



**Condensed Consolidated Financial Statements  
March 31, 2016**

**VIRGIN MEDIA INC.  
1550 Wewatta Street, Suite 1000  
Denver, Colorado 80202**

**VIRGIN MEDIA INC.**  
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**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	March 31, 2016		December 31, 2015	
	in millions			
ASSETS				
Current assets:				
Cash and cash equivalents.....	£	188.2	£	20.2
Trade receivables, net.....		512.5		494.6
Related-party receivables (note 10).....		92.8		45.4
Derivative instruments (notes 4 and 10) .....		66.3		61.2
Prepaid expenses (note 10).....		47.3		39.1
Other current assets (note 10).....		49.2		37.6
Total current assets .....		956.3		698.1
Property and equipment, net (note 6).....		5,831.7		5,861.2
Goodwill (note 6) .....		5,979.2		5,966.6
Intangible assets subject to amortization, net (note 6) .....		1,514.1		1,604.1
Deferred income taxes .....		1,436.1		1,430.7
Related-party notes receivable (note 10).....		3,503.2		3,385.1
Other assets, net (note 4).....		584.5		452.4
Total assets.....	£	19,805.1	£	19,398.2

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)**  
**(unaudited)**

	March 31, 2016	December 31, 2015
	in millions	
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable (note 10).....	£ 279.2	£ 345.8
Deferred revenue and advanced payments from subscribers and others.....	376.2	383.0
Current portion of debt and capital lease obligations (note 7) .....	894.6	745.9
Derivative instruments (note 4).....	97.4	101.2
Accrued interest.....	173.6	183.6
Value-added taxes (VAT) payable .....	111.0	111.5
Other current liabilities (note 10) .....	487.6	457.6
Total current liabilities.....	2,419.6	2,328.6
Long-term debt and capital lease obligations (note 7):		
Third-party .....	9,597.8	9,357.4
Related-party (note 10).....	86.1	72.0
Other long-term liabilities (note 4) .....	302.2	180.8
Total liabilities.....	12,405.7	11,938.8
Commitments and contingencies (notes 4, 7, 8, 11 and 15)		
Owners' equity:		
Parent's equity:		
Additional paid-in capital.....	8,358.7	8,359.7
Accumulated deficit .....	(994.9)	(943.0)
Accumulated other comprehensive earnings, net of taxes .....	87.1	90.9
Total parent's equity.....	7,450.9	7,507.6
Noncontrolling interest .....	(51.5)	(48.2)
Total owners' equity.....	7,399.4	7,459.4
Total liabilities and owners' equity.....	£ 19,805.1	£ 19,398.2

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Revenue (note 12) .....	£ 1,177.9	£ 1,129.8
Operating costs and expenses:		
Operating (other than depreciation and amortization) (note 10) .....	504.6	479.9
Selling, general and administrative (SG&A) (including share-based compensation) (notes 9 and 10) .....	159.5	156.6
Related-party fees and allocations, net (note 10) .....	24.7	19.1
Depreciation and amortization .....	396.8	381.9
Impairment, restructuring and other operating items, net .....	3.2	(5.1)
	<u>1,088.8</u>	<u>1,032.4</u>
Operating income .....	<u>89.1</u>	<u>97.4</u>
Non-operating income (expense):		
Interest expense:		
Third-party .....	(134.9)	(123.4)
Related-party (note 10) .....	(1.0)	(5.6)
Interest income – related-party (note 10) .....	64.2	58.6
Realized and unrealized gains on derivative instruments, net (notes 4 and 10) .....	24.1	204.8
Foreign currency transaction losses, net .....	(109.1)	(242.9)
Loss on debt modification and extinguishment, net .....	—	(20.2)
Other income (expense), net .....	0.6	(0.2)
	<u>(156.1)</u>	<u>(128.9)</u>
Loss before income taxes .....	(67.0)	(31.5)
Income tax benefit (note 8) .....	14.1	6.8
Net loss .....	(52.9)	(24.7)
Net loss attributable to noncontrolling interest .....	1.0	0.8
Net loss attributable to parent .....	<u>£ (51.9)</u>	<u>£ (23.9)</u>

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)**  
**(unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Net loss.....	£ (52.9)	£ (24.7)
Other comprehensive earnings (loss), net of taxes:		
Foreign currency translation adjustments.....	(7.2)	45.8
Other comprehensive earnings (loss) .....	(7.2)	45.8
Comprehensive earnings (loss) .....	(60.1)	21.1
Comprehensive loss (earnings) attributable to noncontrolling interest .....	4.4	(2.6)
Comprehensive earnings (loss) attributable to parent.....	£ (55.7)	£ 18.5

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF OWNERS' EQUITY**  
**(unaudited)**

	<b>Parent's equity</b>					
	<b>Additional paid-in capital</b>	<b>Accumulated deficit</b>	<b>Accumulated other comprehensive earnings, net of taxes</b>	<b>Total parent's equity</b>	<b>Non- controlling interest</b>	<b>Total owners' equity</b>
	<b>in millions</b>					
Balance at January 1, 2016 .....	£ 8,359.7	£ (943.0)	£ 90.9	£ 7,507.6	£ (48.2)	£ 7,459.4
Net loss .....	—	(51.9)	—	(51.9)	(1.0)	(52.9)
Other comprehensive loss, net of taxes .....	—	—	(3.8)	(3.8)	(3.4)	(7.2)
Transfer of tax assets (note 8).....	(8.1)	—	—	(8.1)	—	(8.1)
Share-based compensation (note 9).....	6.1	—	—	6.1	0.1	6.2
Deemed contribution of technology- related services (note 10) .....	2.0	—	—	2.0	1.1	3.1
Capital charge in connection with the exercise of share-based incentive awards (note 10).....	(1.3)	—	—	(1.3)	(0.1)	(1.4)
Other .....	0.3	—	—	0.3	—	0.3
Balance at March 31, 2016 .....	<u>£ 8,358.7</u>	<u>£ (994.9)</u>	<u>£ 87.1</u>	<u>£ 7,450.9</u>	<u>£ (51.5)</u>	<u>£ 7,399.4</u>

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Cash flows from operating activities:		
Net loss .....	£ (52.9)	£ (24.7)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense .....	6.4	10.7
Related-party fees and allocations, net .....	24.7	19.1
Depreciation and amortization .....	396.8	381.9
Impairment, restructuring and other operating items, net .....	3.2	(5.1)
Amortization of deferred financing costs and non-cash interest accretion .....	2.5	4.3
Realized and unrealized gains on derivative instruments, net .....	(24.1)	(204.8)
Foreign currency transaction losses, net .....	109.1	242.9
Loss on debt modification and extinguishment, net .....	—	20.2
Deferred income tax benefit .....	(15.8)	(7.0)
Changes in operating assets and liabilities, net of the effects of an acquisition and dispositions ...	(150.9)	(41.3)
Net cash provided by operating activities .....	<u>299.0</u>	<u>396.2</u>
Cash flows from investing activities:		
Cash paid in connection with the VM Ireland Acquisition .....	—	(993.8)
Capital expenditures .....	(145.0)	(153.1)
Repayments from (advances to) related parties, net .....	(38.6)	44.4
Other investing activities, net .....	—	7.6
Net cash used by investing activities .....	<u>£ (183.6)</u>	<u>£ (1,094.9)</u>

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**  
**(unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Cash flows from financing activities:		
Borrowings of third-party debt .....	£ 875.7	£ 1,769.6
Repayments and repurchases of third-party debt and capital lease obligations .....	(847.3)	(1,029.8)
Net cash received (paid) related to derivative instruments .....	10.3	(18.0)
Payment of financing costs and debt premiums .....	(0.8)	(20.0)
Other financing activities, net .....	14.1	(6.3)
Net cash provided by financing activities .....	52.0	695.5
Effect of exchange rate changes on cash and cash equivalents .....	0.6	3.9
Net increase in cash and cash equivalents .....	168.0	0.7
Cash and cash equivalents:		
Beginning of period .....	20.2	36.6
End of period .....	£ 188.2	£ 37.3
Cash paid for interest .....	£ 144.7	£ 103.7
Net cash paid for taxes .....	£ 0.6	£ 1.9

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

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2016**  
**(unaudited)**

**(1) Basis of Presentation**

***General***

Virgin Media Inc. (**Virgin Media**) is a provider of video, broadband internet, fixed-line telephony and mobile services in the United Kingdom (**U.K.**) and Ireland. Virgin Media is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**). In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Virgin Media or collectively to Virgin Media and its subsidiaries.

During the first quarter of 2015, Liberty Global undertook various financing transactions in connection with certain internal reorganizations of its broadband and wireless communications businesses in Europe. As part of these reorganizations, on February 12, 2015, we acquired a 65.0% controlling interest in Virgin Media Ireland Ltd. (**VM Ireland**) and its subsidiaries from a subsidiary of Liberty Global outside of the Virgin Media borrowing group (the **VM Ireland Acquisition**). The remaining 35.0% noncontrolling interest in VM Ireland was acquired by another subsidiary of Liberty Global outside of the Virgin Media borrowing group. We accounted for the VM Ireland Acquisition as a common control transfer at carryover basis and, accordingly, our consolidated financial statements were retrospectively revised to give effect to this transaction as of June 7, 2013, the earliest date that Virgin Media and VM Ireland were under the common control of Liberty Global. For additional information regarding the common control transaction, see note 3.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**). Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2015 annual report.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of March 31, 2016.

Certain prior period amounts, including deferred financing costs, have been reclassified to conform to the current period presentation. For additional information regarding the change in the classification of deferred financing costs, see note 2.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 24, 2016, the date of issuance.

***Alignment of Accounting Policies***

Our accounting policy is to generally defer upfront installation fees on our business-to-business (**B2B**) contracts and recognize the associated revenue over the contractual term of the arrangement. Prior to becoming a subsidiary of Liberty Global in 2013, we generally treated installation fees received from customers with B2B contracts as a separate deliverable and recognized revenue upon completion of the installation activity in an amount that was based on the relative standalone selling price methodology.

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
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**(unaudited)**

The following table provides a rollforward of our deferred revenue for installation services provided to customers with B2B contracts during the three months ended March 31, 2016 (in millions):

Balance at January 1, 2016 .....	£	78.5
Amounts deferred for completed installation services (a) .....		6.8
Amortization of deferred revenue over contract life .....		(9.9)
Balance at March 31, 2016 .....	£	<u>75.4</u>

(a) Represents amounts that would have been recognized upfront as installation revenue under our policy prior to becoming a subsidiary of Liberty Global.

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

***Accounting Changes***

In April 2015, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)*, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 on January 1, 2016 and, accordingly, deferred financing costs are presented as a reduction of debt in our March 31, 2016 and December 31, 2015 condensed consolidated balance sheets. Prior to the adoption of ASU 2015-03, we presented deferred financing costs in other assets, net.

***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance when it becomes effective for annual reporting periods beginning after December 15, 2018. Early application is permitted for annual and interim reporting periods that begin after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018, and we are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU 2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)*, which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification within the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

**(3) Common Control Transfer**

As further described in note 1, we completed the VM Ireland Acquisition in February 2015. We accounted for this common control transfer at carryover basis.

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

In connection with the VM Ireland Acquisition, we (i) paid aggregate cash consideration of €1,341.3 million (£993.8 million at the transaction date) to acquire (a) the controlling interest in VM Ireland, as described in note 1, and (b) another Liberty Global's subsidiary's right to receive €634.3 million (£470.0 million at the transaction date) from a VM Ireland subsidiary pursuant to a promissory note (the **VM Ireland Note**) and (ii) received a €165.6 million (£122.7 million at the transaction date) cash payment from Liberty Global Europe 2 Limited (**LG Europe 2**), our immediate parent, on the 2023 8.5% LG Europe 2 Notes Receivable (as defined and described in note 10). The €1,341.3 million (£993.8 million at the transaction date) of consideration issued in connection with the VM Ireland Acquisition was recorded as a capital transaction during the first quarter of 2015. Following our February 2015 acquisition of the right to receive €634.3 million (£470.0 million at the transaction date) pursuant to the VM Ireland Note, the amounts receivable and payable pursuant to the VM Ireland Note eliminate in consolidation.

**(4) Derivative Instruments**

In general, we seek to enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt, (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than the functional currency of the borrowing entity and (iii) equity exposure with respect to the dilutive effects of the 6.50% convertible senior notes (the **VM Convertible Notes**). In this regard, we have entered into various derivative instruments to manage interest rate exposure and foreign currency exposure with respect to the United States (U.S.) dollar (\$) and the euro (€). We do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

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

	March 31, 2016			December 31, 2015		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (b) .....	£ 41.4	£ 372.1	£ 413.5	£ 37.1	£ 272.9	£ 310.0
Equity-related derivative instruments (c) .....	24.4	—	24.4	23.5	—	23.5
Foreign currency forward contracts — related-party .....	0.5	—	0.5	0.6	—	0.6
Total .....	£ 66.3	£ 372.1	£ 438.4	£ 61.2	£ 272.9	£ 334.1
Liabilities:						
Cross-currency and interest rate derivative contracts (b) .....	£ 29.9	£ 137.5	£ 167.4	£ 29.1	£ 26.8	£ 55.9
Equity-related derivative instruments (c) .....	67.5	—	67.5	72.1	—	72.1
Total .....	£ 97.4	£ 137.5	£ 234.9	£ 101.2	£ 26.8	£ 128.0

- (a) Our long-term derivative assets and liabilities are included in other assets, net, and other long-term liabilities, respectively, in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of March 31, 2016 and December 31, 2015, (i) the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating £19.7 million and £8.2 million, respectively, and (ii) the fair values of our cross-currency and interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating £8.6 million and £1.3 million, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market and market quotations for certain of our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of £4.2 million and £10.9 million during the three months ended March 31, 2016 and 2015,

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respectively. These amounts are included in realized and unrealized gains on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

- (c) The fair value of our (i) equity-related derivative assets relates to conversion hedges (the **Virgin Media Capped Calls**) we entered into during 2010 in order to offset a portion of the dilutive effects associated with the exchange of certain of our exchangeable notes and (ii) equity-related derivative liabilities relates to the derivative embedded in the VM Convertible Notes.

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

		<b>Three months ended</b>	
		<b>March 31,</b>	
		<b>2016</b>	<b>2015</b>
		<b>in millions</b>	
Cross-currency and interest rate derivative contracts .....	£	16.7	£ 214.0
Equity-related derivative instruments (a).....		6.8	(1.5)
Foreign currency forward contracts (b).....		0.6	(7.7)
Total.....	£	<u>24.1</u>	<u>£ 204.8</u>

(a) Represents activity related to the Virgin Media Capped Calls and the derivative embedded in the VM Convertible Notes.

(b) Represents gains or losses associated with related-party derivative instruments with Liberty Global Europe Financing BV (**LGE Financing**), a subsidiary of Liberty Global.

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

		<b>Three months ended</b>	
		<b>March 31,</b>	
		<b>2016</b>	<b>2015</b>
		<b>in millions</b>	
Operating activities .....	£	15.2	£ (7.6)
Financing activities .....		10.3	(18.0)
Total.....	£	<u>25.5</u>	<u>£ (25.6)</u>

### ***Counterparty Credit Risk***

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At March 31, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £433.3 million.

### **Details of our Derivative Instruments**

In the following tables, we present the details of the various categories of our subsidiary's derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate, and interest

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rates are presented on a weighted average basis. In addition, for derivative instruments that were in effect as of March 31, 2016, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to March 31, 2016, we present a range of dates that represents the period covered by the applicable derivative instruments.

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

*Cross-currency Swaps:*

The terms of our outstanding cross-currency swap contracts at March 31, 2016, which are held by our subsidiary, Virgin Media Investment Holdings Limited (VMIH), are as follows:

<b>Final maturity date</b>	<b>Notional amount due from counterparty</b>		<b>Notional amount due to counterparty</b>	<b>Interest rate due from counterparty</b>	<b>Interest rate due to counterparty</b>
	<b>in millions</b>				
January 2023 .....	\$	400.0	€ 339.6	5.75%	4.33%
June 2023 .....	\$	1,855.0	£ 1,198.3	6 mo. U.S. LIBOR + 2.75%	6 mo. LIBOR + 3.18%
February 2022 .....	\$	1,400.0	£ 873.6	5.01%	5.49%
January 2023 .....	\$	1,000.0	£ 648.6	5.25%	5.32%
January 2021 .....	\$	447.9	£ 276.7	5.25%	6 mo. LIBOR + 2.06%
October 2022 .....	\$	450.0	£ 272.0	6.00%	6.43%
January 2022 .....	\$	425.0	£ 255.8	5.50%	5.40%
January 2022 - January 2025 .....	\$	425.0	£ 255.8	3 mo. U.S. LIBOR	4.86%
April 2019 .....	\$	191.5	£ 122.3	5.38%	5.49%
April 2023 (a) .....	\$	180.0	£ 112.5	1.64%	1.78%
February 2022 - April 2023 .....	\$	175.0	£ 108.9	4.88%	5.19%
October 2019 .....	\$	100.0	£ 65.4	7.19%	7.23%
February 2022 (a) .....	\$	100.0	£ 62.2	0.50%	0.56%
November 2016 (a) .....	\$	55.0	£ 27.7	6.50%	7.03%
October 2019 - October 2022 .....	\$	50.0	£ 30.7	6.00%	5.75%

- (a) Unlike the other cross-currency swaps presented in this table, the identified cross-currency swaps do not involve the exchange of notional amounts at the inception and maturity of the instruments. Accordingly, the only cash flows associated with these derivative instruments are interest payments and receipts.

**VIRGIN MEDIA INC.**  
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*Interest Rate Swaps:*

The terms of our outstanding interest rate swap contracts at March 31, 2016, which are held by VMIH, are as follows:

<b>Final maturity date</b>	<b>Notional amount</b>	<b>Interest rate due from counterparty</b>	<b>Interest rate due to counterparty</b>
	<b>in millions</b>		
October 2018 .....	£ 1,198.3	6 mo. LIBOR	1.52%
October 2018 - June 2023 .....	£ 1,198.3	6 mo. LIBOR	2.49%
June 2023 .....	£ 1,035.6	6 mo. LIBOR + 0.53%	2.14%
January 2021 .....	£ 905.1	6 mo. LIBOR + 0.71%	2.37%
January 2021 .....	£ 628.4	5.50%	6 mo. LIBOR + 1.84%
April 2023 .....	£ 108.9	6.85%	6 mo. LIBOR + 5.62%
June 2022 .....	£ 100.0	6 mo. LIBOR	1.54%
February 2022 .....	£ 62.2	5.72%	6 mo. LIBOR + 4.63%

***Foreign Currency Forward Contracts – Related-party***

The following table summarizes the foreign currency forward contracts between VMIH and LGE Financing at March 31, 2016:

<b>Maturity date</b>		<b>Currency purchased forward</b>	<b>Currency sold forward</b>
		<b>in millions</b>	
April 2016 .....	\$	0.8	£ 0.5
May 2016 .....	\$	14.1	£ 9.3

**(5) Fair Value Measurements**

We use the fair value method to account for (i) our derivative instruments and (ii) certain instruments that we classify as debt. The reported fair values of these instruments as of March 31, 2016 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. We expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2016, no such transfers were made.

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

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The recurring fair value measurement of our equity-related derivative instruments are based on binomial option pricing models, which require the input of observable and unobservable variables such as exchange-traded equity prices, risk-free interest rates, dividend yields and forecasted volatilities of the underlying equity securities. The valuations of our equity-related derivative instruments are based on a combination of Level 1 inputs (exchange-traded equity prices), Level 2 inputs (interest rate futures and swap rates) and Level 3 inputs (forecasted volatilities). As changes in volatilities could have a significant impact on the overall valuations, we have determined that these valuations fall under Level 3 of the fair value hierarchy. At March 31, 2016, the valuations of the Virgin Media Capped Calls and the derivative embedded in the VM Convertible Notes were not significantly impacted by forecasted volatilities.

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

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During the three months ended March 31, 2016 and 2015, we did not perform any significant nonrecurring fair value measurements.

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A summary of our assets and liabilities that are measured at fair value on a recurring basis is as follows:

Description	Fair value measurements at March 31, 2016 using:			
	March 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		in millions		
Assets - derivative instruments:				
Cross-currency and interest rate derivative contracts .....	£ 413.5	£ —	£ 413.5	£ —
Equity-related derivative instruments .....	24.4	—	—	24.4
Foreign currency forward contracts — related-party .....	0.5	—	0.5	—
Total assets .....	£ 438.4	£ —	£ 414.0	£ 24.4
Liabilities:				
Derivative instruments:				
Cross-currency and interest rate derivative contracts .....	£ 167.4	£ —	£ 167.4	£ —
Equity-related derivative instruments .....	67.5	—	—	67.5
Total derivative liabilities .....	234.9	—	167.4	67.5
Debt .....	39.6	—	39.6	—
Total liabilities .....	£ 274.5	£ —	£ 207.0	£ 67.5

Description	Fair value measurements at December 31, 2015 using:			
	December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		in millions		
Assets - derivative instruments:				
Cross-currency and interest rate derivative contracts .....	£ 310.0	£ —	£ 310.0	£ —
Equity-related derivative instruments .....	23.5	—	—	23.5
Foreign currency forward contracts — related-party .....	0.6	—	0.6	—
Total assets .....	£ 334.1	£ —	£ 310.6	£ 23.5
Liabilities - derivative instruments:				
Cross-currency and interest rate derivative contracts .....	£ 55.9	£ —	£ 55.9	£ —
Equity-related derivative instruments .....	72.1	—	—	72.1
Total liabilities .....	£ 128.0	£ —	£ 55.9	£ 72.1

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**(6) Long-lived Assets**

***Property and Equipment, Net***

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

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>in millions</b>	
Distribution systems .....	£ 6,506.1	£ 6,344.3
Customer premises equipment .....	1,614.8	1,543.7
Support equipment, buildings and land .....	1,077.3	1,023.4
	<u>9,198.2</u>	<u>8,911.4</u>
Accumulated depreciation .....	(3,366.5)	(3,050.2)
Total property and equipment, net .....	<u>£ 5,831.7</u>	<u>£ 5,861.2</u>

During the three months ended March 31, 2016 and 2015, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of £112.1 million and £61.8 million, respectively, which exclude related VAT of £20.6 million and £8.0 million, respectively, that were also financed by our vendors under these arrangements. In addition, during the three months ended March 31, 2016 and 2015, we recorded non-cash increases to our property and equipment related to assets acquired under capital leases of £7.4 million and £12.1 million, respectively.

***Goodwill***

The change in the carrying amount of our goodwill during the three months ended March 31, 2016 is set forth below (in millions):

Balance at January 1, 2016 .....	£ 5,966.6
Foreign currency translation adjustments .....	12.6
Balance at March 31, 2016 .....	<u>£ 5,979.2</u>

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

The details of our intangible assets subject to amortization are set forth below:

	<b>March 31, 2016</b>			<b>December 31, 2015</b>		
	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
	<b>in millions</b>					
Customer relationships .....	£ 2,522.4	£ (1,024.0)	£ 1,498.4	£ 2,522.3	£ (933.0)	£ 1,589.3
Trademark .....	16.0	(0.3)	15.7	14.9	(0.1)	14.8
Total .....	<u>£ 2,538.4</u>	<u>£ (1,024.3)</u>	<u>£ 1,514.1</u>	<u>£ 2,537.2</u>	<u>£ (933.1)</u>	<u>£ 1,604.1</u>

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

The pound sterling equivalents of the components of our consolidated debt and capital lease obligations are as follows:

	March 31, 2016		Estimated fair value (b)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
			in millions			
Third-party debt:						
Parent:						
VM Convertible Notes (c) .....	6.50 %	£ —	£ 106.4	£ 110.5	£ 38.0	£ 37.2
Subsidiaries:						
VM Notes.....	5.61 %	—	7,379.1	7,190.5	7,256.5	7,161.4
VM Credit Facility (d).....	3.61 %	(e)	2,654.1	2,317.0	2,692.8	2,355.9
Vendor financing (f).....	3.39 %	—	436.0	513.4	436.0	513.4
Other .....	(g)	—	39.6	—	39.6	—
Total principal amount of third-party debt before unamortized premiums, discounts and deferred financing costs .....	5.00 %	—	£ 10,615.2	£ 10,131.4	£ 10,462.9	£ 10,067.9
					March 31, 2016	December 31, 2015
					in millions	
Total principal amount of third-party debt before unamortized premiums, discounts and deferred financing costs.....					£ 10,462.9	£ 10,067.9
Unamortized premiums (discounts), net .....					10.8	11.4
Unamortized deferred financing costs .....					(83.7)	(84.2)
Total carrying amount of third-party debt .....					10,390.0	9,995.1
Capital lease obligations .....					102.4	108.2
Total third-party debt and capital lease obligations .....					10,492.4	10,103.3
Related-party debt (note 10) .....					86.1	72.0
Total debt and capital lease obligations .....					10,578.5	10,175.3
Current maturities of debt and capital lease obligations .....					(894.6)	(745.9)
Long-term debt and capital lease obligations .....					£ 9,683.9	£ 9,429.4

- (a) Represents the weighted average interest rate in effect at March 31, 2016 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party variable- and fixed-rate indebtedness was 5.2% at March 31, 2016. For information regarding our derivative instruments, see note 4.
- (b) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on the market interest rates and estimated credit spreads of the applicable entity, to the extent available, and other relevant factors. For additional information regarding fair value hierarchies, see note 5.

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- (c) The amounts reported in the estimated fair value columns for the VM Convertible Notes represent the estimated fair value of the remaining VM Convertible Notes outstanding as of March 31, 2016 and December 31, 2015, including both the debt and equity components.
- (d) On March 31, 2016, VMIH entered into (i) a €75.0 million (£59.3 million) term loan facility, which matures on January 15, 2022, bears interest at a rate of EURIBOR plus 3.0% and has a EURIBOR floor of 0.75% and (ii) a €25.0 million (£19.8 million) term loan facility, which matures on March 31, 2021, bears interest at a rate of EURIBOR plus 3.75% and has a EURIBOR floor of 0.0%. These non-cash borrowings resulted in an increase in the note receivable from LG Europe 2 that is owed to Virgin Media Finco Limited. For additional information, see note 10.
- (e) Unused borrowing capacity under the VM Credit Facility relates to a multi-currency revolving facility (the **VM Revolving Facility**) with maximum borrowing capacity equivalent to £675.0 million. The outstanding balance at March 31, 2016 was €475.0 million (£375.6 million). Unused borrowing capacity represents the maximum availability under the VM Credit Facility at March 31, 2016 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2016, based on the applicable leverage and other financial covenants, the full £299.4 million of unused borrowing capacity was available to be borrowed. When the relevant March 31, 2016 compliance reporting requirements have been completed, and assuming no changes from March 31, 2016 borrowing levels, we anticipate that the full amount of unused borrowing capacity will continue to be available. In addition to these limitations, the debt instruments of our subsidiaries contain restricted payment tests that limit the amount that can be loaned or distributed to other Virgin Media subsidiaries and ultimately to Virgin Media. At March 31, 2016, the full amount of unused borrowing capacity was available to be loaned or distributed by the borrowers of the VM Credit Facility. When the relevant March 31, 2016 compliance reporting requirements have been completed and assuming no changes from March 31, 2016 borrowing levels, we anticipate that the full amount of unused borrowing capacity will continue to be available to be loaned or distributed by the borrowers of the VM Credit Facility.
- (f) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and, to a lesser extent, certain of our operating expenses. These obligations are due within one year. At March 31, 2016 and December 31, 2015, the amounts owed pursuant to these arrangements include £52.9 million and £60.8 million, respectively, of VAT that was paid on our behalf by the vendor. Repayments of vendor financing obligations are included in repayments and repurchases of debt and capital lease obligations in our condensed consolidated statements of cash flows.
- (g) Represents certain derivative-related borrowing instruments accounted for at fair value.

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

The pound sterling equivalents of the maturities of our debt and capital lease obligations as of March 31, 2016 are presented below:

	<u>Third- party debt</u>	<u>Related- party debt</u>	<u>Capital lease obligations</u>	<u>Total</u>
	in millions			
Year ending December 31:				
2016 (remainder of year).....	£ 790.5	£ —	£ 40.0	£ 830.5
2017.....	59.7	86.1	26.1	171.9
2018.....	0.4	—	9.7	10.1
2019.....	0.4	—	4.6	5.0
2020.....	0.4	—	3.1	3.5
2021.....	2,575.0	—	2.9	2,577.9
Thereafter .....	7,036.5	—	136.9	7,173.4
Total debt maturities.....	<u>10,462.9</u>	<u>86.1</u>	<u>223.3</u>	<u>10,772.3</u>
Unamortized premiums (discounts), net.....	10.8	—	—	10.8
Unamortized deferred financing costs.....	(83.7)	—	—	(83.7)
Amounts representing interest .....	—	—	(120.9)	(120.9)
Total.....	<u>£ 10,390.0</u>	<u>£ 86.1</u>	<u>£ 102.4</u>	<u>£ 10,578.5</u>
Current portion (a).....	<u>£ 850.4</u>	<u>£ —</u>	<u>£ 44.2</u>	<u>£ 894.6</u>
Noncurrent portion .....	<u>£ 9,539.6</u>	<u>£ 86.1</u>	<u>£ 58.2</u>	<u>£ 9,683.9</u>

(a) The outstanding principal amount of the VM Revolving Facility is included in our current debt maturities.

For information regarding a refinancing transaction completed subsequent to March 31, 2016, see note 15.

**(8) Income Taxes**

Certain of our U.K. subsidiaries are within the same U.K. tax group as our ultimate parent company, Liberty Global, and its U.K. subsidiaries. U.K. tax law permits the surrendering, without cash payment, of tax losses between entities within the same tax group. During the three months ended March 31, 2016, tax losses with an aggregate tax effect of £8.1 million were transferred by our U.K. subsidiaries to Liberty Global and its U.K. subsidiaries outside of Virgin Media. These transferred tax assets of our U.K. subsidiaries are reflected as a decrease to additional paid-in capital in our condensed consolidated statement of owners' equity.

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Income tax benefit attributable to our loss before income taxes differs from the amounts computed using the U.S. federal income tax rate of 35.0%, as a result of the following factors:

	Three months ended			
	March 31,			
	2016		2015	
	in millions			
Computed “expected” tax benefit .....	£	23.5	£	11.0
Basis and other differences in the treatment of items associated with investments in subsidiaries .....		(11.3)		(4.7)
International rate differences (a).....		(11.2)		1.7
Change in valuation allowances.....		9.7		(4.0)
Non-deductible or non-taxable foreign currency exchange results .....		5.0		—
Enacted tax law and rate changes (b).....		0.9		1.0
Other, net.....		(2.5)		1.8
Total income tax benefit.....	£	14.1	£	6.8

- (a) Amounts reflect statutory rates in the U.K. and Ireland, which are lower than the U.S. federal income tax rate.
- (b) During 2015, the U.K. enacted legislation that will change the corporate income tax rate from the current rate of 20.0% to 19.0% in April 2017 and 18.0% in April 2020. Substantially all of the impact of these rate changes on our deferred tax balances was recorded in the fourth quarter of 2015 when the change in law was enacted.

**(9) Share-based Compensation**

Our share-based compensation expense represents amounts allocated to our company by Liberty Global and related employer taxes. The amounts allocated by Liberty Global to our company represent share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. Share-based compensation expense allocated to our company by Liberty Global is reflected as an increase to owners’ equity and is offset by any amounts recharged to us by Liberty Global, as further described in note 10. Incentive awards are denominated in U.S. dollars.

The following table summarizes our share-based compensation expense, which is included in SG&A expense in our condensed consolidated statements of operations:

	Three months ended			
	March 31,			
	2016		2015	
	in millions			
Performance-based incentive awards (a).....	£	2.7	£	3.2
Other share-based incentive awards .....		3.7		7.5
Total.....	£	6.4	£	10.7

- (a) Includes share-based compensation expense related to (i) Liberty Global performance-based restricted share units (**PSUs**), including amounts resulting from the 2016 PSUs, as described and defined below, and (ii) a challenge performance award plan for certain executive officers and key employees of Liberty Global, including certain employees of our subsidiaries (the **Challenge Performance Awards**). The Challenge Performance Awards include performance-based share appreciation rights and PSUs.

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The following table provides certain information related to share-based compensation not yet recognized for share-based incentive awards held by employees of our subsidiaries related to Liberty Global ordinary shares as of March 31, 2016:

	<b>Non-performance- based awards (a)</b>	<b>Performance-based awards (a) (b)</b>
Total compensation expense not yet recognized (in millions) .....	£ 21.7	£ 23.6
Weighted average period remaining for expense recognition (in years).....	2.6	2.9

- (a) Amounts relate to awards granted or assumed by Liberty Global under (i) the Liberty Global 2014 Incentive Plan (as amended and restated effective February 24, 2015) and certain other incentive plans of Liberty Global, (ii) the Virgin Media Inc. 2010 Stock Incentive Plan (as amended and restated effective June 7, 2013) and (iii) certain other incentive plans of our company. All new awards are granted under the Liberty Global 2014 Incentive Plan.
- (b) Amounts relate to (i) the Challenge Performance Awards and (ii) PSUs, including £20.2 million related to the 2016 PSUs.

**2016 PSUs**

In February 2016, the compensation committee of Liberty Global's board of directors approved the grant of PSUs to executive officers and key employees (the **2016 PSUs**) pursuant to a performance plan that is based on the achievement of a specified compound annual growth rate (**CAGR**) during the three-year period ended December 31, 2018. The 2016 PSUs require delivery of a CAGR of our consolidated operating cash flow (**OCF CAGR**) of 6.0% during the three-year performance period ending December 31, 2018, with over- and under-performance payout opportunities should the OCF CAGR exceed or fail to meet the target, as applicable. A performance range of 75% to 167.5% of the target OCF CAGR will generally result in award recipients earning 75% to 300% of their target 2016 PSUs, subject to reduction or forfeiture based on individual performance. The earned 2016 PSUs will vest 50% each on April 1, 2019 and October 1, 2019. During the first quarter of 2016, 955,632 2016 PSUs were granted to certain employees of our subsidiaries with a weighted average grant-date fair value of \$34.26.

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**(10) Related-party Transactions**

Our related-party transactions consist of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Credits (charges) included in:		
Operating expenses .....	£ 1.0	£ 0.6
SG&A expenses .....	(1.3)	(5.3)
Allocated share-based compensation expense .....	(6.2)	(5.3)
Fees and allocations, net:		
Operating and SG&A (exclusive of depreciation and share-based compensation) .....	(7.6)	(6.2)
Depreciation .....	(3.6)	(3.2)
Share-based compensation .....	(5.7)	(4.9)
Management fee .....	(7.8)	(4.8)
Total fees and allocations, net .....	(24.7)	(19.1)
Included in operating income .....	(31.2)	(29.1)
Interest income .....	64.2	58.6
Realized gain (loss) on derivative instruments, net .....	0.6	(7.7)
Interest expense .....	(1.0)	(5.6)
Included in net loss .....	£ 32.6	£ 16.2

*General.* Virgin Media charges fees and allocates costs and expenses to certain other Liberty Global subsidiaries and certain Liberty Global subsidiaries outside of Virgin Media charge fees and allocate costs and expenses to Virgin Media. Depending on the nature of these related-party transactions, the amount of the charges or allocations may be based on (i) our estimated share of the underlying costs, (ii) our estimated share of the underlying costs plus a mark-up or (iii) commercially-negotiated rates. The methodology Liberty Global uses to allocate its central and administrative costs to its borrowing groups impacts the calculation of the “EBITDA” metric specified by our debt agreements (**Covenant EBITDA**). In this regard, the components of related-party fees and allocations that are deducted to arrive at our Covenant EBITDA are based on (a) the amount and nature of costs incurred by the allocating Liberty Global subsidiaries during the period, (b) the allocation methodologies in effect during the period and (c) the size of the overall pool of entities that are charged fees and allocated costs, such that changes in any of these factors would likely result in changes to the amount of related-party fees and allocations that will be deducted to arrive at our Covenant EBITDA in future periods. For example, to the extent that a Liberty Global subsidiary borrowing group was to acquire (sell) an operating entity, and assuming no change in the total costs incurred by the allocating entities, the fees charged and the costs allocated to our company would decrease (increase). Although we believe that the related-party charges and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a standalone basis. Our related-party transactions are cash settled unless otherwise noted below.

*Operating expenses.* Amounts consist of the net effect of (i) recharges of £2.0 million and £1.9 million during the three months ended March 31, 2016 and 2015, respectively, for network design and other services provided by our company to other Liberty Global subsidiaries and (ii) charges of £1.0 million and £1.3 million during the three months ended March 31, 2016 and 2015, respectively, for network-related and other services provided to our company by another Liberty Global subsidiary.

*SG&A expenses.* Amounts primarily consist of the net effect of (i) charges of £1.1 million and £1.6 million during the three months ended March 31, 2016 and 2015, respectively, for insurance-related services provided to our company by another Liberty Global subsidiary, (ii) charges of £0.3 million and £4.2 million during the three months ended March 31, 2016 and 2015, respectively, for information technology-related services provided to our company by another Liberty Global subsidiary, and (iii) recharges of

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£0.1 million and £0.6 million during the three months ended March 31, 2016 and 2015, respectively, for network design and other services provided by our company to other Liberty Global subsidiaries.

*Allocated share-based compensation expense.* As further described in note 9, Liberty Global allocates share-based compensation expense to our company.

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

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

Liberty Global charges technology-based fees to our company using a royalty-based method. For the three months ended March 31, 2016, our proportional share of the technology-based costs of £6.1 million was £3.1 million more than the royalty-based technology fee charged under the new approach. Accordingly, the £3.1 million excess has been reflected as a deemed contribution of technology-related services in our condensed consolidated statement of owners' equity. The charges under the royalty-based fee are expected to escalate in future periods. Any excess of these charges over our estimated proportionate share of the underlying technology-based costs will be classified as a management fee and added back to arrive at Covenant EBITDA.

*Interest income.* Amounts represent interest income on related-party notes, as further described below.

*Realized gain (loss) on derivative instruments, net.* As further described in note 4, these amounts relate to related-party foreign currency forward contracts with LGE Financing.

*Interest expense.* Amount during 2016 relates to interest expense associated with the note payable to LG Europe 2. Amount during 2015 relates to interest expense associated with the note payable to LG Europe 2 and the VM Ireland Note.

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

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>in millions</b>	
Current receivables (a) .....	£ 92.8	£ 45.4
Derivative instruments (b) .....	0.5	0.6
Prepaid expenses (c) .....	0.7	0.9
Other current assets (d) .....	0.3	—
Long-term notes receivable (e) .....	3,503.2	3,385.1
Total .....	<u>£ 3,597.5</u>	<u>£ 3,432.0</u>
Accounts payable (f) .....	£ 25.2	£ 8.6
Other current liabilities (g) .....	48.6	26.1
Related-party debt (h) .....	86.1	72.0
Total .....	<u>£ 159.9</u>	<u>£ 106.7</u>

- (a) Amounts represent (i) accrued interest on notes receivable from LG Europe 2, including £84.9 million (equivalent) and £38.7 million (equivalent), respectively, owed to our subsidiary, Virgin Media Finco Limited, and (ii) certain receivables from other Liberty Global subsidiaries arising in the normal course of business. The accrued interest on the long-term notes receivable from LG Europe 2 is payable semi-annually on April 15 and October 15 and may be cash settled or, if mutually agreed, loan settled. The other receivables are settled periodically.
- (b) Amounts represent the fair value of related-party derivative instruments with LGE Financing, as further described in note 4.
- (c) Amounts represent prepayments for services to be rendered by another Liberty Global subsidiary.
- (d) Amount represents certain receivables from other Liberty Global subsidiaries arising in the normal course of business.
- (e) Amounts represent:
- (i) notes receivable from LG Europe 2 that are owed to Virgin Media Finco Limited (the **2023 8.5% LG Europe 2 Notes Receivable**). These notes mature on April 15, 2023 and bear interest at a rate of 8.5%. At each of March 31, 2016 and December 31, 2015, the principal amount outstanding under these notes was £2,174.6 million;
  - (ii) A note receivable from LG Europe 2 that is owed to Virgin Media Finco Limited. At March 31, 2016 and December 31, 2015, the principal amount outstanding under this note was £1,315.1 million and £1,197.4 million, respectively. The increase during the 2016 period relates to (i) £1,211.1 million of cash advances, (ii) £1,172.5 million of cash repayments and (iii) £79.1 million of non-cash advances. Pursuant to the loan agreement, the maturity date is July 16, 2023, however Virgin Media Finco Limited may agree to advance additional amounts to LG Europe 2 at any time and LG Europe 2 may, with agreement from Virgin Media Finco Limited, repay all or part of the outstanding principal at any time prior to the maturity date. The note receivable is subject to further borrowings and repayments. The interest rate on this loan, which is subject to adjustment, was 5.471% as of March 31, 2016; and
  - (iii) a note receivable from Liberty Global that is owed to us. At March 31, 2016 and December 31, 2015, this note, which matures on June 4, 2018, had a principal balance of \$19.5 million (£13.5 million) and \$19.3 million (£13.4 million), respectively. This note bears interest at a rate of 1.8%. The increase during the 2016 period relates to an increase of (i) £0.3 million due to the cumulative translation adjustment during the period and (ii) £0.1 million (equivalent at the transaction date) in capitalized accrued interest. The accrued interest on this note receivable is

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payable semi-annually on January 15 and July 15 and may be cash settled or, if mutually agreed, loan settled, and is included in other long-term assets, net in our condensed consolidated balance sheets.

- (f) Amounts represent certain payables to other Liberty Global subsidiaries arising in the normal course of business.
- (g) Amounts represent (i) £1.4 million (equivalent) and £6.9 million (equivalent), respectively, of unpaid capital charges from Liberty Global, as described below, and (ii) certain payables to other Liberty Global subsidiaries arising in the normal course of business, including amounts associated with fees and allocations as described above. The payables related to the capital charges are settled periodically. None of these payables are currently interest bearing.
- (h) Represents a note payable to LG Europe 2 that originated in December 2015. This note matures on December 18, 2017 and bears interest at a rate of 5.26%. The increase during the 2016 period relates to £14.1 million of cash borrowings. Accrued interest may be, as agreed to by our company and LG Europe 2, (i) transferred to the loan balance annually on January 1 or (ii) repaid on the last day of each month and on the date of principal repayments.

During the three months ended March 31, 2016 and 2015, we recorded capital charges of \$2.1 million (£1.4 million at the applicable rate) and \$7.7 million (£5.3 million at the applicable rate), respectively, in our condensed consolidated statements of owners' equity in connection with the exercise of Liberty Global share appreciation rights and options and the vesting of Liberty Global restricted share awards and PSUs held by employees of our subsidiaries. We and Liberty Global have agreed that these capital charges will be based on the fair value of the underlying Liberty Global shares associated with share-based incentive awards that vest or are exercised during the period, subject to any reduction that is necessary to ensure that the cumulative capital charge does not exceed the cumulative amount of share-based compensation expense recorded by our company with respect to Liberty Global share-based incentive awards.

During the three months ended March 31, 2016, tax losses with an aggregate tax effect of £8.1 million were transferred by our U.K. subsidiaries to Liberty Global and its U.K. subsidiaries outside of Virgin Media. For additional information, see note 8.

Our parent company, Virgin Media, and certain Liberty Global subsidiaries are co-guarantors of the indebtedness of certain other Liberty Global subsidiaries. We do not believe these guarantees will result in material payments in the future.

**(11) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, purchases of customer premises and other equipment and services, non-cancellable operating leases and other items. The pound sterling equivalents of such commitments as of March 31, 2016 are presented below:

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Programming commitments .....	£ 368.1	£ 486.2	£ 424.3	£ 166.5	£ 5.0	£ 4.0	£ —	£ 1,454.1
Network and connectivity commitments .....	310.6	82.6	26.9	8.1	6.7	4.1	19.6	458.6
Purchase commitments .....	204.4	49.3	26.5	13.3	9.8	0.4	0.3	304.0
Operating leases .....	31.3	35.6	29.3	23.3	16.6	13.2	48.6	197.9
Other commitments.....	13.0	2.0	—	—	—	—	—	15.0
Total (a).....	<u>£ 927.4</u>	<u>£ 655.7</u>	<u>£ 507.0</u>	<u>£ 211.2</u>	<u>£ 38.1</u>	<u>£ 21.7</u>	<u>£ 68.5</u>	<u>£ 2,429.6</u>

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- (a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2016 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods. In this regard, our total programming costs aggregated £193.5 million and £153.9 million during the three months ended March 31, 2016 and 2015, respectively.

Network and connectivity commitments include, among other items, the fixed minimum commitments associated with our mobile virtual network operator (**MVNO**) agreements and service commitments associated with our network extension project in the U.K. As such, the commitments shown in the above table may be significantly less than the actual amounts we ultimately pay in these periods.

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

Commitments arising from acquisition agreements are not reflected in the above table.

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2016 and 2015, see note 4.

#### ***Guarantees and Other Credit Enhancements***

In the ordinary course of business, we may provide (i) indemnifications to our lenders, our vendors and certain other parties, (ii) performance and/or financial guarantees to local municipalities, our customers and vendors and (iii) guarantees as a co-guarantor with certain other Liberty Global subsidiaries related to various financing arrangements. Historically, these arrangements have not resulted in our company making any material payments and we do not believe that they will result in material payments in the future.

#### ***Legal and Regulatory Proceedings and Other Contingencies***

**VAT Matters.** Our application of VAT with respect to certain revenue generating activities has been challenged by the U.K. tax authorities. We have estimated our maximum exposure in the event of an unfavorable outcome to be £46.1 million as of March 31, 2016. No portion of this exposure has been accrued by our company as the likelihood of loss is not considered to be probable. A court hearing was held at the end of September 2014 in relation to the U.K. tax authorities' challenge and the court's decision is expected prior to June 30, 2016.

On March 19, 2014, the U.K. government announced a change in legislation with respect to the charging of VAT in connection with prompt payment discounts such as those that we offer to our fixed-line telephony customers. This change, which took effect on May 1, 2014, impacted our company and some of our competitors. The U.K. tax authority issued a decision in the fourth quarter of 2015 challenging our application of the prompt payment discount rules prior to the May 1, 2014 change in legislation. We have appealed this decision. As part of the appeal process, we were required to make aggregate payments of £67.0 million, which included the challenged amount of £63.7 million and related interest of £3.3 million. The aggregate amount paid does not include penalties, which could be significant in the unlikely event that penalties were to be assessed. This matter will likely be subject to

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court proceedings that could delay the ultimate resolution for an extended period of time. No portion of this potential exposure has been accrued by our company as the likelihood of loss is not considered to be probable.

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

We have security accreditations across a range of B2B products and services in order to increase our offerings to public sector organizations in the U.K. These accreditations are granted subject to periodic reviews of our policies and procedures by U.K. governmental authorities. If we were to fail to maintain these accreditations or obtain new accreditations when required, it could impact our ability to provide certain offerings to the public sector.

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

## **(12) Segment Reporting**

We have one reportable segment that provides video, broadband internet, fixed-line telephony and mobile services in the U.K. and Ireland.

Our revenue by major category is set forth below:

	Three months ended			
	March 31,			
	2016		2015	
	in millions			
Subscription revenue:				
Video.....	£	266.8	£	266.5
Broadband internet .....		325.4		295.9
Fixed-line telephony .....		236.4		240.7
Cable subscription revenue (a).....		828.6		803.1
Mobile (b) .....		107.6		116.3
Total subscription revenue.....		936.2		919.4
B2B revenue (c) .....		163.2		156.2
Other revenue (b) (d) .....		78.5		54.2
Total.....	£	1,177.9	£	1,129.8

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, mobile services revenue and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

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- (b) Mobile subscription revenue excludes mobile interconnect revenue of £16.2 million and £17.9 million during the three months ended March 31, 2016 and 2015, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) B2B revenue includes revenue from business broadband internet, voice, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small or home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated £5.6 million and £5.0 million during the three months ended March 31, 2016 and 2015, respectively.
- (d) Other revenue includes, among other items, mobile handset sales, interconnect, programming and late fee revenue.

***Geographic Segments***

The revenue of our geographic segments is set forth below:

	Three months ended March 31,			
	2016		2015	
	in millions			
U.K. ....	£	1,102.5	£	1,064.2
Ireland .....		75.4		65.6
Total.....	£	1,177.9	£	1,129.8

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**(13) Condensed Consolidating Financial Information — Senior Notes**

We present the following condensed consolidating financial information as of and for the three months ended March 31, 2016, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2015 and for the three months ended March 31, 2015, see our 2015 annual report and the March 31, 2015 quarterly report, respectively.

As of March 31, 2016, Virgin Media Finance PLC (**Virgin Media Finance**) is the issuer of the following senior notes:

- \$118.7 million (£82.4 million) aggregate principal amount of 4.875% senior notes due February 15, 2022;
- \$95.0 million (£66.0 million) aggregate principal amount of 5.25% senior notes due February 15, 2022;
- £44.1 million aggregate principal amount of 5.125% senior notes due February 15, 2022;
- \$530.0 million (£368.2 million) aggregate principal amount of 6.375% senior notes due April 15, 2023;
- £250.0 million aggregate principal amount of 7.0% senior notes due April 15, 2023;
- \$500.0 million (£347.4 million) aggregate principal amount of 6.0% senior notes due October 15, 2024;
- £300.0 million aggregate principal amount of 6.375% senior notes due October 15, 2024;
- €460.0 million (£363.7 million) aggregate principal amount of 4.5% senior notes due January 15, 2025; and
- \$400.0 million (£277.9 million) aggregate principal amount of 5.75% senior notes due January 15, 2025.

Our senior notes are issued by Virgin Media Finance and are guaranteed on a senior basis by Virgin Media and certain of its subsidiaries, namely Virgin Media Group LLC (**Virgin Media Group**), Virgin Media (UK) Group LLC (**Virgin Media (UK) Group**) and Virgin Media Communications Limited (**Virgin Media Communications**). Each of VMIH and Virgin Media Investments Limited (**VMIL**) are conditional guarantors and have guaranteed the senior notes on a senior subordinated basis.

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	March 31, 2016															
Balance sheets	Virgin Media		Virgin Media Finance		Other guarantors		VMIH		VMIL		All other subsidiaries		Eliminations		Total	
	in millions															
ASSETS																
Current assets:																
Cash and cash equivalents .....	£	—	£	0.2	£	0.1	£	158.6	£	—	£	29.3	£	—	£	188.2
Related-party receivables .....		0.2		—		—		—		—		92.6		—		92.6
Other current assets:																
Third-party .....		24.4		—		—		41.4		—		608.0		—		673.8
Intercompany and related-party .....		—		3.1		—		0.5		—		8.0		(10.1)		1.5
Total current assets .....		24.6		3.3		0.1		200.5		—		737.9		(10.1)		956.3
Property and equipment, net.....		—		—		—		—		—		5,831.7		—		5,831.7
Goodwill.....		—		—		—		—		—		5,979.2		—		5,979.2
Intangible assets subject to amortization, net.....		—		—		—		—		—		1,514.1		—		1,514.1
Investments in, and loans to, parent and subsidiary companies.....		7,531.5		9,697.1		8,207.5		12,630.2		12,551.0		(7,020.0)		(43,597.3)		—
Deferred income taxes.....		—		—		—		—		—		1,436.1		—		1,436.1
Related-party notes receivable .....		13.5		—		—		—		—		3,489.7		—		3,503.2
Other assets, net:																
Third-party .....		—		—		—		377.8		—		206.7		—		584.5
Intercompany .....		—		29.6		—		—		—		88.2		(117.8)		—
Total assets .....	£	7,569.6	£	9,730.0	£	8,207.6	£	13,208.5	£	12,551.0	£	12,263.6	£	(43,725.2)	£	19,805.1
LIABILITIES AND OWNERS' EQUITY																
Current liabilities:																
Intercompany and related-party payables .....	£	7.6	£	86.6	£	0.1	£	105.4	£	—	£	508.3	£	(682.8)	£	25.2
Other current liabilities:																
Third-party .....		108.5		45.1		—		830.9		—		1,361.3		—		2,345.8
Intercompany and related-party .....		1.4		—		—		10.1		—		47.2		(10.1)		48.6
Total current liabilities .....		117.5		131.7		0.1		946.4		—		1,916.8		(692.9)		2,419.6
Long-term debt and capital lease obligations:																
Third-party.....		—		2,079.0		—		118.7		—		7,400.1		—		9,597.8
Related-party .....		—		—		—		—		—		86.1		—		86.1
Other long-term liabilities:																
Third-party.....		1.2		—		—		137.5		—		163.5		—		302.2
Intercompany .....		—		—		—		117.8		—		—		(117.8)		—
Total liabilities.....		118.7		2,210.7		0.1		1,320.4		—		9,566.5		(810.7)		12,405.7
Total parent's equity.....		7,450.9		7,519.3		8,207.5		11,888.1		12,551.0		2,748.6		(42,914.5)		7,450.9
Noncontrolling interest.....		—		—		—		—		—		(51.5)		—		(51.5)
Total owners' equity .....		7,450.9		7,519.3		8,207.5		11,888.1		12,551.0		2,697.1		(42,914.5)		7,399.4
Total liabilities and owners' equity .....	£	7,569.6	£	9,730.0	£	8,207.6	£	13,208.5	£	12,551.0	£	12,263.6	£	(43,725.2)	£	19,805.1

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Three months ended March 31, 2016

Statements of operations	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
Revenue .....	£ —	£ —	£ —	£ —	£ —	£ 1,177.9	£ —	£ 1,177.9
Operating costs and expenses:								
Operating (other than depreciation and amortization) .....	—	—	—	—	—	504.6	—	504.6
SG&A (including share-based compensation) .....	1.9	—	—	—	—	157.6	—	159.5
Related party fees and allocations, net .....	—	—	—	—	—	24.7	—	24.7
Depreciation and amortization .....	—	—	—	—	—	396.8	—	396.8
Impairment, restructuring and other operating items, net .....	—	—	—	—	—	3.2	—	3.2
	1.9	—	—	—	—	1,086.9	—	1,088.8
Operating income (loss) .....	(1.9)	—	—	—	—	91.0	—	89.1
Non-operating income (expense):								
Interest expense:								
Third-party .....	(0.5)	(31.4)	—	(7.2)	—	(95.8)	—	(134.9)
Related-party and intercompany ...	(7.8)	(62.2)	(0.1)	(110.1)	—	(292.4)	471.6	(1.0)
Interest income – related-party and intercompany .....	0.1	14.3	8.1	55.6	—	457.7	(471.6)	64.2
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party .....	6.7	—	—	16.8	—	—	—	23.5
Related-party .....	—	9.4	—	(33.7)	—	24.9	—	0.6
Foreign currency transaction gains (losses), net .....	—	(111.8)	(4.0)	(60.6)	—	67.3	—	(109.1)
Other income (expense), net .....	—	—	—	(0.1)	—	0.7	—	0.6
	(1.5)	(181.7)	4.0	(139.3)	—	162.4	—	(156.1)
Earnings (loss) before income taxes .....	(3.4)	(181.7)	4.0	(139.3)	—	253.4	—	(67.0)
Income tax benefit (expense) .....	(1.2)	—	—	—	—	15.3	—	14.1
Earnings (loss) after income taxes .....	(4.6)	(181.7)	4.0	(139.3)	—	268.7	—	(52.9)
Equity in net earnings (loss) of subsidiaries .....	(47.3)	124.9	(52.8)	264.2	172.8	—	(461.8)	—
Net earnings (loss) .....	(51.9)	(56.8)	(48.8)	124.9	172.8	268.7	(461.8)	(52.9)
Net loss attributable to noncontrolling interest .....	—	—	—	—	—	1.0	—	1.0
Net earnings (loss) attributable to parent .....	£ (51.9)	£ (56.8)	£ (48.8)	£ 124.9	£ 172.8	£ 269.7	£ (461.8)	£ (51.9)
Total comprehensive earnings (loss) .....	£ (55.7)	£ (62.7)	£ (40.1)	£ 119.0	£ 166.9	£ 259.5	£ (447.0)	£ (60.1)
Comprehensive loss attributable to noncontrolling interest .....	—	—	—	—	—	4.4	—	4.4
Comprehensive earnings (loss) attributable to parent .....	£ (55.7)	£ (62.7)	£ (40.1)	£ 119.0	£ 166.9	£ 263.9	£ (447.0)	£ (55.7)

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**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

Statements of cash flows	Three months ended March 31, 2016						
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Total
	in millions						
Cash flows from operating activities:							
Net cash provided (used) by operating activities.....	£ (1.8)	£ (58.3)	£ —	£ (94.2)	£ —	£ 453.3	£ 299.0
Cash flows from investing activities:							
Capital expenditures.....	—	—	—	—	—	(145.0)	(145.0)
Advances to related parties, net .....	—	—	—	—	—	(38.7)	(38.7)
Other investing activities, net.....	—	—	—	—	—	0.1	0.1
Net cash used by investing activities.....	—	—	—	—	—	(183.6)	(183.6)
Cash flows from financing activities:							
Borrowings of third-party debt .....	—	—	—	875.7	—	—	875.7
Repayments and repurchases of third-party debt and capital lease obligations .....	—	—	—	(830.7)	—	(16.6)	(847.3)
Contributions (distributions) .....	1.2	58.6	—	197.4	—	(257.2)	—
Net cash received related to derivative instruments .....	—	—	—	10.3	—	—	10.3
Payment of financing costs and debt premiums .....	—	(0.3)	—	—	—	(0.5)	(0.8)
Other financing activities, net .....	—	—	—	—	—	14.1	14.1
Net cash provided (used) by financing activities.....	1.2	58.3	—	252.7	—	(260.2)	52.0
Effect of exchange rates on cash and cash equivalents.....	0.6	—	—	—	—	—	0.6
Net increase in cash and cash equivalents.....	—	—	—	158.5	—	9.5	168.0
Cash and cash equivalents:							
Beginning of period.....	—	0.2	0.1	0.1	—	19.8	20.2
End of period.....	£ —	£ 0.2	£ 0.1	£ 158.6	£ —	£ 29.3	£ 188.2

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

**(14) Condensed Consolidating Financial Information — Senior Secured Notes**

We present the following condensed consolidating financial information as of and for the three months ended March 31, 2016, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2015 and for the three months ended March 31, 2015, see our 2015 annual report and the March 31, 2015 quarterly report, respectively.

As of March 31, 2016, Virgin Media Secured Finance PLC (**Virgin Media Secured Finance**) is the issuer of the following senior secured notes:

- £628.4 million aggregate principal amount of 5.5% senior secured notes due January 15, 2021;
- \$447.9 million (£311.1 million) aggregate principal amount of 5.25% senior secured notes due January 15, 2021;
- £990.0 million aggregate principal amount of 6.0% senior secured notes due April 15, 2021;
- \$900.0 million (£625.3 million) aggregate principal amount of 5.375% senior secured notes due April 15, 2021;
- £387.0 million aggregate principal amount of 5.5% senior secured notes due January 15, 2025;
- \$425.0 million (£295.3 million) aggregate principal amount of 5.5% senior secured notes due January 15, 2025;
- £300.0 million aggregate principal amount of 5.125% senior secured notes due January 15, 2025;
- \$1.0 billion (£694.7 million) aggregate principal amount of 5.25% senior secured notes due January 15, 2026;
- £525.0 million aggregate principal amount of 4.875% senior secured notes due January 15, 2027; and
- £400.0 million aggregate principal amount of 6.25% senior secured notes due March 28, 2029.

Our senior secured notes are issued by Virgin Media Secured Finance and are guaranteed on a senior basis by Virgin Media, Virgin Media Group, Virgin Media (UK) Group and Virgin Media Communications and on a senior subordinated basis by VMIH and VMIL. They also rank pari passu with and, subject to certain exceptions, share in the same guarantees and security, which has been granted in favor of our VM Credit Facility.

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

	March 31, 2016							
Balance sheets	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Eliminations	Total		
	in millions							
ASSETS								
Current assets:								
Cash and cash equivalents .....	£ —	£ 1.4	£ 173.4	£ 13.4	£ —	£ 188.2		
Related-party receivables.....	0.2	—	7.7	84.9	—	92.8		
Other current assets:								
Third-party .....	24.4	—	536.2	113.2	—	673.8		
Intercompany and related-party .....	—	7.1	4.5	—	(10.1)	1.5		
Total current assets.....	24.6	8.5	721.8	211.5	(10.1)	956.3		
Property and equipment, net .....	—	—	4,590.6	1,241.1	—	5,831.7		
Goodwill.....	—	—	5,793.7	185.5	—	5,979.2		
Intangible assets subject to amortization, net .....	—	—	1,361.1	153.0	—	1,514.1		
Investments in, and loans to, parent and subsidiary companies.....	7,531.5	5,242.5	(3,914.8)	5,695.1	(14,554.3)	—		
Deferred income taxes .....	—	—	1,436.1	—	—	1,436.1		
Related-party notes receivable .....	13.5	—	—	3,489.7	—	3,503.2		
Other assets, net:								
Third-party .....	—	—	532.3	52.2	—	584.5		
Intercompany .....	—	88.2	29.6	—	(117.8)	—		
Total assets.....	£ 7,569.6	£ 5,339.2	£ 10,550.4	£ 11,028.1	£ (14,682.2)	£ 19,805.1		
LIABILITIES AND OWNERS' EQUITY								
Current liabilities:								
Intercompany and related-party payables.....	£ 7.6	£ —	£ 297.0	£ 318.5	£ (597.9)	£ 25.2		
Other current liabilities:								
Third-party .....	108.5	82.5	2,033.2	121.6	—	2,345.8		
Intercompany and related-party .....	1.4	0.1	49.4	7.8	(10.1)	48.6		
Total current liabilities.....	117.5	82.6	2,379.6	447.9	(608.0)	2,419.6		
Long-term debt and capital lease obligations .....								
Third-party.....	—	5,143.9	4,453.9	—	—	9,597.8		
Related-party.....	—	—	—	86.1	—	86.1		
Other long-term liabilities:								
Third-party.....	1.2	—	277.5	23.5	—	302.2		
Intercompany .....	—	—	117.8	—	(117.8)	—		
Total liabilities .....	118.7	5,226.5	7,228.8	557.5	(725.8)	12,405.7		
Total parent's equity.....	7,450.9	112.7	3,321.6	10,522.1	(13,956.4)	7,450.9		
Noncontrolling interest .....	—	—	—	(51.5)	—	(51.5)		
Total owners' equity.....	7,450.9	112.7	3,321.6	10,470.6	(13,956.4)	7,399.4		
Total liabilities and owners' equity....	£ 7,569.6	£ 5,339.2	£ 10,550.4	£ 11,028.1	£ (14,682.2)	£ 19,805.1		

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

Statements of operations	Three months ended March 31, 2016					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Eliminations	Total
	in millions					
Revenue .....	£ —	£ —	£ 998.9	£ 179.0	£ —	£ 1,177.9
Operating costs and expenses:						
Operating (other than depreciation and amortization) .....	—	—	430.3	74.3	—	504.6
SG&A (including share-based compensation) .....	1.9	—	133.7	23.9	—	159.5
Related party fees and allocations, net .....	—	—	14.8	9.9	—	24.7
Depreciation and amortization .....	—	—	332.0	64.8	—	396.8
Impairment, restructuring and other operating items, net .....	—	—	2.8	0.4	—	3.2
	1.9	—	913.6	173.3	—	1,088.8
Operating income (loss) .....	(1.9)	—	85.3	5.7	—	89.1
Non-operating income (expense):						
Interest expense:						
Third-party .....	(0.5)	(71.6)	(62.8)	—	—	(134.9)
Related-party and intercompany .....	(7.8)	—	(254.9)	(217.6)	479.3	(1.0)
Interest income – related-party and intercompany .....	0.1	74.2	230.2	239.0	(479.3)	64.2
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party .....	6.7	—	16.8	—	—	23.5
Related-party .....	—	24.9	(24.3)	—	—	0.6
Foreign currency transaction gains (losses), net .....	—	(22.3)	(148.2)	61.4	—	(109.1)
Other income, net .....	—	—	0.3	0.3	—	0.6
	(1.5)	5.2	(242.9)	83.1	—	(156.1)
Earnings (loss) before income taxes .....	(3.4)	5.2	(157.6)	88.8	—	(67.0)
Income tax benefit (expense) .....	(1.2)	—	15.0	0.3	—	14.1
Earnings (loss) after income taxes ...	(4.6)	5.2	(142.6)	89.1	—	(52.9)
Equity in net earnings (loss) of subsidiaries .....	(47.3)	—	85.9	(137.4)	98.8	—
Net earnings (loss) .....	(51.9)	5.2	(56.7)	(48.3)	98.8	(52.9)
Net loss attributable to noncontrolling interest .....	—	—	—	1.0	—	1.0
Net earnings (loss) attributable to parent .....	£ (51.9)	£ 5.2	£ (56.7)	£ (47.3)	£ 98.8	£ (51.9)
Total comprehensive earnings (loss) .....	£ (55.7)	£ 5.2	£ (56.3)	£ (30.0)	£ 76.7	£ (60.1)
Comprehensive loss attributable to noncontrolling interest .....	—	—	—	4.4	—	4.4
Comprehensive earnings (loss) attributable to parent .....	£ (55.7)	£ 5.2	£ (56.3)	£ (25.6)	£ 76.7	£ (55.7)

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

Statements of cash flows	Three months ended March 31, 2016				
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Total
	in millions				
Cash flows from operating activities:					
Net cash provided (used) by operating activities ...	£ (1.8)	£ 1.4	£ 246.5	£ 52.9	£ 299.0
Cash flows from investing activities:					
Capital expenditures.....	—	—	(126.1)	(18.9)	(145.0)
Advances to related parties, net .....	—	—	—	(38.7)	(38.7)
Other investing activities, net.....	—	—	(0.1)	0.2	0.1
Net cash used by investing activities.....	—	—	(126.2)	(57.4)	(183.6)
Cash flows from financing activities:					
Borrowings of third-party debt .....	—	—	875.7	—	875.7
Repayments and repurchases of third-party debt and capital lease obligations.....	—	—	(843.9)	(3.4)	(847.3)
Contributions (distributions) .....	1.2	0.2	(4.4)	3.0	—
Net cash received related to derivative instruments....	—	—	10.3	—	10.3
Payment of financing costs and debt premiums.....	—	(0.3)	(0.5)	—	(0.8)
Other financing activities, net .....	—	—	—	14.1	14.1
Net cash provided (used) by financing activities ...	1.2	(0.1)	37.2	13.7	52.0
Effect of exchange rates on cash and cash equivalents....	0.6	—	—	—	0.6
Net increase in cash and cash equivalents .....	—	1.3	157.5	9.2	168.0
Cash and cash equivalents:					
Beginning of period.....	—	0.1	15.9	4.2	20.2
End of period .....	£ —	£ 1.4	£ 173.4	£ 13.4	£ 188.2

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
**(unaudited)**

**(15) Subsequent Event**

***Refinancing Transaction***

On April 26, 2016, Virgin Media Secured Finance issued \$750.0 million (£521.1 million) principal amount of 5.5% senior secured notes due August 15, 2026 (the **August 2026 VM Senior Secured Notes**). The net proceeds from the August 2026 VM Senior Secured Notes were used to repay in full the outstanding amount under the VM Revolving Facility, and the remainder will be used for general corporate purposes.

Subject to the circumstances described below, the August 2026 VM Senior Secured Notes are non-callable until August 15, 2021. At any time prior to August 15, 2021, Virgin Media Secured Finance may redeem some or all of the August 2026 VM Senior Secured Notes by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments to August 15, 2021 using the discount rate (as specified in the indenture) as of the redemption date plus 50 basis points.

Virgin Media Secured Finance may redeem some or all of the August 2026 VM Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to the applicable redemption date, as set forth below:

	<u>Redemption price</u>
12-month period commencing August 15:	
2021 .....	102.750%
2022 .....	101.375%
2023 .....	100.688%
2024 and thereafter .....	100.000%

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2015 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2016 and 2015.
- *Material Changes in Financial Condition.* This section provides an analysis of our corporate and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of March 31, 2016.

### Forward-looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product, foreign currency and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, foreign currency risks, target leverage levels, our future projected contractual commitments and cash flows and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In addition to the risk factors described in our 2015 annual report, the following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we operate;
- the competitive environment in the cable television, broadband and telecommunications industries in the U.K. and Ireland, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the EU and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;

- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would open our broadband distribution networks to competitors and any adverse change in our accreditations or licenses;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully integrate and realize anticipated efficiencies from the businesses we may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the countries in which we operate;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors (including our third-party wireless network providers under our MVNO arrangements) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our digital video services and the costs associated with such programming;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our network extension project in the U.K.;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers;
- adverse changes in public perception of the “Virgin” brand, which we and others license from Virgin Group Limited, and any resulting impacts on the goodwill of customers toward us; and

- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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

## Overview

We are a subsidiary of Liberty Global that provides video, broadband internet, fixed-line telephony and mobile services in the U.K. and Ireland. We are one of the U.K.'s and Ireland's largest providers of residential video, broadband internet and fixed-line telephony services in terms of the number of customers. We believe our advanced, deep-fiber cable access network enables us to offer faster and higher quality broadband services than our digital subscriber line competitors. As a result, we provide our customers with a leading next generation broadband service and one of the most advanced interactive television services available in the U.K. and Irish markets.

As further described in notes 1 and 3 to our condensed consolidated financial statements, we completed the VM Ireland Acquisition in February 2015 and accounted for it as a common control transfer. As a result, all financial and operating information was retrospectively revised to give effect to this transaction as of June 7, 2013, the earliest date that Virgin Media and VM Ireland were under the common control of Liberty Global.

We completed one small disposition in 2016 and one small acquisition and the U.K. Non-Cable Disposal, as defined and described below, in 2015. These transactions impact the comparability of our 2016 and 2015 results of operations.

At March 31, 2016, our network passed 13,814,200 homes and served 13,897,900 revenue generating units (**RGUs**), consisting of 5,133,000 broadband internet subscribers, 4,712,500 fixed-line telephony subscribers and 4,052,400 video subscribers. In addition, at March 31, 2016, we served 3,007,900 mobile subscribers.

As a result of our decision to discontinue our multi-channel multi-point (microwave) distribution system (**MMDS**) service in Ireland, we have excluded subscribers to our MMDS service from our externally reported operating statistics effective January 1, 2016, which resulted in a reduction to homes passed, RGUs and customer relationships in Ireland of 22,200.

We added 92,900 RGUs on an organic basis during the three months ended March 31, 2016, as compared to 16,400 RGUs added on an organic basis during the corresponding prior-year period. The organic RGU growth during the three months ended March 31, 2016 is attributable to the net effect of (i) an increase of 66,900 broadband internet RGUs, (ii) an increase of 43,900 fixed-line telephony RGUs, (iii) a decrease of 16,700 enhanced video RGUs and (iv) a decrease of 1,200 basic video RGUs.

We lost 16,100 mobile subscribers during the three months ended March 31, 2016, as compared to 45,700 mobile subscribers that we lost during the corresponding prior-year period. The organic loss during the three months ended March 31, 2016 is attributable to the net effect of (i) a decrease of 62,700 prepaid mobile subscribers and (ii) an increase of 46,600 postpaid mobile subscribers.

## Material Changes in Results of Operations

As noted under *Overview* above, the comparability of our operating results during 2016 and 2015 is affected by an acquisition, the U.K. Non-Cable Disposal, as defined and described below, and another less significant disposition. In the following discussion, we quantify the estimated impact of acquisitions and dispositions on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, variances attributed to an acquired entity during the first 12 months following the acquisition date represent differences between the estimated acquisition impact and the actual results.

## Discussion and Analysis

### General

Most of our revenue is subject to VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our Segment OCF and Segment OCF margin to the extent of any such tax increases. As we use the term, **Segment OCF** is defined as operating income before depreciation and amortization, share-based compensation, related-party fees and allocations, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items. Other operating items include (i) gains and losses on the disposition of long-lived assets, (ii) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration.

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

### Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communications and mobile services and (ii) B2B services, interconnect fees, mobile handset sales, installation fees, late fees and advertising revenue. Consistent with the presentation of our revenue categories in note 12 to our condensed consolidated financial statements, we use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees and late fees. In the below tables, mobile subscription revenue excludes the related interconnect revenue.

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

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2016	2015	£	%	%
	in millions				
Subscription revenue:					
Video .....	£ 266.8	£ 266.5	£ 0.3	0.1	0.2
Broadband internet .....	325.4	295.9	29.5	10.0	9.6
Fixed-line telephony.....	236.4	240.7	(4.3)	(1.8)	(1.9)
Cable subscription revenue (a).....	828.6	803.1	25.5	3.2	3.1
Mobile (b).....	107.6	116.3	(8.7)	(7.5)	(7.5)
Total subscription revenue.....	936.2	919.4	16.8	1.8	1.7
B2B revenue (c).....	163.2	156.2	7.0	4.5	4.3
Other revenue (b) (d) .....	78.5	54.2	24.3	44.8	34.7
Total.....	£ 1,177.9	£ 1,129.8	£ 48.1	4.3	3.7

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, mobile services revenue and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of £16.2 million and £17.9 million during the three months ended March 31, 2016 and 2015, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) B2B revenue includes revenue from business broadband internet, voice, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated £5.6 million and £5.0 million during the three months ended March 31, 2016 and 2015, respectively.
- (d) Other revenue includes, among other items, mobile handset sales, interconnect, programming and late fee revenue.

The increase in our revenue during the three months ended March 31, 2016, as compared to the corresponding period in 2015, includes (i) an organic increase of £41.3 million or 3.7%, (ii) the impact of an acquisition, (iii) the impact of disposals and (iv) the impact of foreign currency translation effects (**FX**), as set forth below:

	Subscription revenue	Non- subscription revenue in millions	Total
Increase in cable subscription revenue due to change in:			
Average number of RGUs (a) .....	£ 14.4	£ —	£ 14.4
ARPU (b) .....	10.1	—	10.1
Total increase in cable subscription revenue .....	24.5	—	24.5
Decrease in mobile subscription revenue (c) .....	(8.7)	—	(8.7)
Total increase in subscription revenue .....	15.8	—	15.8
Increase in B2B revenue .....	—	6.7	6.7
Increase in other revenue (d) .....	—	18.8	18.8
Total organic increase .....	15.8	25.5	41.3
Impact of an acquisition .....	—	8.1	8.1
Impact of disposals (e) .....	(1.3)	(2.9)	(4.2)
Impact of FX .....	2.3	0.6	2.9
Total .....	£ 16.8	£ 31.3	£ 48.1

- (a) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to an increase in the average numbers of broadband internet and fixed-line telephony RGUs that was only partially offset by a decline in (i) the average number of enhanced video RGUs and (ii) the average number of basic video RGUs in Ireland.
- (b) The increase in cable subscription revenue related to a change in ARPU is attributable to the net effect of (i) a net increase primarily due to (a) higher ARPU from broadband internet services, (b) lower ARPU from fixed-line telephony services in the U.K. and (c) higher ARPU from video services in the U.K. and (ii) an adverse change in RGU mix.
- (c) The decrease in mobile subscription revenue relates to the U.K. and is due to (i) lower ARPU, including a decline of £14.1 million in postpaid mobile services revenue due to the continued growth of a mobile program in the U.K., which was introduced in November 2014, whereby customers can elect to purchase a mobile handset pursuant to a contract that is independent of a mobile airtime services contract (the **Freestyle Mobile Proposition**), and (ii) a decrease in the average

number of subscribers, as a decrease in the average number of prepaid subscribers more than offset the increase in the average number of postpaid subscribers.

- (d) The increase in other revenue is primarily due to the net effect of (i) an increase in mobile handset sales, primarily attributable to a £19.2 million increase associated with the continued growth of the Freestyle Mobile Proposition in the U.K., and (ii) a decrease in interconnect revenue of £2.4 million, primarily due to (a) lower mobile termination rates and volume in the U.K. and (b) a decline in mobile short message service termination volumes in the U.K.
- (e) Represents the estimated impact of (i) the non-cable subscribers in the U.K. that we sold in the fourth quarter of 2014 (the **U.K. Non-Cable Disposal**) and (ii) the MMDS subscribers in Ireland that have disconnected since we announced the switch-off of this service effective April 2016. The non-cable subscribers were migrated to a third party during the first nine months of 2015.

We have reduced certain fees we charge to customers in the U.K. as a result of a regulatory change, with the largest reduction implemented effective April 1, 2016. We estimate that these reduced charges will result in a £15 million reduction of the U.K.'s cable subscription revenue and operating income for the remainder of 2016 when compared to the corresponding prior-year period.

The details of the changes in our B2B revenue categories are as follows:

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2016	2015	£	%	%
	in millions				
Data (a) .....	£ 123.3	£ 115.8	£ 7.5	6.5	6.4
Voice (b) .....	27.5	30.7	(3.2)	(10.4)	(10.5)
Other (c) .....	12.4	9.7	2.7	27.8	27.8
Total .....	£ 163.2	£ 156.2	£ 7.0	4.5	4.3

- (a) The increase in data revenue is primarily attributable to (i) higher volumes and (ii) an increase of £2.9 million in the U.K.'s amortization of deferred upfront fees on B2B contracts.
- (b) The decrease in voice revenue is primarily attributable to a decline in usage in the U.K.
- (c) The increase in other revenue is primarily attributable to an increase in low-margin equipment sales in the U.K.

### **Operating expenses**

Operating expenses include programming, network operations, mobile access and interconnect, customer operations, customer care and other costs related to our operations. Programming costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (ii) rate increases. In addition, we are subject to inflationary pressures with respect to our labor and other costs. Any cost increases that we are not able to pass on to our subscribers through rate increases would result in increased pressure on our operating margins.

Our total operating expenses increased £24.7 million or 5.1% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This increase includes (i) an increase of £7.2 million attributable to the impact of an acquisition and (ii) a decrease of £3.7 million attributable to the U.K. Non-Cable Disposal and another less significant disposition. Excluding the effects of an acquisition, dispositions and FX, operating expenses increased £19.9 million or 4.2%. This increase includes the following factors:

- An increase in programming and related costs of £21.7 million or 12.7%, primarily due to higher costs for certain premium and basic content, including the impact of a new sports programming contract entered into in August 2015;
- A decrease in mobile access and interconnect costs of £8.0 million or 7.4%, primarily due to the net effect of (i) a decline resulting from lower rates, (ii) lower fixed-line telephony call volumes and (iii) an increase in costs attributable to higher mobile usage;

- An increase in mobile handset costs of £6.6 million or 24.3%, primarily due to the net impact of (i) higher mobile handset sales volume and (ii) lower average cost per handset sold;
- A decrease in personnel costs of £3.4 million or 6.1%, due primarily to the net effect of (i) decreased staffing levels, (ii) decreased costs associated with higher proportions of capitalized labor costs associated with our network extension project in the U.K. and (iii) annual wage increases;
- An increase in equipment costs of £2.5 million, primarily due to higher B2B low-margin equipment sales;
- A decrease in network-related expenses of £2.3 million or 5.1%, due largely to the net effect of (i) an increase due to the impact of a reduction in local authority charges for certain elements of network infrastructure in the U.K. resulting in a non-recurring benefit during the first quarter of 2015 of £4.8 million, (ii) a £4.1 million decrease associated with the settlement of an operational contingency during the first quarter of 2016 and (iii) lower outsourced labor costs associated with customer-facing activities; and
- An increase in certain other direct costs associated with B2B services of £1.7 million.

### ***SG&A expenses***

SG&A expenses include human resources, information technology, general services, management, finance, legal and sales and marketing costs, share-based compensation and other general expenses. We do not include share-based compensation in the following discussion and analysis of our SG&A expenses as share-based compensation expense is discussed separately below. As noted above, we are subject to inflationary pressures with respect to our labor and other costs.

Our total SG&A expenses (exclusive of share-based compensation) increased £7.2 million or 4.9% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This increase includes an increase of £2.1 million attributable to the impact of an acquisition. Excluding the effects of an acquisition and FX, SG&A expenses increased £4.6 million or 3.2%. This increase includes the following factors:

- An increase in sales and marketing costs of £5.8 million or 10.2%, primarily due to higher costs associated with advertising campaigns;
- An increase in personnel costs of £3.9 million or 7.1%, primarily due to (i) increased staffing levels and (ii) annual wage increases; and
- A net decrease resulting from individually insignificant changes in other SG&A expense categories.

### ***Share-based compensation expense (included in SG&A expenses)***

Our share-based compensation expense represents amounts allocated to our company by Liberty Global and related employer taxes. The amounts allocated by Liberty Global to our company represent share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. Share-based compensation expense allocated to our company by Liberty Global is reflected as an increase to owners' equity and is offset by any amounts recharged to us by Liberty Global, as further described in note 10 to our condensed consolidated financial statements. A summary of the share-based compensation expense that is included in our SG&A expenses is set forth below:

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Performance-based incentive awards (a) .....	£ 2.7	£ 3.2
Other share-based incentive awards .....	3.7	7.5
Total .....	<u>£ 6.4</u>	<u>£ 10.7</u>

- (a) Includes share-based compensation expense related to (i) Liberty Global PSUs, including the 2016 PSUs, and (ii) the Challenge Performance Awards.

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

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

We recorded related-party fees and allocations, net, related to corporate services performed by Liberty Global and our company of £24.7 million and £19.1 million during the three months ended March 31, 2016 and 2015, respectively. These charges generally relate to management, finance, legal, technology and other corporate and administrative services provided to our subsidiaries. For additional information, see note 10 to our condensed consolidated financial statements.

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

Our depreciation and amortization expense increased £14.9 million or 3.9% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. Excluding the effects of FX, depreciation and amortization expense increased £14.4 million or 3.8%, primarily due to the net effect of (i) an increase associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives and (ii) a decrease associated with certain assets becoming fully depreciated.

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

We recognized impairment, restructuring and other operating items, net, of £3.2 million and (£5.1 million) during the three months ended March 31, 2016 and 2015, respectively. The 2016 amount includes restructuring charges of £3.2 million, primarily related to employee severance and termination costs related to certain reorganization activities. The 2015 amount primarily includes the net effect of (i) gains from the disposition of assets of £9.8 million and (ii) impairment charges of £4.0 million. We expect to record further restructuring charges during the remainder of 2016 in connection with continued efforts to optimize our operating model.

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

Our third-party interest expense increased £11.5 million or 9.3% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. The increase is primarily due to the net effect of (i) higher average outstanding third-party debt balances and (ii) lower weighted average interest rates related to the completion of certain financing transactions that resulted in extended maturities and net decreases to certain of our interest rates. For additional information regarding our outstanding third-party indebtedness, see note 7 to our condensed consolidated financial statements.

It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 4 to our condensed consolidated financial statements, we use derivative instruments to manage our interest rate risks.

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

Our related-party interest expense decreased £4.6 million during the three months ended March 31, 2016, as compared to the corresponding period in 2015, primarily due to the interest expense incurred on the VM Ireland Note in the first quarter of 2015. As further described in note 3 to our condensed consolidated financial statements, the VM Ireland Note eliminates in consolidation following the February 2015 VM Ireland Acquisition. For additional information regarding our related-party indebtedness, see note 10 to our condensed consolidated financial statements.

### ***Interest income – related-party***

Our related-party interest income increased £5.6 million or 9.6% during the three months ended March 31, 2016, as compared to the corresponding period in 2015, primarily due to interest income earned on related-party notes receivable from LG Europe 2. For additional information, see note 10 to our condensed consolidated financial statements.

### ***Realized and unrealized gains on derivative instruments, net***

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

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Cross-currency and interest rate derivative contracts (a) .....	£ 16.7	£ 214.0
Equity-related derivative instruments (b) .....	6.8	(1.5)
Foreign currency forward contracts .....	0.6	(7.7)
Total.....	<u>£ 24.1</u>	<u>£ 204.8</u>

- (a) The gain during the 2016 period is primarily attributable to the net effect of (i) gains associated with decreases in market interest rates in the U.S. dollar market, (ii) losses associated with decreases in market interest rates in the pound sterling market and (iii) gains associated with a decrease in the value of the pound sterling relative to the U.S. dollar. In addition, the gain during the 2016 period includes a net loss of £4.2 million resulting from changes in our credit risk valuation adjustments. The gain during the 2015 period is primarily attributable to the net effect of (a) gains associated with a decrease in the value of the pound sterling relative to the U.S. dollar, (b) gains associated with decreases in market interest rates in the U.S. dollar market and (c) losses associated with decreases in market interest rates in the pound sterling market. In addition, the gain during the 2015 period includes a net loss of £10.9 million resulting from changes in our credit risk valuation adjustments.
- (b) Amounts represent activity related to the Virgin Media Capped Calls and the derivative embedded in the VM Convertible Notes. The fair values of our equity-related derivative instruments are primarily impacted by the trading prices of the underlying security.

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

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

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

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
U.S. dollar denominated debt issued by our company .....	£ (87.6)	£ (105.9)
Euro denominated debt issued by our company .....	(24.5)	11.7
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a) .....	3.3	(137.5)
Other .....	(0.3)	(11.2)
Total .....	<u>£ (109.1)</u>	<u>£ (242.9)</u>

- (a) Amounts primarily relate to loans between certain of our non-operating subsidiaries.

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

We recognized a loss on debt modification and extinguishment, net, of nil and £20.2 million during the three months ended March 31, 2016 and 2015, respectively. The loss during 2015 is attributable to (i) the write-off of £12.6 million of deferred financing costs, (ii) the payment of £6.6 million of redemption premiums and (iii) the write-off of £1.0 million of unamortized discount.

### ***Income tax benefit***

We recognized income tax benefit of £14.1 million and £6.8 million during the three months ended March 31, 2016 and 2015, respectively.

The income tax benefit during the three months ended March 31, 2016 differs from the expected income tax benefit of £23.5 million (based on the U.S. federal income tax rate of 35.0%) primarily due to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries and (ii) statutory tax rates in certain jurisdictions in which we operate that are lower than the U.S. federal income tax rate. The negative impacts of these items were partially offset by the positive impact of a net decrease in valuation allowances.

The income tax benefit during the three months ended March 31, 2015 differs from the expected income tax benefit of £11.0 million (based on the U.S. federal income tax rate of 35.0%) primarily due to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries and (ii) a net increase in valuation allowances.

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

### ***Net loss***

During the three months ended March 31, 2016 and 2015, we reported net losses of £52.9 million and £24.7 million, respectively, including (i) operating income of £89.1 million and £97.4 million, respectively, (ii) net non-operating expense of £156.1 million and £128.9 million, respectively, and (iii) income tax benefit of £14.1 million and £6.8 million, respectively.

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

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

## **Material Changes in Financial Condition**

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

#### ***Cash and cash equivalents***

At March 31, 2016, we had cash and cash equivalents of £188.2 million, all of which was held by our subsidiaries. The terms of the instruments governing the indebtedness of certain of these subsidiaries may restrict our ability to access the liquidity of these subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal considerations and other factors.

### *Liquidity of Virgin Media*

Our sources of liquidity at the parent level include (i) our cash and cash equivalents, (ii) funding from LG Europe 2 (and ultimately from Liberty Global or other Liberty Global subsidiaries) in the form of loans or contributions, as applicable, and (iii) subject to the restrictions noted above, proceeds in the form of distributions or loans from our subsidiaries. For information regarding limitations imposed by our subsidiaries' debt instruments, see note 7 to our condensed consolidated financial statements.

The ongoing cash needs of Virgin Media include corporate general and administrative expenses and interest expense on the VM Convertible Notes. From time to time, Virgin Media may also require cash in connection with (i) the repayment of outstanding debt and related-party obligations, (ii) the satisfaction of contingent liabilities or (iii) acquisitions and other investment opportunities. No assurance can be given that funding from LG Europe 2 (and ultimately from Liberty Global or other Liberty Global subsidiaries), our subsidiaries or external sources would be available on favorable terms, or at all.

Our parent company, Virgin Media, and certain Liberty Global subsidiaries are co-guarantors of the indebtedness of certain other Liberty Global subsidiaries. We do not believe these guarantees will result in material payments in the future.

### *Liquidity of our subsidiaries*

In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and, in the case of VMIH, any borrowing availability under the VM Credit Facility. For details of the borrowing availability of the VM Credit Facility, see note 7 to our condensed consolidated financial statements.

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

### ***Capitalization***

At March 31, 2016, the outstanding principal amount of our consolidated third-party debt, together with our capital lease obligations, aggregated £10,565.3 million, including £893.8 million that is classified as current in our condensed consolidated balance sheet and £9,645.9 million that is not due until 2021 or thereafter. For additional information concerning our current debt maturities, see note 7 to our condensed consolidated financial statements.

As further discussed in note 4 to our condensed consolidated financial statements, we use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase our Covenant EBITDA and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in the various debt instruments of our subsidiaries. In this regard, if our Covenant EBITDA were to decline, we could be required to repay or limit our borrowings under the VM Credit Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment. We do not anticipate any instances of non-compliance with respect to any of our subsidiaries' debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at March 31, 2016, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future

liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

With the exception of the VM Convertible Notes, all of our consolidated debt and capital lease obligations at March 31, 2016 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and capital lease obligations, see note 7 to our condensed consolidated financial statements.

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

*Summary.* Our condensed consolidated statements of cash flows for the three months ended March 31, 2016 and 2015 are summarized as follows:

	<b>Three months ended March 31,</b>		<b>Change</b>
	<b>2016</b>	<b>2015</b>	
	<b>in millions</b>		
Net cash provided by operating activities .....	£ 299.0	£ 396.2	£ (97.2)
Net cash used by investing activities.....	(183.6)	(1,094.9)	911.3
Net cash provided by financing activities .....	52.0	695.5	(643.5)
Effect of exchange rate changes on cash.....	0.6	3.9	(3.3)
Net increase in cash and cash equivalents.....	<u>£ 168.0</u>	<u>£ 0.7</u>	<u>£ 167.3</u>

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

*Investing Activities.* The decrease in net cash used by our investing activities is primarily attributable to the net effect of (i) a decrease in cash used of £993.8 million associated with cash paid in connection with the VM Ireland Acquisition in 2015, (ii) an increase in cash used to fund loans to subsidiaries of Liberty Global of £83.0 million and (iii) a decrease in cash used due to lower capital expenditures of £8.1 million.

The capital expenditures that we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or capital lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In this discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude amounts financed under capital-related vendor financing or capital lease arrangements, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or capital lease arrangements. For further details regarding our property and equipment additions, see note 6 to our condensed consolidated financial statements.

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

	Three months ended March 31,	
	2016	2015
	in millions	
Property and equipment additions.....	£ 257.4	£ 229.6
Assets acquired under capital-related vendor financing arrangements.....	(112.1)	(61.8)
Assets acquired under capital leases .....	(7.4)	(12.1)
Changes in current liabilities related to capital expenditures.....	7.1	(2.6)
Capital expenditures .....	<u>£ 145.0</u>	<u>£ 153.1</u>

The increase in our property and equipment additions is primarily due to (i) an increase in expenditures for line extensions due in part to our network extension project in the U.K. and (ii) an increase in expenditures for support capital, such as information technology upgrades and general support systems.

*Financing Activities.* The decrease in net cash provided by our financing activities is primarily attributable to the net effect of (i) a decrease in cash provided of £711.4 million related to lower net borrowings of third-party debt, (ii) an increase in cash provided of £28.3 million due to an increase in cash received related to derivative instruments and (iii) an increase in cash provided of £19.2 million due to lower payments for financing costs and debt premiums.

### Contractual Commitments

The pound sterling equivalents of our commitments as of March 31, 2016 are presented below:

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Debt (excluding interest):								
Third-party.....	£ 790.5	£ 59.7	£ 0.4	£ 0.4	£ 0.4	£ 2,575.0	£ 7,036.5	£10,462.9
Related-party .....	—	86.1	—	—	—	—	—	86.1
Capital leases (excluding interest).....	36.4	22.6	6.8	1.8	0.4	0.2	34.2	102.4
Programming commitments .....	368.1	486.2	424.3	166.5	5.0	4.0	—	1,454.1
Network and connectivity commitments .....	310.6	82.6	26.9	8.1	6.7	4.1	19.6	458.6
Purchase commitments .....	204.4	49.3	26.5	13.3	9.8	0.4	0.3	304.0
Operating leases .....	31.3	35.6	29.3	23.3	16.6	13.2	48.6	197.9
Other commitments.....	13.0	2.0	—	—	—	—	—	15.0
Total (a).....	<u>£ 1,754.3</u>	<u>£ 824.1</u>	<u>£ 514.2</u>	<u>£ 213.4</u>	<u>£ 38.9</u>	<u>£ 2,596.9</u>	<u>£ 7,139.2</u>	<u>£13,081.0</u>
Projected cash interest payments on third-party debt and capital lease obligations (b) .....	<u>£ 397.3</u>	<u>£ 509.8</u>	<u>£ 507.4</u>	<u>£ 507.4</u>	<u>£ 507.6</u>	<u>£ 434.7</u>	<u>£ 1,229.7</u>	<u>£ 4,093.9</u>

(a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2016 condensed consolidated balance sheet other than debt and capital lease obligations.

- (b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of March 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs, original issue premiums or discounts.

For information concerning our debt and capital lease obligations, see note 7 to our condensed consolidated financial statements. For information concerning our commitments, see note 11 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2016 and 2015, see note 4 to our condensed consolidated financial statements.

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

The following table provides information regarding the projected cash flows associated with our derivative instruments. The pound sterling equivalents presented below are based on interest rates and exchange rates that were in effect as of March 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 4 to our condensed consolidated financial statements.

	Payments (receipts) due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Projected derivative cash payments (receipts), net:								
Interest-related (a).....	£ 5.5	£ (7.9)	£ (8.1)	£ 3.9	£ 4.8	£ 13.4	£ 77.1	£ 88.7
Principal-related (b) .....	—	—	—	(10.7)	—	(34.4)	(329.0)	(374.1)
Other (c) .....	(24.5)	—	—	—	—	—	—	(24.5)
Total .....	<u>£ (19.0)</u>	<u>£ (7.9)</u>	<u>£ (8.1)</u>	<u>£ (6.8)</u>	<u>£ 4.8</u>	<u>£ (21.0)</u>	<u>£ (251.9)</u>	<u>£ (309.9)</u>

- (a) Includes the interest-related cash flows of our cross-currency and interest rate swap contracts.
- (b) Includes the principal-related cash flows of our cross-currency swap contracts.
- (c) Includes amounts related to the Virgin Media Capped Calls and the derivative embedded in the VM Convertible Notes. For information regarding the settlement of these instruments, see notes 4 and 7 to our condensed consolidated financial statements.