT consolidations with KABELCOM Braunschweig Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung and KABELCOM Wolfsburg Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung, and of Group services provided for Kabel Deutschland Kundenbetreuung GmbH.

All receivables from affiliated companies have a remaining term of less than one year.

## 3.3 DEFERRED TAX ASSETS

As of March 31, 2013, deferred tax assets amount to T€132,938 (prior year: deferred tax liabilities of T€2) and relate primarily to deferred tax assets resulting from existing interest and loss carryforwards. They were valued at a combined tax rate of 27.4%.

In the fiscal year ended March 31, 2013, deferred tax assets have been capitalized from corporate income tax loss carryforwards of KDH AG in the amount of T€241,891 and from trade tax loss carryforwards in the amount of T€159,900, as well as from interest carryforwards under the German interest barrier rules in the amount of T€310,866. The calculation of deferred tax assets on corporate income tax loss carryforwards was based an a corporate income tax rate of 15% plus the solidarity tax surcharge of 5,5% on corporate income tax. Trade tax loss carryforwards were calculated using a trade tax rate of 11.6% considering the apportionment criteria and interest carryforwards using a tax rate of 24.5% (in consideration of only 75% of interest expenses being deductible for trade tax purposes).

The deferred tax assets were capitalized because their recoverability is established by the income tax consolidation between KDH AG and KDVS GmbH from the beginning of the fiscal year on April 1, 2013, which allows KDH AG to offset tax loss carryforwards against positive taxable income of KDVS GmbH in the future.

## 3.4 SHAREHOLDERS' EQUITY

In the past fiscal year, changes in equity were as follows:

| | Subscribed Capital | | Capital reserves | Legal and other reserves | Accumulated profit / (loss) | Total Equity |
|---|---|---|---|---|---|---|
| | thousand shares | in T€ | in T€ | in T€ | in T€ | in T€ |
| Balance as of March 31, 2012 | 88,523 | 88,523 | 376,638 | 0 | 135,000 | 600,161 |
| Dividend distribution to shareholders | | | | | (132,784) | (132,784) |
| Contribution to legal reserve | | | | 8,852 | (8,852) | 0 |
| Contribution to other reserves | | | | 7,118 | (7,118) | 0 |
| Net income for the year | | | | | 235,062 | 235,062 |
| **Balance as of March 31, 2013** | **88,523** | **88,523** | **376,638** | **15,970** | **221,307** | **702,439** |

### 3.4.1 Subscribed Capital

The subscribed capital of KDH AG remained unchanged at T€88,523 as of March 31, 2013 and comprises 88,522,939 bearer shares with no par value and a pro rata portion of the share capital of €1.00 per share. KDH AG's subscribed capital is fully paid in.

Every share confers rights to one vote at the Shareholders' Meeting.

By unanimous resolution of the extraordinary Shareholders' Meeting of KDH AG of March 15, 2010, the Management Board was authorized in accordance with Section 71 para. 1 no. 8 AktG, subject to the approval of the Supervisory Board, to acquire treasury shares until March 14, 2015 in a volume of up to 10% of the share capital in the amount of T€90,000 existing at the time of the adoption of the resolution. As part of the resolution, the Management Board was also authorized to retire the treasury shares thus acquired without such retirement or its implementation requiring a further Shareholders' Meeting resolution (retirement authorization pursuant to Section 71 para. 1 no. 8 sentence 6 AktG).

In the fiscal year ended March 31, 2012, the Management Board, with consent of the Supervisory Board, repurchased on the stock exchange a total of 1,477,061 no par value shares with a pro rata amount of the share capital of T€1,477 at a total purchase price of approximately T€60,000 (excluding transaction costs) and retired these treasury shares by reducing the share capital.

### Authorized Capital and Contingent Capital

As of March 31, 2013 KDH AG had the following authorized capital and contingent capital in place:

| | Amount in T€ | No par value bearer shares in thousands | Purpose |
|---|---|---|---|
| Authorized Capital 2010/I | 45,000 | 45,000 | Increase in equity (until February 18, 2015) [1] |
| Contingent Capital 2010/I | 45,000 | 45,000 | Granting bearer shares to holders or creditors of convertible and/or warrant bonds (until March 14, 2015) [1] |

[1] subject to the approval of the Supervisory Board

### Authorized Capital

Subject to the approval of the Supervisory Board, the Management Board is authorized by a shareholders' resolution of February 19, 2010 to increase the registered share capital of the Company on one or more occasions through February 18, 2015 by a total amount of up to T€45,000 by issuing up to 45,000,000 new bearer shares with no par value against contributions in cash and/or in kind (''Authorized Capital 2010/I'').

In principle the new shares are to be offered for subscription to the shareholders; they can also be subscribed to by credit institutions or business enterprises within the meaning of Section 186 para. 5 sentence 1 AktG with the obligation to offer them for subscription to the shareholders.

Shareholders' subscription rights can be excluded wholly or in part.

The Management Board is authorized to determine the further details of the capital increases from the Authorized Capital 2010/I and their implementation subject to the approval of the Supervisory Board.

### Contingent Capital

The Company's share capital is increased conditionally by resolution of the Shareholders' Meeting of March 15, 2010 by up to T€45,000 through the issuance of up to 45,000,000 new bearer shares with no par value ("Contingent Capital 2010/I"). The purpose of the contingent capital increase is to grant bearer shares with no par value to the holders and lenders of bonds issued until March 14, 2015 on the basis of the Shareholders' Meeting authorization of March 15, 2010 in return for cash payments, and to provide for conversion or option rights to bearer shares of the Company with no par value or represent a conversion obligation.

The issue of new bearer shares with no par value from the Contingent Capital 2010/I may take place only at a conversion or option price that meets the requirements specified in the authorization granted by resolution of the Shareholders' Meeting of March 15, 2010. The contingent capital increase shall be carried out only to the extent that option or conversion rights are utilized or holders and lenders required to convert their bonds fulfill their conversion obligation, and to the extent that no compensation in cash is granted or treasury shares of the Company or new shares are issued out of authorized capital to service these rights and obligations. The new bearer shares with no par value participate in earnings from the beginning of the fiscal year in which they are created through exercise of option or conversion rights or through fulfillment of conversion obligations. The Management Board is authorized to specify the further details regarding the implementation of the contingent capital increase.

## 3.4.2 Capital, Legal and Other Reserves

The capital reserve remains unchanged from the previous year at T€376,638 and consists of an unrestricted capital reserve pursuant to Section 272 para. 2 no. 4 HGB of T€375,161 and a restricted capital reserve pursuant to Section 237 para. 5 AktG of T€1,477.

An amount of T€8,852 was contributed from the net profit reported for the fiscal year ended March 31, 2013 to the legal reserve pursuant to Section 150 AktG. The legal reserve thus corresponds to 10% of the share capital. The Management Board and the Supervisory Board have additionally, in accordance with Section 19 of KDH AG's Articles of Association and Section 58 para. 2 AktG, resolved jointly to contribute T€7,118 from net profit to other reserves.

## 3.4.3 Accumulated Profit

As of March 31, 2013, the accumulated profit amounts to T€221,307 (prior year: T€135,000); the increase is primarily attributable to the net profit for the fiscal year of T€235,062.

Conversely, the accumulated profit was reduced by the dividend distribution of T€132,784, as the Company's shareholders approved the proposed dividend of €1.50 per share for the fiscal year ended March 31, 2012 at the General Shareholders' Meeting on October 11, 2012. The dividend was paid out on the day after the Shareholders' Meeting.

The contribution of T€15,970 from net profit to the legal reserve and to other reserves also had the effect of reducing the accumulated profit.

Because of the T€132,938 surplus in deferred tax assets over deferred tax liabilities, there are amounts equivalent to that surplus that are restricted from distribution in accordance with Section 268 para. 8 HGB. These amounts are covered by unrestricted reserves at least in equal amounts (see section 3.4.2), so that the accumulated profit can be fully used for distribution.

## 3.5 PROVISIONS

In the fiscal year ended March 31, 2013, provisions developed as follows:

| in T€ | Balance as of April 1, 2012 | Utilization | Reversal | Addition | Interest | Balance as of March 31, 2013 |
|---|---|---|---|---|---|---|
| **Provisions for pensions** | **1,695** | **0** | **0** | **166** | **104** | **1,965** |
| Personnel expenses | 16,545 | 1,590 | 0 | 27,099 | 0 | 42,054 |
| Interest expenses | 0 | 0 | 0 | 4,333 | 0 | 4,333 |
| Consulting fees | 761 | 424 | 18 | 595 | 0 | 914 |
| Supervisory Board compensation | 251 | 191 | 0 | 310 | 0 | 370 |
| Annual financial statement fees | 188 | 188 | 0 | 279 | 0 | 279 |
| **Other provisions** | **17,745** | **2,393** | **18** | **32,616** | **0** | **47,950** |
| **Provisions** | **19,440** | **2,393** | **18** | **32,782** | **104** | **49,915** |

### 3.5.1 Provisions for Pensions

Provisions for pensions include pension obligations of the Company toward its employees. These obligations were calculated according to the principles described in section 2.5 and on the basis of the parameters listed below:

- Average market interest rate of 5.02% p.a. (prior year: 5.13% p.a.) for a term of 15 years, published by Deutsche Bundesbank;
- Increases in salaries (income dynamics) of 3.25% p.a. for pay-scale and non-pay-scale employees (unchanged from prior year);
- Pension increase of 1.50% p.a. on the basis of contractual agreements (unchanged from prior year);
- Mortality tables according to Dr. Klaus Heubeck "Guidelines 2005 G" (unchanged from prior year);
- Average turnover rate of 6.10% (prior year: 6.11%).

### 3.5.2 Other Provisions

Provisions for personnel expenses totaling T€42,054 (prior year: T€16,545) mainly include long-term provisions for currently non-cash[1)] share-based payment expenses related to the LTIP in the amount of T€40,253 (prior year: T€14,888).

Provisions for interest expenses relate to interest payments for the 2017 Senior Notes issued in the past fiscal year (see also section 3.6.1).

## 3.6 LIABILITIES

Liabilities comprise the following:

| in T€ | Fiscal year ended March 31, 2013 | | | | Fiscal year ended March 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Due | | | Total | Due | | | Total |
| | within 1 year | in 1-5 years | after 5 years | | within 1 year | in 1-5 years | after 5 years | |
| Bonds | 0 | 400,000 | 0 | 400,000 | 0 | 0 | 0 | 0 |
| Trade payables | 56 | 0 | 0 | 56 | 84 | 0 | 0 | 84 |
| Liabilities to affiliates | 3,594 | 194,368 | 923,988 | 1,121,951 | 6,675 | 64,865 | 831,281 | 902,821 |
| Other liabilities | 10,319 | 0 | 0 | 10,319 | 10,623 | 0 | 0 | 10,623 |
| thereof for taxes | 10,318 | 0 | 0 | 10,318 | 10,622 | 0 | 0 | 10,622 |
| **Liabilities** | **13,969** | **594,368** | **923,988** | **1,532,325** | **17,382** | **64,865** | **831,281** | **913,528** |

1) Will be cash-settled under certain conditions at the end of the program. Please refer to the compensation report in the combined management report within these financial statements.

### 3.6.1 Bonds

On June 21, 2012, KDH AG issued T€400,000 of 6.5% 2017 Senior Notes due on July 31, 2017 at par. Their interest is payable on January 31 and July 31 of each year, beginning on January 31, 2013. The 2017 Senior Notes are unsecured. The proceeds were passed on to KDVS GmbH in the form of a long-term shareholder loan (see section 3.1).

By the issue of the 2017 Senior Notes the unsecured bridge loan (Bridge Credit Agreement) of up to T€600,000, which was granted by three banks to KDH AG on April 30, 2012 but never drawn down, was subsequently substituted partially by July 31, 2012. This bridge loan has not been available since that time.

### 3.6.2 Liabilities to Affiliates

Liabilities to affiliated companies comprise the following:

| | Fiscal year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| Liabilities from loans and interests to KDVS GmbH | 1,118,357 | 896,146 |
| Other liabilities to KDVS GmbH | 642 | 6,675 |
| Liabilities to other affiliated companies | 2,952 | 0 |
| **Liabilities to affiliates** | **1,121,951** | **902,821** |

The liabilities from loans to KDVS GmbH consist of several PIK Loans with a total volume of T€1,118,357 (prior year: T€896,146). This includes interest of T€105,743 (prior year: T€42,211). The additional borrowing was and is used by KDH AG for the satisfaction of shareholders' dividend entitlements and to cover the ongoing liquidity requirements.

Other liabilities to KDVS GmbH as of March 31, 2013 amount to T€642 (prior year: T€6,675) and include liabilities resulting from services provided by KDVS GmbH.

Liabilities to other affiliated companies totaling T€2,952 consist of liabilities relating to the VAT consolidations with Kabel Deutschland Kundenbetreuung GmbH as well as with Kabel Deutschland Field Services GmbH.

### 3.6.3 Other Liabilities

Other liabilities of T€10,319 (prior year: T€10,623) consist in the amount of T€10,225 (prior year: T€10,536) of VAT.

## 3.7 OTHER FINANCIAL OBLIGATIONS AND COMMITMENTS

There were no other financial obligations or commitments as of the balance sheet date.

# 4 NOTES TO THE STATEMENT OF INCOME

## 4.1 REVENUES

Revenues in the fiscal year ended March 31, 2013 amounting to T€14,448 (prior year: T€2,910) primarily resulted from consulting and services invoiced to KDVS GmbH, including strategic development and financing. The revenues were generated entirely within Germany.

## 4.2 PERSONNEL EXPENSES

Personnel expenses amounting to T€29,609 (prior year: T€11,090) include salaries, social security costs and pension costs. Furthermore, currently non-cash[2)] share-based payment expenses based on the LTIP amounting to T€25,365 (prior year: T€6,991) are included in personnel expenses.

## 4.3 OTHER OPERATING EXPENSES

Other operating expenses of T€5,351 (prior year: T€3,849) primarily include management fees related to the headquarter functions of KDVS GmbH amounting to T€2,833 (prior year: T€2,025), consulting and audit fees amounting to T€1,074 (prior year: T€515), Supervisory Board expenses of T€556 (prior year: T€568), and insurance expenses of T€447 (prior year: T€252).

In addition, expenses which do not relate to the accounting period amounting to T€40 (prior year: T€33) are included.

## 4.4 FINANCIAL RESULT

The financial result of KDH AG in the fiscal year ended March 31, 2013 is an income in the amount of T€122,609 (prior year: expense of T€56,246). This income is significantly influenced by income from equity investments resulting from the advance distribution of T€200,000 by KDVS GmbH.

KDH AG generated interest income of T€20,222 from the loan in the amount of T€400,000 granted to KDVS GmbH.

These income amounts are partly offset by interest and similar expenses totaling T€97,613 (prior year: T€56,250). These consist primarily in the amount of T€64,961 (prior year: T€46,411) of the interest on the loans granted by KDVS GmbH, in the amount of T€20,222 of the interest on the 2017 Senior Notes, and in the amount of T€12,263 in total of financing and transaction costs for the 2017 Senior Notes and for the Bridge Credit Agreement.

## 4.5 INCOME TAXES AND DEFERRED TAXES

Income taxes consist of deferred tax benefits totaling T€132,940 (prior year: T€24).

The tax rate of 27.4% is based on a corporate income tax rate of 15% plus the solidarity tax surcharge of 5.5% on corporate income tax, as well as a trade tax rate of 11.6%.

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2) Will be cash-settled under certain conditions at the end of the program. Please refer to the compensation report in the combined management report within these financial statements.

Income taxes for the fiscal years ended March 31, 2013 and March 31, 2012 using a combined statutory tax rate of 27.4% for corporate income and trade tax are reconciled to the income taxes recorded in the statement of income as follows:

| | Fiscal year ended | |
|---|---|---|
| in T€ | March 31, 2013 | March 31, 2012 |
| (Profit) / loss before income tax | (102,122) | 68,265 |
| Notional tax expense / (income) at KDH AG’s statutory tax rate of 27.4% (prior year: 27.4%) | 27,981 | (18,705) |
| Untaxed income | (53,979) | 0 |
| Unrecognized tax losses | (109,505) | 5,380 |
| Non-deductible expenses | 2,566 | 13,300 |
| Other | (3) | 1 |
| **Income tax (income) according to the statement of income** | **(132,940)** | **(24)** |

# 5 OTHER NOTES

## 5.1 AUDITOR'S REMUNERATION

The information concerning the overall auditor's remuneration is omitted in KDH AG pursuant to Section 285 no. 17 HGB, since KDH AG prepares consolidated financial statements and the information on the overall remuneration is included in these consolidated financial statements.

## 5.2 MANAGEMENT BOARD

The Management Board consisted of the following members during the fiscal year ended March 31, 2013:

| Name / Position | Member of Supervisory Boards or similar supervisory bodies |
|---|---|
| **Dr. Adrian v. Hammerstein**<br>**Chairman of the Management Board**<br>Chief Executive Officer | Vice President of ANGA Verband Deutscher Kabelnetzbetreiber e.V.<br>Board member of Münchner Kreis - Übernationale Vereinigung für Kommunikationsforschung e.V.<br>Board member of BITKOM Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V.<br>Member of the Supervisory Board of msg systems AG |
| **Dr. Manuel Cubero del Castillo-Olivares**<br>Chief Operating Officer | Vice President of Cable Europe (European Cable Communications Association) |
| **Erik Adams**<br>Chief Marketing Officer | None |
| **Dr. Andreas Siemen**<br>Chief Financial Officer | None |

## 5.3 SUPERVISORY BOARD

The Supervisory Board consisted of the following members during the fiscal year ended March 31, 2013:

| Name / Position | Member of other Supervisory Boards or similar supervisory bodies |
|---|---|
| **Representatives of the Shareholders:** | |
| **Tony Ball**<br>**Chairman of the Supervisory Board**<br>Entrepreneur | Non-executive board director of ONO SA<br>Board member of Olympic Delivery Authority (ODA) London 2012<br>Non-executive board director of British Telecom Group PLC<br>Chairman of advisory counsel of Portland PR |
| **Annet Aris**<br>Adjunct Professor of Strategy at INSEAD | Supervisory Board member of Jungheinrich AG<br>Supervisory Board member of Tomorrow Focus AG<br>Deputy Chairman of the Supervisory Board of V-Ventures B.V.<br>Supervisory Board member of ASR Nederland<br>Supervisory Board member of Sanoma Group<br>Deputy Chairman of the Supervisory Board of Hansa Heemann AG |
| **Catherine Mühlemann**<br>Entrepreneur and co-owner of Andmann Media Holding GmbH | Board member of Swisscom AG<br>Member of the Supervisory Board of Messe Berlin GmbH<br>Member of the Advisory Board of Luxodo GmbH<br>Board member of Schweiz Tourismus |
| **Martin David Stewart**<br>Chief Executive Officer of EurotaxGlass's International AG | Non-executive director and Chair of the Audit Committee of the London Organising Committee for the Olympic and Paralympic Games (Locog) Ltd.<br>Non-executive director and Chair of the Audit Committee of SIS Ltd. |
| **Paul Stodden**<br>Managing Partner of Antevorte Performance Management GmbH & Co. KG | |
| **Torsten Winkler**<br>Partner of Vitruvian Partners LLP | |
| **Representatives of the Employees:** | |
| **Joachim Pütz**<br>**Deputy Chairman of the Supervisory Board**<br>Secretary of the Workers Union at the ver.di-Bundesverwaltung | |
| **Susanne Aichinger**<br>Workers' council of the region of Bavaria | |
| **Petra Ganser**<br>Secretary of the Workers Union at the ver.di-Bundesverwaltung | Member of the Supervisory Board of Trenkwalder Personaldienste GmbH |

| Name / Position | Member of other Supervisory Boards or similar supervisory bodies |
|---|---|
| **Irena Gruhne**<br>Workers' council for the customer service area | |
| **Ronald Hofschläger**<br>Workers' council in the KDVS GmbH headquarters | |
| **Florian Landgraf**<br>(since September 13, 2012)<br>Executive employee (Director Cable TV, Content & Productmanagement) | |
| **Helmut von der Lieck**<br>(until August 23, 2012)<br>Executive employee (Director Customer Service & Ordermanagement) | |

## 5.4 OVERALL COMPENSATION OF BOARD MEMBERS

### Management Board

In the fiscal year ended March 31, 2013, the members of the Management Board received total compensation in the amount of T€4,920 (prior year: T€5,182). This figure includes the fair value as of the grant date of the performance shares that were newly granted based on the Group's LTIP in the fiscal year ended March 31, 2013, which amounts to T€1,693 (prior year: T€1,706).

Individualized disclosures on the compensation of the Management Board can be found in the combined management report in section 12 "Compensation Report".

### Former Members of the Management Board

In the fiscal year ended March 31, 2013, former members of the Management Board received total compensation in the amount of T€291.

### Supervisory Board

For the fiscal year ended March 31, 2013, the total remuneration paid to members of the Supervisory Board amounted to T€556 (prior year: T€568) and included Supervisory Board compensation, attendance fees and associated benefits.

Additional information on the compensation system for the members of the Supervisory Board is presented in the combined management report in section 12 "Compensation Report".

## 5.5 EMPLOYEES

The Company had, in addition to the 4 members of the Management Board, an average of 3 employees in the period from April 1, 2012 to March 31, 2013 (prior year: 3).

## 5.6 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 AKTG

In accordance with Section 161 AktG, the Management Board and the Supervisory Board of KDH AG have issued the mandatory Declaration of Compliance and made it available to shareholders on the Kabel Deutschland website. The full text of the Declaration of Compliance can be found on the Kabel Deutschland website (www.kabeldeutschland.com).

## 5.7 GROUP RELATIONSHIPS

Since the Company is the top-level parent of the Group, it prepares the consolidated financial statements for the largest group of companies. The consolidated financial statements are published in the online Federal Gazette (elektronischer Bundesanzeiger) and can be obtained from the Company.

## 5.8 DISCLOSURE PURSUANT TO SECTION 160 PARA. 1 NO. 8 AKTG ABOUT VOTING RIGHT NOTIFICATIONS

Section 160 para. 1 no. 8 AktG provides for the disclosure of shareholdings that were reported pursuant to Section 21 para. 1 or para. 1a of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"). These regulations require investors who have reached, exceeded or fallen below certain threshold percentages of voting rights in listed companies to notify the Company.

Changes to the voting rights as presented here may have occurred after the stated dates that were not subject to disclosure to the Company. Since the Company's stock consists of bearer shares with no par value, the Company generally only becomes aware of changes in shareholdings if they are subject to mandatory notification. The voting rights indicated below are based on the mandatory notifications required under Section 21 WpHG.

The content of the notifications received by the balance sheet date and disclosed pursuant to Section 26 para. 1 WpHG are set out below. These reflect the most recent notifications made to KDH AG about the level of investments held:

### Norges Bank, Norway

Norges Bank, Oslo, Norway, notified that on July 5, 2011 its voting rights in KDH AG exceeded the threshold of 5% and on this date amounted to 5.25% (this corresponds to 4,727,357 voting rights). The voting rights are held by Norges Bank (Central Bank of Norway).

In the name and on behalf of the State of Norway, the Royal Ministry of Finance of the State of Norway, Oslo, Norway, notified that the voting rights of the State of Norway in KDH AG exceeded the threshold of 5% on July 5, 2011 and on this date amounted to 5.25% (this corresponds to 4,727,357 voting rights). Norges Bank (Central Bank of Norway), which holds these voting rights, is controlled by the State of Norway, and the voting rights of 5.25% (4,727,357 voting rights) held by Norges Bank are to be attributed to the State of Norway pursuant to Section 22 para. 1 sentence 1 no. 1 WpHG.

### BlackRock

On December 18, 2012, BlackRock, Inc., New York, NY, USA, notified KDH AG that the threshold of 10% was exceeded on December 13, 2012. On this date the voting rights to be attributed to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG amounted to 10.09% (this corresponds to 8,929,633 voting rights).

On January 29, 2013, BlackRock Holdco 2, Inc., Wilmington, Delaware, USA, and BlackRock Financial Management, Inc., New York, USA, notified KDH AG that the threshold of 10% was exceeded on January 24, 2013. On this date the voting rights to be attributed to each of the two companies pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG amounted to 10.01% (this corresponds to 8,863,544 voting rights).

On March 14, 2011, the companies listed below notified KDH AG that the threshold of 5% was exceeded on March 8, 2011. On this date the voting rights to be attributed to each of the companies listed below pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG amounted to:

- BlackRock Advisors Holdings, Inc., New York, USA: 9.30% (this corresponds to 8,370,723 voting rights),
- BR Jersey International Holdings L.P., St. Helier, Jersey, United Kingdom: 7.29% (this corresponds to 6,563,244 voting rights), and
- BlackRock International Holdings Inc., New York, USA: 7.29% (this corresponds to 6,563,244 voting rights).

On October 26, 2012, BlackRock Group Limited, London, United Kingdom, notified KDH AG that the threshold of 5% was exceeded on March 8, 2011. On this date the voting rights to be attributed to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG amounted to 6.97% (this corresponds to 6,272,600 voting rights).

On January 25, 2013, BLACKROCK (Luxembourg) S.A., Senningerberg, Luxembourg, notified KDH AG that the threshold of 3% was exceeded on January 7, 2013. On this date the voting rights to be attributed to that company pursuant to Section 22 para. 1 sentence 1 no. 6 WpHG amounted to 3.02% (this corresponds to 2,672,630 voting rights).

On January 11, 2013, BlackRock Luxembourg Holdco S.a.r.l., Senningerberg, Luxembourg, notified KDH AG that the threshold of 3% was exceeded on January 7, 2013. On this date the voting rights to be attributed to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG amounted to 3.02% (this corresponds to 2,672,630 voting rights).

## Ameriprise, Threadneedle

On February 10, 2012, Threadneedle Asset Management Limited, London, United Kingdom, notified that on February 9, 2012 its voting rights in KDH AG fell below the threshold of 5% and on this date amounted to 4.98% (this corresponds to 4,480,390 voting rights). 4.98% of the voting rights (this corresponds to 4,480,390 voting rights) are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 WpHG.

Threadneedle Asset Management Holdings Limited, London, United Kingdom, reported on June 29, 2012, which is before the balance sheet date, as well as on May 22, 2013 and on May 24, 2013 at last, which both is after the balance sheet date, several changes to its voting rights. With the last voting rights notification it was reported that on May 22, 2013, its voting rights in KDH AG fell below the threshold of 5% and on this date amounted to 4.99% (this corresponds to 4,415,788 voting rights). 4.99% (this corresponds to 4,415,788 voting rights) are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG. 0.07% (this corresponds to 62,822 voting rights) of these are also attributable to it according to Section 22 para. 1 sentence 1 no. 1 WpHG.

On June 29, 2012, Threadneedle Asset Management Holdings SARL, Luxembourg, Luxembourg, reported that on June 27, 2012 its voting rights in KDH AG fell below the threshold of 5% and on this date amounted to 4.99% (this corresponds to 4,414,435 voting rights). 4.99% (this corresponds to 4,414,435 voting rights) are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG. 0.12% (this corresponds to 103,405 voting rights) of these are also attributable to it according to Section 22 para. 1 sentence 1 no. 1 WpHG. On April 25, 2013, which is after the balance sheet date, the company reported that on April 23, 2013 its voting rights in KDH AG exceeded the threshold of 5% and on this date amounted to 5.01% (this corresponds to 4,433,143 voting rights); they are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG. 0.07% (this corresponds to 61,850 voting rights) of these are also attributable to that company according to Section 22 para. 1 sentence 1 no. 1 WpHG.

On March 5, 2013, Ameriprise Financial, Inc., Minneapolis, USA, reported that on March 1, 2013 its voting rights in KDH AG exceeded the threshold of 5% and on this date amounted to 5.01% (this corresponds to 4,435,810 voting rights). 5.01% of the voting rights (this corresponds to 4,435,810 voting rights) are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentence 2 WpHG. 0.07% (this corresponds to 61,122 voting rights) of these are also attributable to it according to Section 22 para. 1 sentence 1 no. 1 WpHG.

## Scout Capital Management, L.L.C.

Scout Capital Management, L.L.C., New York, USA, reported on May 4, 2011, that its voting rights in KDH AG exceeded the threshold of 3% on May 3, 2011 and on this date amounted to 3.03% (this corresponds to 2,725,000 voting rights). 3.03% of the voting rights (this corresponds to 2,725,000 voting rights) are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 WpHG.

## Artisan

On March 14, 2013, Artisan Partners Asset Management Inc., Milwaukee, Wisconsin, USA, reported that on March 12, 2013 its voting rights in KDH AG exceeded the threshold of 3% and on this date amounted to 3.53% (this corresponds to 3,129,080 voting rights); they are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG.

On January 14, 2013, Artisan Partners Limited Partnership, Milwaukee, Wisconsin, USA, reported that on January 10, 2013 its voting rights in KDH AG exceeded the threshold of 3% and on this date amounted to 3.19% (this corresponds to 2,823,982 voting rights). 3.19% of the voting rights (this corresponds to 2,823,982 voting rights) are attributable to that company pursuant to Section 22 para. 1 sentence 1 no. 6 WpHG.

On January 14, 2013, the companies and persons listed below, all of Milwaukee, Wisconsin, USA, notified KDH AG that the threshold of 3% was exceeded on January 10, 2013. On this date the voting rights to be attributed to each of the following companies and persons pursuant to Section 22 para. 1 sentence 1 no. 6 in conjunction with sentences 2 and 3 WpHG amounted to 3.19% each (this corresponds to 2,823,982 voting rights):

- Artisan Investments GP LLC
- Artisan Partners Holdings LP
- Artisan Investment Corporation
- ZFIC, Inc.
- Andrew A. Ziegler
- Carlene M. Ziegler

## 5.9 PROPOSAL FOR THE APPROPRIATION OF ACCUMULATED PROFIT

The Management Board of KDH AG proposes to the Shareholders' Meeting to use the accumulated profit of T€221,307 to distribute a dividend of €2.50 per share to the shareholders and, if the accumulated profit is not fully used, to carry the remaining amount forward to new account.

Unterfoehring, June 3, 2013

The final dividend amount depends on the number of shares carrying dividend rights as of the date of the resolution on the appropriation of accumulated profit as adopted on the day of the Shareholders' Meeting.

Dr. Adrian v. Hammerstein
Chief Executive Officer

Dr. Manuel Cubero del Castillo-Olivares
Chief Operating Officer

Erik Adams
Chief Marketing Officer

Dr. Andreas Siemen
Chief Financial Officer

**Kabel Deutschland Holding AG, Unterfoehring**

| | Analysis of Fixed Assets for the Period from April 1, 2012 to March 31, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Acquisition and production costs | | | | Accumulated depreciation and amortization | | | | Net book values | |
| in T€ | April 1, 2012 | Additions | Disposals | March 31, 2013 | April 1, 2012 | Additions | Disposals | March 31, 2013 | March 31, 2013 | March 31, 2012 |
| **Financial Assets** | | | | | | | | | | |
| 1. Investments in Affiliates | 1,515,498 | 0 | 0 | 1,515,498 | 0 | 0 | 0 | 0 | 1,515,498 | 1,515,498 |
| 2. Loans to Affiliates | 0 | 400,000 | 0 | 400,000 | 0 | 0 | 0 | 0 | 400,000 | 0 |
| | 1,515,498 | 400,000 | 0 | 1,915,498 | 0 | 0 | 0 | 0 | 1,915,498 | 1,515,498 |

# RESPONSIBILITY STATEMENT

## Kabel Deutschland Holding AG, Unterfoehring

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the management report, which is combined with the group management report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Unterfoehring, June 3, 2013

Dr. Adrian v. Hammerstein
Chief Executive Officer

Dr. Manuel Cubero del Castillo-Olivares
Chief Operating Officer

Erik Adams
Chief Marketing Officer

Dr. Andreas Siemen
Chief Financial Officer

# AUDIT OPINION

We have audited the financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which is combined with the group management report, of Kabel Deutschland Holding AG, Unterfoehring, Germany, for the fiscal year from April 1, 2012 to March 31, 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ['Handelsgesetzbuch': German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development.

Munich, Germany, June 3, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

*[signed]*
Dahmen
Wirtschaftsprüfer
[German Public Auditor]

*[signed]*
Christ
Wirtschaftsprüfer
[German Public Auditor]

# LIST OF ABBREVIATIONS

| A | |
|---|---|
| AG | Aktiengesellschaft |
| AktG | German Stock Corporation Act (dt.: Aktiengesetz) |
| ANGA | ANGA Verband Deutscher Kabelnetzbetreiber e.V. |
| ARPU | Average revenue per user |
| **B** | |
| BITKOM | Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. |
| **C** | |
| CGU | Zahlungsmittelgenerierende Einheit |
| COBIT | Control Objectives for Information and Related Technology |
| Company | Kabel Deutschland Holding AG |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CPE | Customer Premises Equipment |
| **D** | |
| D&O insurance | Supervisory Board and Management Board insurance |
| DAX | German stock index |
| DOCSIS 3.0 | Data Over Cable Service Interface Specification |
| DRS | German accounting standards (dt.: Deutschen Rechnungslegungsstandards) |
| DSL | Digital Subscriber Line |
| DTAG | Deutsche Telekom Aktiengesellschaft |
| DVB-T | Digital terrestrial broadcasting |
| DVR | Digital video recorder |

| E | |
|---|---|
| e.V. | Eingetragener Verein |
| e.g. | For Example |
| EBITDA | Earnings before Interest, Taxes, Depresication and Amortization |
| EU | European Union |
| € | Euro |
| EURIBOR | Euro Interbank Offered Rate |

| F | |
|---|---|
| FCO | German Federal Cartel Office (dt.: Bundeskartellamt) |
| FAHfT | Financial Assets Held for Trading |
| FLAC | Financial Liabilities Measured at Amortized Cost |
| FLHfT | Financial Liabilities Held for Trading |
| FY | Fiscal Year |

| G | |
|---|---|
| GDP | Germany's gross domestic product |
| GEMA | Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte |
| GmbH | Gesellschaft mit beschränkter Haftung |
| Group | Kabel Deutschland Holding AG and its subsidiaries |

| H | |
|---|---|
| HD | High-definition |
| HDTV | High-definition television |
| HFC | Hybrid Fiber Coaxial structure |
| HGB | German Commercial Code (dt.: Handelsgesetzbuch) |
| HRB | Commercial register (Department B) |

| I | |
|---|---|
| IAS | International Accounting Standard |
| IASB | International Accounting Standards Board |
| IDW | Institut der Wirtschaftsprüfer in Deutschland e.V. |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| Inc. | Incorporated |
| ISIN | International Securities Identification Number |
| IT | Information technology |
| IP | Internet Protocol |

| K | |
|---|---|
| KCB | KABELCOM Braunschweig Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung |
| KCW | KABELCOM Wolfsburg Gesellschaft für Breitbandkabel-Kommunikation mit beschränkter Haftung |
| KDG | Kabel Deutschland GmbH |
| KDH | Kabel Deutschland Holding (designation for the whole group) |
| KDH AG | Kabel Deutschland Holding AG |
| KDK | Kabel Deutschland Kundenbetreuung GmbH |
| KDVS GmbH | Kabel Deutschland Vertrieb und Service GmbH |
| KG | Kommanditgesellschaft |
| KMS GmbH | Kabelfernsehen München ServiceCenter Gesellschaft mit beschränkter Haftung - Beteiligungsgesellschaft |
| KMS KG | Kabelfernsehen München ServiCenter GmbH & Co. KG |

| L | |
|---|---|
| L.P. | Limited Partnership |
| LaR | Loans and Receivables |
| LIBOR | London Interbank Offered Rate |
| LLC | Limited Liability Company |
| LLP | Limited Liability Partnership |
| Ltd. | Limited |
| LTIP | Long-Term Incentive Plan |

| M | |
|---|---|
| Mbit/s | Megabit per second |
| MDAX | Mid-Cap-DAX |
| MEP | Management Beteiligungs Programme |
| MHz | Megahertz |
| MitbestG | Co-Determination Act |

| N | |
|---|---|
| No. | Number |

| O | |
|---|---|
| OCI | Other Comprehensive Income |
| OECD | Organisation for Economic Co-operation and Development |

| P | |
|---|---|
| para. | Paragraph |
| p.a. | Per annum |
| PLC | Public Limited Company |
| PUC-Methode | Projected unit credit method |

| R | |
|---|---|
| RGU | Revenue generating unit |
| **S** | |
| S.A. | Société Anonyme (Aktiengesellschaft) |
| SD | Standard Definition |
| SEPA | Single Euro Payments Area |
| SIC | Standing Interpretations Committee (Vorgänger des IFRIC) |
| SLA | Service Level Agreement |
| **T** | |
| T€ | Thousend Euros |
| Tele Columbus | Tele Columbus GmbH |
| Telekom | Telekom Deutschland GmbH |
| TSR | Total shareholder return |
| TUS$ | Tausend US-Dollar |
| **U** | |
| US$ | U.S. Dollar |
| UrhG | German Act on Copyright and Related Rights (dt.: Urheberrechtsgesetz) |
| **V** | |
| VAT | Value added tax |
| ver.di | Vereinte Dienstleistungsgewerkschaft |
| VoD | Video-on-Demand |
| **W** | |
| WIFI | Brand Name |
| WLAN | Wireless Local Area Network |
| WpHG | German Securities Trading Act (dt.: Wertpapierhandelsgesetz) |
| **X** | |
| XETRA | Exchange Electronic Trading of Deutsche Börse AG |

Kabel Deutschland