



Condensed Consolidated Financial Statements
March 31, 2017

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

VIRGIN MEDIA INC.
TABLE OF CONTENTS

	<u>Page Number</u>
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016 (unaudited).....	1
Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016 (unaudited)	3
Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2017 and 2016 (unaudited)	4
Condensed Consolidated Statement of Owners' Equity for the Three Months Ended March 31, 2017 (unaudited)....	5
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	8
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	36

VIRGIN MEDIA INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2017	December 31, 2016
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	£ 48.5	£ 22.1
Trade receivables, net.....	552.1	544.9
Related-party receivables (note 8).....	105.5	60.1
Derivative instruments (notes 3 and 8)	86.8	95.8
Prepaid expenses (note 8).....	44.2	41.2
Other current assets (note 8).....	74.6	53.0
Total current assets	911.7	817.1
Property and equipment, net (note 5).....	5,959.0	5,964.5
Goodwill (note 5)	6,007.7	6,004.3
Intangible assets subject to amortization, net (note 5)	1,129.2	1,224.6
Deferred income taxes	1,458.3	1,437.3
Related-party notes receivable (note 8).....	4,705.5	4,687.2
Other assets, net (notes 3 and 8)	1,095.4	1,198.2
Total assets.....	£ 21,266.8	£ 21,333.2

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

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

	March 31,	December 31,
	2017	2016
	in millions	
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable (note 8).....	£ 345.0	£ 372.7
Deferred revenue and advanced payments from subscribers and others.....	375.4	375.5
Current portion of debt and capital lease obligations (note 6):		
Third-party	873.6	1,049.4
Related-party (note 8)	45.8	45.7
Accrued interest.....	114.4	187.7
Accrued capital expenditures (note 8).....	158.9	193.7
Value-added taxes (VAT) payable	97.1	95.9
Derivative instruments (note 3).....	65.8	44.6
Other current liabilities (note 8).....	461.5	437.7
Total current liabilities.....	2,537.5	2,802.9
Long-term debt and capital lease obligations (note 6).....	11,244.0	11,021.7
Other long-term liabilities (note 3)	326.1	304.9
Total liabilities.....	14,107.6	14,129.5
Commitments and contingencies (notes 3, 6 and 9)		
Owners' equity:		
Parent's equity:		
Additional paid-in capital.....	8,391.4	8,397.5
Accumulated deficit	(1,260.2)	(1,224.9)
Accumulated other comprehensive earnings, net of taxes	87.9	90.6
Total parent's equity.....	7,219.1	7,263.2
Noncontrolling interest	(59.9)	(59.5)
Total owners' equity.....	7,159.2	7,203.7
Total liabilities and owners' equity.....	£ 21,266.8	£ 21,333.2

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

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

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Revenue (note 10).....	£ 1,214.0	£ 1,177.9
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):		
Programming and other direct costs of services (note 8).....	361.9	352.4
Other operating (note 8).....	162.6	154.4
Selling, general and administrative (SG&A) (note 8).....	169.9	157.3
Related-party fees and allocations, net (note 8).....	29.8	24.7
Depreciation and amortization.....	428.8	396.8
Impairment, restructuring and other operating items, net.....	1.1	3.2
	<u>1,154.1</u>	<u>1,088.8</u>
Operating income.....	<u>59.9</u>	<u>89.1</u>
Non-operating income (expense):		
Interest expense:		
Third-party.....	(150.3)	(134.9)
Related-party (note 8).....	(0.6)	(1.0)
Interest income – related-party (note 8).....	79.7	64.2
Realized and unrealized gains (losses) on derivative instruments, net (notes 3 and 8).....	(95.3)	24.1
Foreign currency transaction gains (losses), net.....	102.6	(109.1)
Realized and unrealized losses due to changes in fair values of certain debt, net (notes 4 and 6).....	(27.2)	—
Losses on debt modification and extinguishment, net.....	(29.0)	—
Other income (expense), net.....	(0.3)	0.6
	<u>(120.4)</u>	<u>(156.1)</u>
Loss before income taxes.....	<u>(60.5)</u>	<u>(67.0)</u>
Income tax benefit (note 7).....	11.8	14.1
Net loss.....	<u>(48.7)</u>	<u>(52.9)</u>
Net loss attributable to noncontrolling interest.....	1.0	1.0
Net loss attributable to parent.....	<u>£ (47.7)</u>	<u>£ (51.9)</u>

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

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

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Net loss.....	£ (48.7)	£ (52.9)
Other comprehensive loss, net of taxes:		
Foreign currency translation adjustments.....	(1.7)	(7.2)
Derivative-related adjustments.....	(0.8)	—
Other comprehensive loss.....	(2.5)	(7.2)
Comprehensive loss	(51.2)	(60.1)
Comprehensive loss attributable to noncontrolling interest.....	0.8	4.4
Comprehensive loss attributable to parent	£ (50.4)	£ (55.7)

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

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

	Parent's equity					Total owners' equity
	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings, net of taxes	Total parent's equity	Non-controlling interest	
	in millions					
Balance at January 1, 2017, before effect of accounting change	£ 8,397.5	£ (1,224.9)	£ 90.6	£ 7,263.2	£ (59.5)	£ 7,203.7
Accounting change (note 2)	—	12.4	—	12.4	—	12.4
Balance at January 1, 2017, as adjusted for accounting change	8,397.5	(1,212.5)	90.6	7,275.6	(59.5)	7,216.1
Net loss	—	(47.7)	—	(47.7)	(1.0)	(48.7)
Other comprehensive loss, net of taxes	—	—	(2.7)	(2.7)	0.2	(2.5)
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 8)	(6.5)	—	—	(6.5)	(0.2)	(6.7)
Transfer of tax assets (notes 7 and 8)	(3.2)	—	—	(3.2)	—	(3.2)
Share-based compensation	2.7	—	—	2.7	0.1	2.8
Deemed contribution of technology-related services (note 8)	0.9	—	—	0.9	0.5	1.4
Balance at March 31, 2017	<u>£ 8,391.4</u>	<u>£ (1,260.2)</u>	<u>£ 87.9</u>	<u>£ 7,219.1</u>	<u>£ (59.9)</u>	<u>£ 7,159.2</u>

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

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

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Cash flows from operating activities:		
Net loss	£ (48.7)	£ (52.9)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense	3.7	6.4
Related-party fees and allocations, net	29.8	24.7
Depreciation and amortization	428.8	396.8
Impairment, restructuring and other operating items, net	1.1	3.2
Amortization of deferred financing costs and non-cash interest	2.6	2.5
Realized and unrealized losses (gains) on derivative instruments, net	95.3	(24.1)
Foreign currency transaction losses (gains), net	(102.6)	109.1
Realized and unrealized losses due to changes in fair values of certain debt, net	27.2	—
Losses on debt modification and extinguishment, net	29.0	—
Deferred income tax benefit	(13.1)	(15.8)
Changes in operating assets and liabilities	(65.8)	(150.9)
Net cash provided by operating activities	<u>387.3</u>	<u>299.0</u>
Cash flows from investing activities:		
Capital expenditures	(130.5)	(145.0)
Advances to related parties, net	(21.5)	(38.6)
Other investing activities, net	3.7	—
Net cash used by investing activities	<u>£ (148.3)</u>	<u>£ (183.6)</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)

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Cash flows from financing activities:		
Repayments and repurchases of third-party debt and capital lease obligations	£ (2,100.2)	£ (847.3)
Borrowings of third-party debt	1,937.4	875.7
Payment of financing costs and debt premiums	(49.5)	(0.8)
Net cash received (paid) related to derivative instruments.....	(0.3)	10.3
Other financing activities, net.....	—	14.1
Net cash provided (used) by financing activities	<u>(212.6)</u>	<u>52.0</u>
Effect of exchange rate changes on cash and cash equivalents	—	0.6
Net increase in cash and cash equivalents.....	<u>26.4</u>	<u>168.0</u>
Cash and cash equivalents:		
Beginning of period	22.1	20.2
End of period.....	<u>£ 48.5</u>	<u>£ 188.2</u>
Cash paid for interest	<u>£ 221.3</u>	<u>£ 144.7</u>
Net cash paid for taxes	<u>£ 0.8</u>	<u>£ 0.6</u>

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

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements
March 31, 2017
(unaudited)

(1) Basis of Presentation

General

Virgin Media Inc. (**Virgin Media**) is a provider of video, broadband internet, fixed-line telephony and mobile services to consumers and businesses 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.

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 2016 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 and copyright costs, deferred income taxes and related valuation allowances, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets, share-based compensation and actuarial liabilities associated with certain benefit plans. Actual results could differ from those estimates.

Unless otherwise indicated, convenience translations into pound sterling are calculated as of March 31, 2017.

Certain prior period amounts have been reclassified to conform to the current period presentation, including the reclassification of certain costs between programming and other direct costs of services, other operating and SG&A expenses.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 19, 2017, the date of issuance.

(2) Accounting Change and Recent Accounting Pronouncements

Accounting Change

In March 2016, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**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. We adopted ASU 2016-09 on January 1, 2017. As a result of adopting this standard, we recognized a cumulative effect adjustment to our accumulated deficit as of January 1, 2017. The cumulative effect adjustment, which totaled £12.4 million, represents the tax effect of deductions in excess of the financial reporting expense for share-based compensation that were not previously recognized for financial reporting purposes as these tax benefits were not realized as a reduction of income taxes payable.

Recent Accounting Pronouncements

ASU 2014-09

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. 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 using the cumulative effect transition method. While we are continuing to evaluate the effect that ASU 2014-09 will have on our consolidated financial statements, we have identified a number of our current revenue recognition policies that will be impacted by ASU 2014-09, including the accounting for (i) time-limited discounts and free service periods provided to our customers and (ii) certain up-front fees charged to our customers. These impacts are discussed below:

- When we enter into contracts to provide services to our customers, we often provide time-limited discounts or free service periods. Under current accounting rules, we recognize revenue net of discounts during the promotional periods and do not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition will be accelerated for these contracts as the impact of the discount or free service period will be recognized uniformly over the total contractual period.
- When we enter into contracts to provide services to our customers, we often charge installation or other up-front fees. Under current accounting rules, installation fees related to services provided over our cable networks are recognized as revenue during the period in which the installation occurs to the extent these fees are equal to or less than direct selling costs. Under ASU 2014-09, these fees will generally be deferred and recognized as revenue over the contractual period, or longer if the up-front fee results in a material renewal right.

As the above revenue recognition changes have offsetting impacts and both result in a relatively minor shift in the timing of revenue recognition, we currently do not expect ASU 2014-09 to have a material impact on our reported revenue.

ASU 2014-09 will also impact our accounting for certain upfront costs directly associated with obtaining and fulfilling customer contracts. Under our current policy, these costs are expensed as incurred unless the costs are in the scope of another accounting topic that allows for capitalization. Under ASU 2014-09, the upfront costs that are currently expensed as incurred will be recognized as assets and amortized to other operating expenses over a period that is consistent with the transfer to the customers of the goods or services to which the assets relate, which we have generally interpreted to be the expected life of the customer relationship. The impact of the accounting change for these costs will be dependent on numerous factors, including the number of new subscriber contracts added in any given period, but we expect the adoption of this accounting change will initially result in the deferral of a significant amount of operating and selling costs.

The ultimate impact of adopting ASU 2014-09 for both revenue recognition and costs to obtain and fulfill contracts will depend on the promotions and offers in place during the period leading up to and after the adoption of ASU 2014-09.

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing 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 will adopt ASU 2016-02 on January 1, 2019. Although we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements, we expect the adoption of this standard will increase the number of leases to be accounted for as capital leases in our consolidated balance sheet.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

ASU 2017-04

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment (ASU 2017-04)*, which eliminates the requirement to estimate the implied fair value of a reporting unit's goodwill as determined following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, a company should recognize any goodwill impairment by comparing the fair value of a reporting unit to its carrying amount. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. We expect the adoption of ASU 2017-04 to reduce the complexity surrounding the evaluation of our goodwill for impairment.

(3) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than the functional currency of the borrowing entity. In this regard, 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 (\$), the euro (€), the Indian rupee (INR) and the Philippine peso (PHP). With the exception of a limited number of our foreign currency option contracts, we do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most 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, 2017			December 31, 2016		
	Current	Long-term (a)	Total	Current	Long-term (a)	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (b).....	£ 75.5	£ 866.9	£ 942.4	£ 80.9	£ 957.2	£ 1,038.1
Foreign currency forward option contracts.....	0.8	—	0.8	2.0	—	2.0
Foreign currency forward contracts — related-party.....	10.5	5.8	16.3	12.9	9.6	22.5
Total.....	<u>£ 86.8</u>	<u>£ 872.7</u>	<u>£ 959.5</u>	<u>£ 95.8</u>	<u>£ 966.8</u>	<u>£ 1,062.6</u>
Liabilities:						
Cross-currency and interest rate derivative contracts (b).....	£ 65.8	£ 217.6	£ 283.4	£ 44.6	£ 193.7	£ 238.3
Foreign currency forward contracts — related-party.....	—	0.2	0.2	—	—	—
Total.....	<u>£ 65.8</u>	<u>£ 217.8</u>	<u>£ 283.6</u>	<u>£ 44.6</u>	<u>£ 193.7</u>	<u>£ 238.3</u>

- (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 relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in a net gain (loss) of £41.5 million and (£4.2 million) during the three months ended March 31, 2017 and 2016, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 4.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Cross-currency and interest rate derivative contracts	£ (94.2)	£ 16.7
Foreign currency forward and option contracts	(1.1)	0.6
Equity-related derivative instruments (a).....	—	6.8
Total.....	£ (95.3)	£ 24.1

(a) Equity-related derivative instruments were cash settled during 2016.

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:

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Operating activities	£ 53.1	£ 15.2
Financing activities	(0.3)	10.3
Total.....	£ 52.8	£ 25.5

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, 2017, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £669.6 million.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Details of our Derivative Instruments

Cross-currency Derivative Contracts

As noted above, we are exposed to foreign currency exchange rate risk in situations where our debt is denominated in a currency other than the functional currency of the borrowing entity. Although we generally seek to match the denomination of our and our subsidiaries' borrowings with the functional currency of the borrowing entity, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in the borrowing entity's functional currency (unmatched debt). Our policy is generally to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At March 31, 2017, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity. The following table sets forth the total notional amounts and the related weighted average remaining contractual life of our cross-currency swap contracts at March 31, 2017:

<u>Notional amount due from counterparty</u>	<u>Notional amount due to counterparty</u>		<u>Weighted average remaining life</u>
	in millions		in years
\$	400.0	€ 339.6	5.8
\$	8,933.0	£ 5,844.3	(a) (b) 6.5
£	30.3	\$ 50.0	(a) 2.5

- (a) Includes certain derivative instruments that 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-related payments and receipts. At March 31, 2017, the total pound sterling equivalent of the notional amount of these derivative instruments was £409.0 million.
- (b) Includes certain derivative instruments that are "forward-starting" such that the initial exchange occurs at a date subsequent to March 31, 2017. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

Interest Rate Derivative Contracts

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. Pursuant to these derivative instruments, we typically pay fixed interest rates and receive variable interest rates on specified notional amounts. At March 31, 2017, the pound sterling equivalent of the notional amounts of these derivative instruments was £6,529.2 million and the related weighted average remaining contractual life of our interest rate swap contracts was 5.3 years.

Basis Swaps

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At March 31, 2017, the pound sterling equivalent of the notional amounts of these derivative instruments was £2,710.8 million and the related weighted average remaining contractual life of our interest basis swap contracts was 0.7 years.

Interest Rate Caps

We enter into interest rate cap agreements that lock in a maximum interest rate if variable rates rise, but also allow our company to benefit from declines in market rates. At March 31, 2017, the pound sterling equivalent of the notional amount of our interest rate cap was £125.0 million.

Impact of Derivative Instruments on Borrowing Costs

Excluding forward-starting instruments, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was an increase of 11 basis points to our borrowing costs as of March 31, 2017.

Foreign Currency Forward Options

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of March 31, 2017, the total pound sterling equivalent of the notional amount of foreign currency forward and option contracts was £8.3 million.

Foreign Currency Forward Contracts – Related-party

At March 31, 2017, we have £21.5 million notional amount of foreign currency forward contracts with Liberty Global Europe Financing BV (**LGE Financing**), a subsidiary of Liberty Global.

(4) 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, 2017 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, 2017, 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.

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 notes 3 and 6. 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. Effective January 1, 2017, we incorporated a Monte Carlo based approach into our calculation of the value assigned to the risk that we or our counterparties will default on our respective derivative obligations. Previously, we used a static calculation derived from our most current mark-to-market valuation to calculate the impact of counterparty credit risk. The adoption of a Monte Carlo based approach did not have a material impact on the overall fair value of our derivative instruments. 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 and certain of our debt are quantified and further explained in notes 3 and 6.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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 relationship, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of 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. We did not perform any significant nonrecurring fair value measurements during the three months ended March 31, 2017.

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

<u>Description</u>	<u>March 31, 2017 (a)</u>
	<u>in millions</u>
Assets — derivative instruments:	
Cross-currency and interest rate derivative contracts.....	£ 942.4
Foreign currency forward option contracts.....	0.8
Foreign currency forward contracts — related-party	16.3
Total assets.....	<u>£ 959.5</u>
Liabilities:	
Derivative instruments:	
Cross-currency and interest rate derivative contracts	£ 283.4
Foreign currency forward contracts	0.2
Debt.....	236.6
Total liabilities	<u>£ 520.2</u>

(a) As of March 31, 2017, all fair value measurements used significant other observable inputs (Level 2).

<u>Description</u>	<u>December 31, 2016 (a)</u>
	<u>in millions</u>
Assets — derivative instruments:	
Cross-currency and interest rate derivative contracts.....	£ 1,038.1
Foreign currency forward option contracts.....	2.0
Foreign currency forward contracts — related-party	22.5
Total assets.....	<u>£ 1,062.6</u>
Liabilities:	
Derivative instruments:.....	
Cross-currency and interest rate derivative contracts	£ 238.3
Debt.....	28.9
Total liabilities	<u>£ 267.2</u>

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

(a) As of December 31, 2016, all fair value measurements used significant other observable inputs (Level 2).

(5) Long-lived Assets

Property and Equipment, Net

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

	March 31, 2017	December 31, 2016
	in millions	
Distribution systems	£ 7,173.9	£ 7,050.1
Customer premises equipment	1,939.2	1,816.4
Support equipment, buildings and land	1,291.4	1,208.2
	10,404.5	10,074.7
Accumulated depreciation	(4,445.5)	(4,110.2)
Total property and equipment, net	£ 5,959.0	£ 5,964.5

During the three months ended March 31, 2017 and 2016, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of £240.1 million and £112.1 million, respectively, which exclude related VAT of £50.0 million and £20.6 million, respectively, that were also financed by our vendors under these arrangements. In addition, during the three months ended March 31, 2017 and 2016, we recorded non-cash increases to our property and equipment related to assets acquired under capital leases of £1.6 million and £7.4 million, respectively.

Goodwill

Changes in the carrying amount of our goodwill during the three months ended March 31, 2017 is set forth below (in millions):

Balance at January 1, 2017	£ 6,004.3
Acquisition-related adjustments	3.7
Foreign currency translation adjustments	(0.3)
Balance at March 31, 2017	£ 6,007.7

Intangible Assets Subject to Amortization, Net

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

	March 31, 2017			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships	£ 2,525.3	£ (1,412.1)	£ 1,113.2	£ 2,527.3	£ (1,319.0)	£ 1,208.3
Other	17.2	(1.2)	16.0	17.3	(1.0)	16.3
Total	£ 2,542.5	£ (1,413.3)	£ 1,129.2	£ 2,544.6	£ (1,320.0)	£ 1,224.6

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

(6) Debt and Capital Lease Obligations

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

	March 31, 2017		Estimated fair value (b)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
	in millions					
Third-party debt:						
VM Notes	5.54%	£ —	£ 7,616.4	£ 7,542.3	£ 7,303.6	£ 7,323.5
VM Credit Facilities	3.71%	(c)	3,616.4	3,670.7	3,601.1	3,649.6
Vendor financing (d).....	4.23%	—	847.3	976.0	847.3	976.0
Other (e).....	3.01%	—	382.1	122.9	352.7	118.6
Total third-party debt before premiums, discounts, fair value adjustments and deferred financing costs ...	4.83%	£ —	£ 12,462.2	£ 12,311.9	£ 12,104.7	£ 12,067.7

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

	March 31, 2017	December 31, 2016
	in millions	
Total third-party debt before premiums, discounts, fair value adjustments and deferred financing costs	£ 12,104.7	£ 12,067.7
Premiums, discounts and fair value adjustments, net	37.7	15.6
Deferred financing costs	(91.8)	(86.1)
Total carrying amount of third-party debt	12,050.6	11,997.2
Capital lease obligations	67.0	73.9
Total third-party debt and capital lease obligations.....	12,117.6	12,071.1
Related-party debt (note 8)	45.8	45.7
Total debt and capital lease obligations	12,163.4	12,116.8
Current maturities of debt and capital lease obligations	(919.4)	(1,095.1)
Long-term debt and capital lease obligations.....	£ 11,244.0	£ 11,021.7

- (a) Represents the weighted average interest rate in effect at March 31, 2017 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 5.00% at March 31, 2017. For information regarding our derivative instruments, see note 3.
- (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 4.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

- (c) Unused borrowing capacity under the VM Credit Facilities relates to a multi-currency revolving facility with maximum borrowing capacity equivalent to £675.0 million, for which no amounts were outstanding as of March 31, 2017. Unused borrowing capacity represents the maximum availability under the VM Credit Facilities at March 31, 2017 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2017, based on the applicable leverage covenants, the full £675.0 million of unused borrowing capacity was available to be borrowed. When the relevant March 31, 2017 compliance reporting requirements have been completed, and assuming no changes from March 31, 2017 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, 2017, the full amount of unused borrowing capacity was available to be loaned or distributed by the borrowers of the VM Credit Facilities. When the relevant March 31, 2017 compliance reporting requirements have been completed, and assuming no changes from March 31, 2017 borrowing levels, we anticipate that £618.8 million of unused borrowing capacity will be available to be loaned or distributed by the borrowers of the VM Credit Facilities.
- (d) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and certain of our operating expenses. These obligations are due within one year and include VAT that was paid on our behalf by the vendor. Repayments of vendor financing obligations are included in repayments and repurchases of third-party debt and capital lease obligations in our condensed consolidated statements of cash flows.
- (e) Principal amounts include certain derivative-related borrowing instruments, including outstanding principal of £205.8 million and £24.6 million, respectively, which are carried at a fair value of £236.6 million and £28.9 million, respectively. The fair value of this debt has been reduced by credit risk valuation adjustments resulting in a net gain of £5.4 million during the three months ended March 31, 2017, which is included in unrealized losses due to changes in fair values of certain debt, net, in our condensed consolidated statement of operations. For further information regarding our fair value measurements, see note 4. In addition, the principal amounts include debt collateralized by certain trade receivables of our company of £105.0 million and £94.0 million, respectively.

Refinancing Transactions

We have completed various refinancing transactions during the first three months of 2017. Unless otherwise noted, the terms and conditions of the notes and credit facilities entered into are largely consistent with those of our existing notes and credit facilities with regard to covenants, events of default and change of control provisions, among other items. For information concerning the general terms and conditions of our debt, see note 8 to the consolidated financial statements included in our 2016 annual report.

In January 2017, Virgin Media Secured Finance PLC (**Virgin Media Secured Finance**) issued £675.0 million principal amount of 5.0% senior secured notes due April 15, 2027 (the **April 2027 VM Senior Secured Notes**). The net proceeds from the April 2027 VM Senior Secured Notes were used to redeem in full the £640.0 million outstanding principal amount under the April 2021 VM Sterling Senior Secured Notes. In connection with these transactions, we recognized a loss on debt modification and extinguishment, net, of £31.9 million. This loss includes (i) the payment of £26.0 million of redemption premium and (ii) the write-off of £5.9 million of deferred financing costs.

Subject to the circumstances described below, the April 2027 VM Senior Secured Notes are non-callable until April 15, 2022. At any time prior to April 15, 2022, Virgin Media Secured Finance may redeem some or all of the April 2027 VM Senior Secured Notes by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments to April 15, 2022 using the discount rate (as specified in the indenture) as of the redemption date plus 50 basis points.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Virgin Media Secured Finance may redeem some or all of the April 2027 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 April 15:	
2022	102.500%
2023	101.250%
2024	100.625%
2025 and thereafter	100.000%

In February 2017, Virgin Media SFA Finance Limited entered into a new £865.0 million term loan facility (**VM Facility J**). VM Facility J matures on January 31, 2026, bears interest at a rate of LIBOR + 3.50% and is subject to a LIBOR floor of 0.0%. The net proceeds from VM Facility J were used to prepay in full the £849.4 million outstanding principal amount under VM Facility E. In connection with these transactions, we recognized a loss on debt modification and extinguishment, net, of £1.9 million. This loss includes (i) the write-off of £1.6 million of deferred financing costs and (ii) the write-off of £0.3 million of unamortized discount.

In February 2017, Virgin Media Secured Finance launched an offer (the **Exchange Offer**) to exchange the January 2021 VM Sterling Senior Secured Notes for new senior secured notes due January 15, 2025 (the **2025 VM Sterling Senior Secured Notes**). The Exchange Offer was consummated on March 21, 2017, and £521.3 million aggregate principal amount of the January 2021 VM Sterling Senior Secured Notes was exchanged for £521.3 million aggregate principal amount of the 2025 VM Sterling Senior Secured Notes. Interest on the 2025 VM Sterling Senior Secured Notes will initially accrue at a rate of 6.0% up to January 15, 2021 and at a rate of 11.0% thereafter. The January 2021 VM Sterling Senior Secured Notes were exchanged for the 2025 VM Sterling Senior Secured Notes in a non-cash transaction, other than the payment of accrued and unpaid interest on the exchanged January 2021 VM Sterling Senior Secured Notes. In connection with these transactions, we recognized a gain on debt modification and extinguishment, net, of £4.6 million. This gain includes (i) the write-off of £5.7 million of unamortized premium and (ii) the payment of £1.1 million of third-party costs.

Subject to the circumstances described below, the 2025 VM Sterling Senior Secured Notes are non-callable until January 15, 2021. At any time prior to January 15, 2021, Virgin Media Secured Finance may redeem some or all of the 2025 VM Sterling Senior Secured Notes by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments to January 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 2025 VM Sterling 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 January 15:	
2021	105.000%
2022	102.500%
2023 and thereafter	100.000%

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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, 2017 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:				
2017 (remainder of year).....	£ 724.3	£ 45.8	£ 21.4	£ 791.5
2018.....	124.4	—	12.4	136.8
2019.....	86.8	—	6.0	92.8
2020.....	62.2	—	3.8	66.0
2021.....	499.2	—	3.5	502.7
2022.....	315.2	—	3.1	318.3
Thereafter.....	10,292.6	—	133.8	10,426.4
Total debt maturities.....	<u>12,104.7</u>	<u>45.8</u>	<u>184.0</u>	<u>12,334.5</u>
Premiums, discounts and fair value adjustments, net.....	37.7	—	—	37.7
Deferred financing costs.....	(91.8)	—	—	(91.8)
Amounts representing interest.....	—	—	(117.0)	(117.0)
Total.....	<u>£ 12,050.6</u>	<u>£ 45.8</u>	<u>£ 67.0</u>	<u>£ 12,163.4</u>
Current portion.....	<u>£ 852.0</u>	<u>£ 45.8</u>	<u>£ 21.6</u>	<u>£ 919.4</u>
Noncurrent portion.....	<u>£ 11,198.6</u>	<u>£ —</u>	<u>£ 45.4</u>	<u>£ 11,244.0</u>

(7) Income Taxes

Virgin Media files its primary income tax return in the U.S. Our subsidiaries file income tax returns in the U.S., the U.K. and Ireland. The income taxes of Virgin Media and its subsidiaries are presented on a separate return basis for each tax-paying entity or group.

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, 2017, tax losses with an aggregate tax effect of £3.2 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.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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,	
	2017	2016
	in millions	
Computed “expected” tax benefit	£ 21.2	£ 23.5
International rate differences (a)	(13.3)	(11.2)
Change in valuation allowances	5.3	9.7
Basis and other differences in the treatment of items associated with investments in subsidiaries	(3.4)	(11.3)
Non-deductible or non-taxable foreign currency exchange results	0.9	5.0
Other, net	1.1	(1.6)
Total income tax benefit	<u>£ 11.8</u>	<u>£ 14.1</u>

(a) Amounts reflect statutory rates in the U.K. and Ireland, which are lower than the U.S. federal income tax rate.

(8) Related-party Transactions

Our related-party transactions consist of the following:

	Three months ended	
	March 31,	
	2017	2016
	in millions	
Credits (charges) included in:		
Programming and other direct costs of services	£ (0.1)	£ (0.6)
Other operating	0.5	1.6
SG&A	(0.2)	(1.3)
Allocated share-based compensation expense	(2.8)	(6.2)
Fees and allocations, net:		
Operating and SG&A (exclusive of depreciation and share-based compensation)	(5.0)	(7.6)
Depreciation	(8.3)	(3.6)
Share-based compensation	(8.2)	(5.7)
Management fee	(8.3)	(7.8)
Total fees and allocations, net	<u>(29.8)</u>	<u>(24.7)</u>
Included in operating income	(32.4)	(31.2)
Interest income	79.7	64.2
Realized and unrealized gains (losses) on derivative instruments, net	(1.1)	0.6
Interest expense	(0.6)	(1.0)
Included in net loss	<u>£ 45.6</u>	<u>£ 32.6</u>
Property and equipment additions, net	<u>£ 47.3</u>	<u>£ 24.6</u>

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

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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 generally cash settled unless otherwise noted below.

Programming and other direct costs of services. Amounts consist of certain backbone and other services provided to our company by other Liberty Global subsidiaries.

Other operating expenses. Amounts consist of the net effect of (i) recharges of £0.6 million and £2.0 million during the three months ended March 31, 2017 and 2016, respectively, for network design and other services provided by our company to other Liberty Global subsidiaries and (ii) charges of £0.1 million and £0.4 million during the three months ended March 31, 2017 and 2016, respectively, for network-related and other services provided to our company by other Liberty Global subsidiaries.

SG&A expenses. Amounts primarily consist of the net effect of (i) recharges of £0.9 million and £0.1 million during the three months ended March 31, 2017 and 2016, respectively, for network design and other services provided by our company to other Liberty Global subsidiaries, (ii) charges of £0.8 million and £1.1 million during the three months ended March 31, 2017 and 2016, respectively, for insurance-related services provided to our company by another Liberty Global subsidiary, and (iii) charges of £0.3 million during each of the three months ended March 31, 2017 and 2016, for information technology-related services provided to our company by another Liberty Global subsidiary.

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

Fees and allocations, net. These amounts, which are based on our company’s estimated share of the applicable costs (including personnel-related and other costs associated with the services provided) incurred by 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.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

- *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, 2017, our proportional share of the technology-based costs of £6.8 million was £1.4 million more than the actual amount charged under the royalty-based method. Accordingly, this excess has been reflected as a deemed contribution of technology-related services in our condensed consolidated statement of owners' equity. The fees charged under the royalty-based method are expected to escalate in future periods. Any excess of these charges over our estimated proportionate share of the underlying technology-based costs will be classified as a management fee and added back to arrive at Covenant EBITDA.

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

Realized and unrealized gains (losses) on derivative instruments, net. As further described in note 3, these amounts relate to related-party foreign currency forward contracts with LGE Financing.

Interest expense. Amounts relate to interest expense associated with the note payable to Liberty Global Europe 2 Limited (**LG Europe 2**), our immediate parent.

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

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

	March 31, 2017	December 31, 2016
	in millions	
Current receivables (a)	£ 105.5	£ 60.1
Derivative instruments (b).....	10.5	12.9
Prepaid expenses (c).....	0.6	0.9
Other current assets (d)	9.9	—
Long-term notes receivable (e)	4,705.5	4,687.2
Other assets, net (f).....	5.8	9.6
Total related-party assets.....	<u>£ 4,837.8</u>	<u>£ 4,770.7</u>
Accounts payable (g).....	£ 27.2	£ 8.5
Related-party debt (h).....	45.8	45.7
Accrued capital expenditures (i)	44.5	19.8
Other current liabilities (j).....	133.6	93.0
Other long-term liabilities	0.2	—
Total related-party liabilities.....	<u>£ 251.3</u>	<u>£ 167.0</u>

- (a) Amounts represent (i) accrued interest on the long-term notes receivable from LG Europe 2, including £85.5 million (equivalent) and £39.3 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.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

- (b) Amounts represent the fair value of related-party derivative instruments with LGE Financing, as further described in note 3.
- (c) Represents prepayments for services to be rendered by another Liberty Global subsidiary.
- (d) Primarily relates to 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. These notes mature on April 15, 2023 and bear interest at a rate of 8.50%. At each of March 31, 2017 and December 31, 2016, the principal amount outstanding under these notes was £2,174.6 million. The accrued interest on this note receivable is payable semi-annually on April 15 and October 15;
 - (ii) a note receivable from LG Europe 2 that is owed to Virgin Media Finco Limited. At March 31, 2017 and December 31, 2016, the principal amount outstanding under this note was £2,515.0 million and £2,496.6 million, respectively. The increase during the 2017 period relates to (i) £769.5 million of cash advances, (ii) £748.0 million of cash repayments, and (iii) £3.1 million of other non-cash settlements. 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 5.43% as of March 31, 2017, and the accrued interest on this note receivable may be cash settled on the last day of each month and on the date of each full or partial repayment of the note receivable or, if mutually agreed, loan settled; and
 - (iii) a note receivable from Liberty Global that is owed to us. At March 31, 2017 and December 31, 2016, this note, which matures on June 4, 2018, had a principal balance of £15.9 million (equivalent) and £16.0 million (equivalent), respectively. This note bears interest at a rate of 1.80%. The increase during the 2017 period relates to the net effect of (i) a decrease of £0.2 million due to the cumulative translation adjustment during the period and (ii) and increase of £0.1 million (equivalent at the transaction date) in capitalized accrued interest. The accrued interest on this note receivable is 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) Amount represents the fair value of related-party derivative instruments with LGE Financing, as further described in note 3.
- (g) Amounts represent certain payables to other Liberty Global subsidiaries arising in the normal course of business.
- (h) Represents a note payable to LG Europe 2. This note matures on December 18, 2017 and bears interest at a rate of 5.26%. The increase during the 2017 period relates to capitalized interest. 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.
- (i) Amounts represent accrued capital expenditures for property and equipment transferred to our company from other Liberty Global subsidiaries.
- (j) Amounts represent (i) certain payables to other Liberty Global subsidiaries arising in the normal course of business, including amounts associated with fees and allocations as described above, and (ii) unpaid capital charges from Liberty Global, as described below, which are settled periodically. None of these payables are interest bearing.

During the three months ended March 31, 2017, we recorded capital charges of \$8.3 million (£6.7 million at the applicable rate) in our condensed consolidated statement of owners' equity in connection with the exercise of Liberty Global share appreciation rights and options and the vesting of Liberty Global restricted share units and performance-based restricted share units 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 ordinary shares associated with share-based incentive awards that vest or are exercised during the period,

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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, 2017, tax losses with an aggregate tax effect of £3.2 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 7.

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.

(9) 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, 2017 are presented below:

	Remainder of 2017	Payments due during:						Total
		2018	2019	2020	2021	2022	Thereafter	
in millions								
Programming commitments	£ 452.6	£ 532.1	£ 258.3	£ 70.9	£ 15.5	£ 11.0	£ 45.7	£ 1,386.1
Network and connectivity commitments	451.9	146.4	146.0	143.7	138.7	5.7	10.2	1,042.6
Purchase commitments	321.8	71.8	45.9	19.4	3.0	2.6	0.7	465.2
Operating leases	28.4	32.9	27.9	20.6	16.6	34.5	27.6	188.5
Other commitments.....	9.6	5.9	2.8	—	—	—	—	18.3
Total (a).....	<u>£ 1,264.3</u>	<u>£ 789.1</u>	<u>£ 480.9</u>	<u>£ 254.6</u>	<u>£ 173.8</u>	<u>£ 53.8</u>	<u>£ 84.2</u>	<u>£ 3,100.7</u>

(a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2017 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 and copyright costs aggregated £211.7 million and £193.5 million during the three months ended March 31, 2017 and 2016, 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 projects. 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.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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, 2017 and 2016, see note 3.

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 £46.6 million as of March 31, 2017. 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 timing of the court's decision is uncertain.

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 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. Video distribution, broadband internet, fixed-line telephony, mobile and content 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 (E.U.) authorities. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property 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.

Effective April 1, 2017, the rateable value of our existing network and other assets in the U.K. increased significantly. This increase affects the amount we pay for network infrastructure charges as the annual amount payable to the U.K. government is calculated by applying a percentage multiplier to the rateable value of assets. This change, together with a similar change in Ireland, will result in significant increases in our network infrastructure charges. We estimate that the aggregate amount of these increases will be approximately £30 million during 2017 and will build to a maximum aggregate increase of up to £100 million in 2021. We continue to believe that these increases are excessive and retain the right of appeal should more favorable agreements be reached with other operators. The rateable value of network and other assets constructed under our network extension program in the U.K. remains subject to review by the U.K. government.

In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business, including (i) legal proceedings, (ii) issues involving VAT and wage, property, withholding and other tax issues and (iii) disputes over interconnection, programming, copyright and channel carriage fees. While we generally expect that the amounts required to

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

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.

(10) 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,	
	2017	2016
	in millions	
Subscription revenue (a):		
Video.....	£ 252.5	£ 266.8
Broadband internet	369.9	325.4
Fixed-line telephony	241.5	236.4
Cable subscription revenue	863.9	828.6
Mobile (b).....	95.8	107.6
Total subscription revenue.....	959.7	936.2
Business-to-business (B2B) revenue (c).....	170.8	163.2
Other revenue (b) (d)	83.5	78.5
Total.....	<u>£ 1,214.0</u>	<u>£ 1,177.9</u>

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of £13.3 million and £16.2 million during the three months ended March 31, 2017 and 2016, 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 subscription revenue, aggregated £11.9 million and £5.6 million during the three months ended March 31, 2017 and 2016, respectively. A portion of the increase in our SOHO revenue is attributable to the conversion of our residential subscribers to SOHO subscribers.
- (d) Other revenue includes, among other items, mobile handset sales, interconnect fees, late fee revenue, and installation fees.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Geographic Segments

The revenue of our geographic segments is set forth below:

	Three months ended	
	March 31,	
	2017	2016
	in millions	
U.K.....	£ 1,130.1	£ 1,102.5
Ireland.....	83.9	75.4
Total.....	£ 1,214.0	£ 1,177.9

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

(11) Condensed Consolidating Financial Information — Senior Notes

We present the following condensed consolidating financial information as of and for the three months ended March 31, 2017, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2016 and for the three months ended March 31, 2016, see our 2016 annual report and the March 31, 2016 quarterly report, respectively.

As of March 31, 2017, Virgin Media Finance PLC (**Virgin Media Finance**) is the issuer of the following senior notes:

- \$118.7 million (£94.6 million) aggregate principal amount of 2022 VM 4.875% Dollar Senior Notes;
- \$95.0 million (£75.7 million) aggregate principal amount of 2022 VM 5.25% Dollar Senior Notes;
- £44.1 million aggregate principal amount of 2022 VM Sterling Senior Notes;
- \$530.0 million (£422.6 million) aggregate principal amount of 2023 VM Dollar Senior Notes;
- £250.0 million aggregate principal amount of 2023 VM Sterling Senior Notes;
- \$500.0 million (£398.7 million) aggregate principal amount of 2024 VM Dollar Senior Notes;
- £300.0 million aggregate principal amount of 2024 VM Sterling Senior Notes;
- €460.0 million (£392.3 million) aggregate principal amount of 2025 VM Euro Senior Notes; and
- \$400.0 million (£318.9 million) aggregate principal amount of 2025 VM Dollar Senior Notes.

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. Each of Virgin Media Investment Holdings Limited (**VMIH**) and Virgin Media Investments Limited (**VMIL**) are conditional guarantors and have guaranteed the senior notes on a senior subordinated basis.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

March 31, 2017

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	£ —	£ 48.2	£ —	£ 48.5
Related-party receivables	9.5	—	—	—	—	96.0	—	105.5
Other current assets:								
Third-party	4.4	—	—	76.2	—	656.1	—	736.7
Intercompany and related-party	—	6.5	—	10.2	—	27.9	(23.6)	21.0
Total current assets	14.1	6.5	—	86.5	—	828.2	(23.6)	911.7
Property and equipment, net	—	—	—	—	—	5,959.0	—	5,959.0
Goodwill	—	—	—	—	—	6,007.7	—	6,007.7
Intangible assets subject to amortization, net	—	—	—	—	—	1,129.2	—	1,129.2
Investments in, and loans to, parent and subsidiary companies	7,293.8	9,655.5	8,095.9	13,932.7	13,867.5	(5,726.9)	(47,118.5)	—
Deferred income taxes	—	—	—	—	—	1,458.3	—	1,458.3
Related-party notes receivable	15.9	—	—	—	—	4,689.6	—	4,705.5
Other assets, net:								
Third-party	0.2	—	—	877.4	—	212.0	—	1,089.6
Intercompany and related-party	—	75.1	—	5.8	—	213.4	(288.5)	5.8
Total assets	<u>£ 7,324.0</u>	<u>£ 9,737.1</u>	<u>£ 8,095.9</u>	<u>£ 14,902.4</u>	<u>£ 13,867.5</u>	<u>£ 14,770.5</u>	<u>£ (47,430.6)</u>	<u>£ 21,266.8</u>
LIABILITIES AND OWNERS' EQUITY								
Current liabilities:								
Intercompany and related-party payables	£ 9.8	£ 116.2	£ —	£ 38.4	£ —	£ 262.4	£ (399.6)	£ 27.2
Other current liabilities:								
Third-party	1.5	49.0	—	902.6	—	1,333.3	—	2,286.4
Intercompany and related-party	93.6	—	—	23.6	—	130.3	(23.6)	223.9
Total current liabilities	104.9	165.2	—	964.6	—	1,726.0	(423.2)	2,537.5
Long-term debt and capital lease obligations	—	2,277.1	—	293.7	—	8,673.2	—	11,244.0
Other long-term liabilities:								
Third-party	—	—	—	217.6	—	108.5	—	326.1
Intercompany	—	—	—	288.5	—	—	(288.5)	—
Total liabilities	104.9	2,442.3	—	1,764.4	—	10,507.7	(711.7)	14,107.6
Total parent's equity	7,219.1	7,294.8	8,095.9	13,138.0	13,867.5	4,322.7	(46,718.9)	7,219.1
Noncontrolling interest	—	—	—	—	—	(59.9)	—	(59.9)
Total owners' equity	<u>7,219.1</u>	<u>7,294.8</u>	<u>8,095.9</u>	<u>13,138.0</u>	<u>13,867.5</u>	<u>4,262.8</u>	<u>(46,718.9)</u>	<u>7,159.2</u>
Total liabilities and owners' equity	<u>£ 7,324.0</u>	<u>£ 9,737.1</u>	<u>£ 8,095.9</u>	<u>£ 14,902.4</u>	<u>£ 13,867.5</u>	<u>£ 14,770.5</u>	<u>£ (47,430.6)</u>	<u>£ 21,266.8</u>

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Three months ended March 31, 2017

Statements of operations	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
Revenue.....	£ —	£ —	£ —	£ —	£ —	£ 1,214.0	£ —	£ 1,214.0
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):.....								
Programming and other direct costs of services	—	—	—	—	—	361.9	—	361.9
Other operating	—	—	—	—	—	162.6	—	162.6
SG&A (including share-based compensation).....	0.4	—	—	—	—	169.5	—	169.9
Related-party fees and allocations, net	—	—	—	—	—	29.8	—	29.8
Depreciation and amortization.....	—	—	—	—	—	428.8	—	428.8
Impairment, restructuring and other operating items, net.....	—	—	—	—	—	1.1	—	1.1
	0.4	—	—	—	—	1,153.7	—	1,154.1
Operating income (loss).....	(0.4)	—	—	—	—	60.3	—	59.9
Non-operating income (expense):								
Interest expense:								
Third-party	—	(34.5)	—	(11.4)	—	(104.4)	—	(150.3)
Related-party and intercompany	(9.9)	(86.6)	—	(115.1)	—	(309.2)	520.2	(0.6)
Interest income – related-party and intercompany.....	0.1	15.6	11.9	54.3	—	518.0	(520.2)	79.7
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party	—	—	—	(94.4)	—	0.2	—	(94.2)
Related-party	—	1.7	—	(6.9)	—	4.1	—	(1.1)
Foreign currency transaction gains (losses), net.....	0.2	78.5	2.9	47.3	—	(26.3)	—	102.6
Loss on debt modification and extinguishment, net	—	—	—	—	—	(29.0)	—	(29.0)
Realized and unrealized losses due to changes in fair values of certain debt, net.....	—	—	—	(27.2)	—	—	—	(27.2)
Other expense, net.....	—	—	—	(0.3)	—	—	—	(0.3)
	(9.6)	(25.3)	14.8	(153.7)	—	53.4	—	(120.4)
Earnings (loss) before income taxes.....	(10.0)	(25.3)	14.8	(153.7)	—	113.7	—	(60.5)
Income tax benefit (expense).....	(0.2)	—	—	—	—	12.0	—	11.8
Earnings (loss) after income taxes.....	(10.2)	(25.3)	14.8	(153.7)	—	125.7	—	(48.7)
Equity in net earnings (loss) of subsidiaries.....	(37.5)	(28.2)	(53.0)	125.5	116.4	—	(123.2)	—
Net earnings (loss).....	(47.7)	(53.5)	(38.2)	(28.2)	116.4	125.7	(123.2)	(48.7)
Net loss attributable to noncontrolling interest.....	—	—	—	—	—	1.0	—	1.0
Net earnings (loss) attributable to parent	£ (47.7)	£ (53.5)	£ (38.2)	£ (28.2)	£ 116.4	£ 126.7	£ (123.2)	£ (47.7)
Total comprehensive earnings (loss)....	£ (50.4)	£ (54.1)	£ (50.9)	£ (28.8)	£ 115.8	£ 125.3	£ (108.1)	£ (51.2)
Comprehensive loss attributable to noncontrolling interest.....	—	—	—	—	—	0.8	—	0.8
Comprehensive earnings (loss) attributable to parent.....	£ (50.4)	£ (54.1)	£ (50.9)	£ (28.8)	£ 115.8	£ 126.1	£ (108.1)	£ (50.4)

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Statements of cash flows	Three months ended March 31, 2017						
	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.....	£ (0.4)	£ (40.1)	£ —	£ (119.7)	£ —	£ 547.5	£ 387.3
Cash flows from investing activities:							
Capital expenditures.....	—	—	—	—	—	(130.5)	(130.5)
Advances to related parties, net.....	—	—	—	—	—	(21.5)	(21.5)
Other investing activities, net.....	—	—	—	—	—	3.7	3.7
Net cash used by investing activities.....	—	—	—	—	—	(148.3)	(148.3)
Cash flows from financing activities:							
Repayments and repurchases of third-party debt and capital lease obligations.....	—	—	—	(597.6)	—	(1,502.6)	(2,100.2)
Borrowings of third-party debt.....	—	—	—	386.4	—	1,551.0	1,937.4
Payment of financing costs and debt premiums.....	—	—	—	(5.4)	—	(44.1)	(49.5)
Net cash paid related to derivative instruments.....	—	—	—	(0.3)	—	—	(0.3)
Contributions (distributions).....	0.4	40.1	—	336.5	—	(377.0)	—
Net cash provided (used) by financing activities.....	0.4	40.1	—	119.6	—	(372.7)	(212.6)
Net increase (decrease) in cash and cash equivalents.....	—	—	—	(0.1)	—	26.5	26.4
Cash and cash equivalents:							
Beginning of period.....	0.2	—	—	0.2	—	21.7	22.1
End of period.....	£ 0.2	£ —	£ —	£ 0.1	£ —	£ 48.2	£ 48.5

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

(12) 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, 2017, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2016 and for the three months ended March 31, 2016, see our 2016 annual report and the March 31, 2016 quarterly report, respectively.

As of March 31, 2017, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- £107.1 million aggregate principal amount of January 2021 VM Sterling Senior Secured Notes;
- \$447.9 million (£357.1 million) aggregate principal amount of January 2021 VM Dollar Senior Secured Notes;
- £521.3 million aggregate principal amount of 2025 VM Sterling Senior Secured Notes;
- £387.0 million aggregate principal amount of 2025 VM 5.5% Sterling Senior Secured Notes;
- £300.0 million aggregate principal amount of 2025 VM 5.125% Sterling Senior Secured Notes;
- \$425.0 million (£338.9 million) aggregate principal amount of 2025 VM Dollar Senior Secured Notes;
- \$1.0 billion (£797.3 million) aggregate principal amount of 2026 VM 5.25% Dollar Senior Secured Notes;
- \$750.0 million (£598.0 million) aggregate principal amount of 2026 VM 5.5% Dollar Senior Secured Notes;
- £525.0 million aggregate principal amount of January 2027 VM Senior Secured Notes;
- £675.0 million aggregate principal amount of April 2027 VM Senior Secured Notes; and
- £400.0 million aggregate principal amount of 2029 VM Senior Secured Notes.

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 Facilities.

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Balance sheets	March 31, 2017					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
ASSETS						
Current assets:						
Cash and cash equivalents	£ 0.2	£ 8.7	£ 6.6	£ 33.0	£ —	£ 48.5
Related-party receivables.....	9.5	—	10.5	85.5	—	105.5
Other current assets:						
Third-party	4.4	—	575.1	157.2	—	736.7
Intercompany and related-party	—	15.8	28.3	0.5	(23.6)	21.0
Total current assets.....	14.1	24.5	620.5	276.2	(23.6)	911.7
Property and equipment, net	—	—	4,750.9	1,208.1	—	5,959.0
Goodwill.....	—	—	5,793.6	214.1	—	6,007.7
Intangible assets subject to amortization, net	—	—	1,006.4	122.8	—	1,129.2
Investments in, and loans to, parent and subsidiary companies.....	7,293.8	4,866.3	(2,513.6)	4,299.1	(13,945.6)	—
Deferred income taxes	—	—	1,458.3	—	—	1,458.3
Related-party notes receivable	15.9	—	—	4,689.6	—	4,705.5
Other assets, net:						
Third-party	0.2	—	1,042.8	46.6	—	1,089.6
Intercompany and related-party	—	213.0	80.9	0.4	(288.5)	5.8
Total assets.....	£ 7,324.0	£ 5,103.8	£ 12,239.8	£ 10,856.9	£ (14,257.7)	£ 21,266.8
LIABILITIES AND OWNERS' EQUITY						
Current liabilities:						
Intercompany and related-party payables.....	£ 9.8	£ —	£ 212.0	£ 206.1	£ (400.7)	£ 27.2
Other current liabilities:						
Third-party	1.5	48.0	2,118.8	118.1	—	2,286.4
Intercompany and related-party	93.6	0.3	92.2	61.4	(23.6)	223.9
Total current liabilities.....	104.9	48.3	2,423.0	385.6	(424.3)	2,537.5
Long-term debt and capital lease obligations	—	4,997.0	6,143.3	103.7	—	11,244.0
Other long-term liabilities:						
Third-party	—	—	300.8	25.3	—	326.1
Intercompany	—	—	288.1	0.4	(288.5)	—
Total liabilities	104.9	5,045.3	9,155.2	515.0	(712.8)	14,107.6
Total parent's equity.....	7,219.1	58.5	3,084.6	10,401.8	(13,544.9)	7,219.1
Noncontrolling interest	—	—	—	(59.9)	—	(59.9)
Total owners' equity.....	7,219.1	58.5	3,084.6	10,341.9	(13,544.9)	7,159.2
Total liabilities and owners' equity....	£ 7,324.0	£ 5,103.8	£ 12,239.8	£ 10,856.9	£ (14,257.7)	£ 21,266.8

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Statements of operations	Three months ended March 31, 2017					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
Revenue.....	£ —	£ —	£ 1,017.6	£ 196.4	£ —	£ 1,214.0
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):						
Programming and other direct costs of services	—	—	306.3	55.6	—	361.9
Other operating.....	—	—	130.6	32.0	—	162.6
SG&A (including share-based compensation)	0.4	—	141.0	28.5	—	169.9
Related-party fees and allocations, net.....	—	—	17.9	11.9	—	29.8
Depreciation and amortization	—	—	365.1	63.7	—	428.8
Impairment, restructuring and other operating items, net.....	—	—	(0.5)	1.6	—	1.1
	<u>0.4</u>	<u>—</u>	<u>960.4</u>	<u>193.3</u>	<u>—</u>	<u>1,154.1</u>
Operating income (loss).....	<u>(0.4)</u>	<u>—</u>	<u>57.2</u>	<u>3.1</u>	<u>—</u>	<u>59.9</u>
Non-operating income (expense):						
Interest expense:						
Third-party	—	(67.6)	(81.5)	(1.2)	—	(150.3)
Related-party and intercompany	(9.9)	—	(281.8)	(272.5)	563.6	(0.6)
Interest income – related-party and intercompany	0.1	68.8	266.9	307.5	(563.6)	79.7
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party	—	—	(95.2)	1.0	—	(94.2)
Related-party	—	3.3	(4.4)	—	—	(1.1)
Foreign currency transaction gains (losses), net	0.2	20.5	89.9	(8.0)	—	102.6
Loss on debt modification and extinguishment, net.....	—	(27.3)	(1.7)	—	—	(29.0)
Realized and unrealized losses due to changes in fair values of certain debt, net...	—	—	(27.2)	—	—	(27.2)
Other expense, net	—	—	(0.3)	—	—	(0.3)
	<u>(9.6)</u>	<u>(2.3)</u>	<u>(135.3)</u>	<u>26.8</u>	<u>—</u>	<u>(120.4)</u>
Earnings (loss) before income taxes	<u>(10.0)</u>	<u>(2.3)</u>	<u>(78.1)</u>	<u>29.9</u>	<u>—</u>	<u>(60.5)</u>
Income tax benefit (expense)	<u>(0.2)</u>	<u>—</u>	<u>12.0</u>	<u>—</u>	<u>—</u>	<u>11.8</u>
Earnings (loss) after income taxes	<u>(10.2)</u>	<u>(2.3)</u>	<u>(66.1)</u>	<u>29.9</u>	<u>—</u>	<u>(48.7)</u>
Equity in net earnings (loss) of subsidiaries	<u>(37.5)</u>	<u>—</u>	<u>12.4</u>	<u>(68.6)</u>	<u>93.7</u>	<u>—</u>
Net earnings (loss)	<u>(47.7)</u>	<u>(2.3)</u>	<u>(53.7)</u>	<u>(38.7)</u>	<u>93.7</u>	<u>(48.7)</u>
Net loss attributable to noncontrolling interest ...	<u>—</u>	<u>—</u>	<u>—</u>	<u>1.0</u>	<u>—</u>	<u>1.0</u>
Net earnings (loss) attributable to parent	<u>£ (47.7)</u>	<u>£ (2.3)</u>	<u>£ (53.7)</u>	<u>£ (37.7)</u>	<u>£ 93.7</u>	<u>£ (47.7)</u>
Total comprehensive earnings (loss).....	<u>£ (50.4)</u>	<u>£ (2.3)</u>	<u>£ (54.3)</u>	<u>£ (50.3)</u>	<u>£ 106.1</u>	<u>£ (51.2)</u>
Comprehensive loss attributable to noncontrolling interest.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.8</u>	<u>—</u>	<u>0.8</u>
Comprehensive earnings (loss) attributable to parent.....	<u>£ (50.4)</u>	<u>£ (2.3)</u>	<u>£ (54.3)</u>	<u>£ (49.5)</u>	<u>£ 106.1</u>	<u>£ (50.4)</u>

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
March 31, 2017
(unaudited)

Statements of cash flows	Three months ended March 31, 2017				
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Total
	in millions				
Cash flows from operating activities:					
Net cash provided (used) by operating activities	£ (0.4)	£ (30.9)	£ 312.2	£ 106.4	£ 387.3
Cash flows from investing activities:					
Capital expenditures	—	—	(104.5)	(26.0)	(130.5)
Advances to related parties, net	—	—	—	(21.5)	(21.5)
Other investing activities, net	—	—	3.7	—	3.7
Net cash used by investing activities	—	—	(100.8)	(47.5)	(148.3)
Cash flows from financing activities:					
Repayments and repurchases of third-party debt and capital lease obligations	—	(640.0)	(1,455.5)	(4.7)	(2,100.2)
Borrowings of third-party debt	—	675.0	1,251.4	11.0	1,937.4
Payment of financing costs and debt premiums	—	(30.6)	(17.4)	(1.5)	(49.5)
Net cash paid related to derivative instruments	—	—	(0.3)	—	(0.3)
Contributions (distributions)	0.4	25.1	8.1	(33.6)	—
Net cash provided (used) by financing activities ...	0.4	29.5	(213.7)	(28.8)	(212.6)
Net increase (decrease) in cash and cash equivalents	—	(1.4)	(2.3)	30.1	26.4
Cash and cash equivalents:					
Beginning of period	0.2	10.1	8.9	2.9	22.1
End of period	£ 0.2	£ 8.7	£ 6.6	£ 33.0	£ 48.5

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 2016 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, 2017 and 2016.
- *Material Changes in Financial Condition.* This section provides an analysis of our parent and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of March 31, 2017.

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 (including with respect to our network extensions), subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, foreign currency risks, target leverage levels, our future projected contractual commitments and cash flows and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties discussed in our 2016 annual report, as well as the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we operate;
- the competitive environment in the 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 E.U. and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;

- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions, 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 video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our planned network extensions;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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

Overview

General

We are 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.

We completed two small acquisitions and one small disposition in 2016. These transactions impact the comparability of our 2017 and 2016 results of operations.

Operations

At March 31, 2017, our network passed 14,410,700 homes and served 14,214,600 revenue generating units (RGUs), consisting of 5,361,800 broadband internet subscribers, 4,779,600 fixed-line telephony subscribers and 4,073,200 video subscribers. In addition, at March 31, 2017, we served 3,043,600 mobile subscribers.

The following table provides details of our organic RGU and mobile subscriber changes for the years indicated. Organic RGU and subscriber changes exclude the effect of acquisitions (RGUs and mobile subscribers added on the acquisition date) and other non-organic adjustments, but includes post-acquisition date RGU and mobile subscriber additions or losses, as applicable.

	Three months ended March 31, 2017	
	2017	2016
Organic RGU additions (losses):		
Video:		
Basic	(1,300)	(1,200)
Enhanced.....	40,600	(16,700)
Total video.....	39,300	(17,900)
Broadband internet.....	81,600	66,900
Fixed-line telephony	37,100	43,900
Total organic RGU additions.....	<u>158,000</u>	<u>92,900</u>
Organic mobile additions (losses):		
Postpaid.....	36,900	46,600
Prepaid	(33,500)	(62,700)
Total organic mobile additions (losses).....	<u>3,400</u>	<u>(16,100)</u>

Competition and Other External Factors

We are experiencing significant competition from incumbent telecommunications operators, direct-to-home satellite operators and/or other providers. This significant competition, together with macroeconomic factors, has adversely impacted our revenue, RGUs and/or average monthly subscription revenue per average cable RGU or mobile subscriber, as applicable (**ARPU**). For additional information regarding the revenue impact of changes in the RGUs and ARPU, see *Discussion and Analysis* below.

In addition, high levels of sovereign debt in the U.S. and several countries in which we or our affiliates operate, combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our company. The occurrence of any of these events, especially within the eurozone countries given our significant exposure to the euro and pound sterling, could have an adverse impact on, among other matters, our liquidity and cash flows.

Our operations are subject to macroeconomic, political and other risks that are outside of our control. On June 23, 2016, the U.K. held a referendum in which U.K. citizens voted in favor of, on an advisory basis, an exit from the E.U. commonly referred to as “**Brexit**.” The terms of any withdrawal are subject to a negotiation period that could take until March 2019. A withdrawal could, among other outcomes, disrupt the free movement of goods, services, people and capital between the U.K. and the E.U., undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the E.U. or other nations (including the U.S.) as the U.K. pursues independent trade relations. The initial impact of the announcement of Brexit caused significant volatility in global stock markets, including in the prices of our shares. In addition, the U.S. dollar has significantly strengthened against the British pound sterling during the period following Brexit. The effects of Brexit could adversely affect our business, results of operations, financial condition and liquidity.

Effective April 1, 2017, the rateable value of our existing network and other assets in the U.K. increased significantly. This increase affects the amount we pay for network infrastructure charges as the annual amount payable to the U.K. government is calculated by applying a percentage multiplier to the rateable value of assets. This change, together with a similar change in Ireland, will result in significant increases in our network infrastructure charges. We estimate that the aggregate amount of these increases will be approximately £30 million during 2017 and will build to a maximum aggregate increase of up to £100 million in 2021. We continue to believe that these increases are excessive and retain the right of appeal should more favorable agreements be reached with other operators. The rateable value of network and other assets constructed under our network extension program in the U.K. remains subject to review by the U.K. government.

Material Changes in Results of Operations

As noted under *Overview* above, the comparability of our operating results during 2017 and 2016 is affected by acquisitions and a disposition. In the following discussion, we quantify the estimated impact of acquisitions (the **Acquisition Impact**) and the impact of 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 to six months following the acquisition date, as adjusted to remove integration costs and any other material nonrecurring or nonoperational items, such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, (i) 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 and (ii) the calculation of our organic growth percentages includes the organic growth of an acquired entity relative to our estimate of the Acquisition Impact of such entity. During 2016, we changed how we calculate our organic growth percentages to include the Acquisition Impact in the denominator of the calculation, as this methodology takes into account the size of the acquired entity’s operations relative to our existing operations. This change has been reflected retroactively for all periods presented herein.

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 (Segment OCF divided by revenue) 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.

In addition, we are subject to inflationary pressures with respect to certain 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.

Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communication and other fixed-line services (collectively referred to herein as “**cable subscription revenue**”) and our 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 10 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.

In the U.K. we offer our customers the option to purchase a mobile handset pursuant to a contract that is independent of a mobile airtime services contract (the **Split-contract Program**). Revenue associated with handsets sold under the Split-contract Program is recognized upfront and included in other non-subscription revenue. We generally recognize the full sales price for the mobile handset upon delivery, regardless of whether the sales price is received upfront or in installments.

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

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2017	2016	£	%	%
	in millions				
Subscription revenue (a):					
Video	£ 252.5	£ 266.8	£ (14.3)	(5.4)	(5.6)
Broadband internet	369.9	325.4	44.5	13.7	12.8
Fixed-line telephony.....	241.5	236.4	5.1	2.2	1.6
Cable subscription revenue.....	863.9	828.6	35.3	4.3	3.6
Mobile (b).....	95.8	107.6	(11.8)	(11.0)	(11.0)
Total subscription revenue.....	959.7	936.2	23.5	2.5	2.0
B2B revenue (c).....	170.8	163.2	7.6	4.7	1.5
Other revenue (b) (d)	83.5	78.5	5.0	6.4	1.9
Total.....	£1,214.0	£1,177.9	£ 36.1	3.1	1.9

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of £13.3 million and £16.2 million during the three months ended March 31, 2017 and 2016, 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 SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in subscription revenue, aggregated £11.9 million and £5.6 million during the three months ended March 31, 2017 and 2016, respectively. A portion of the increase in our SOHO revenue is attributable to the conversion of our residential subscribers to SOHO subscribers.
- (d) Other revenue includes, among other items, mobile handset sales, interconnect fees, late fee revenue, and installation fees.

The increase in our revenue during the three months ended March 31, 2017, as compared to the corresponding period in 2016, includes (i) an organic increase of £22.5 million or 1.9%, (ii) the impact of acquisitions, (iii) the impact of a disposition and (iv) the impact of foreign currency translation effects (FX), as set forth below:

	Subscription revenue	Non- subscription revenue	Total
	in millions		
Increase in cable subscription revenue due to change in:			
Average number of RGUs (a).....	£ 17.3	£ —	£ 17.3
ARPU (b).....	13.0	—	13.0
Total increase in cable subscription revenue.....	30.3	—	30.3
Decrease in mobile subscription revenue (c)	(11.8)	—	(11.8)
Total increase in subscription revenue.....	18.5	—	18.5
Increase in B2B revenue (d).....	—	2.5	2.5
Increase in other revenue (e).....	—	1.5	1.5
Total organic increase.....	18.5	4.0	22.5
Impact of acquisitions	—	6.7	6.7
Impact of a disposition	—	(1.8)	(1.8)
Impact of FX	5.0	3.7	8.7
Total.....	<u>£ 23.5</u>	<u>£ 12.6</u>	<u>£ 36.1</u>

- (a) The increase in cable subscription revenue related to a change in the average number of RGUs is primarily attributable to the net effect of (i) an increase in the average number of broadband internet and fixed-line telephony RGUs in the U.K., (ii) a decline in the average number of enhanced video RGUs in Ireland, which was mostly offset by an increase in the average number of enhanced video RGUs in the U.K., and (iii) a decline in the average number of basic video RGUs in Ireland.
- (b) The increase in cable subscription revenue related to a change in ARPU is primarily attributable to the net effect of (i) a net increase primarily due to (a) higher ARPU from broadband internet services and (b) lower ARPU from video services and (ii) an improvement in RGU mix, as an increase in the U.K. was only partially offset by a decrease in Ireland. In addition, ARPU from video, broadband internet and fixed-line telephony services was adversely impacted by an aggregate £6.1 million decrease in revenue associated with a change in the regulations governing payment handling fees we charge to our customers in the U.K.
- (c) The decrease in mobile subscription revenue relates to the net effect of (i) lower ARPU in the U.K., including a decline of £14.0 million in postpaid mobile services revenue associated with the U.K. Split-contract Program, and (ii) an increase of £3.0 million related to higher SIM-only subscribers in the U.K.
- (d) The increase in B2B revenue is largely due to an increase in data revenue, primarily attributable to higher volumes.
- (e) The increase in other revenue is primarily due to the net effect of (i) a decrease in interconnect revenue in the U.K. of £3.7 million primarily due to (a) a decline in mobile short message service or “SMS” termination volumes and (b) lower mobile termination rates and volumes, (ii) an increase in installation revenue in the U.K. and (iii) an increase in broadcasting revenue in Ireland.

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

	Three months ended March 31,		Increase		Organic increase
	2017	2016	£	%	%
	in millions				
Data (a).....	£ 129.7	£ 123.3	£ 6.4	5.2	1.1
Voice.....	28.2	27.5	0.7	2.5	1.9
Other.....	12.9	12.4	0.5	4.0	4.0
Total.....	£ 170.8	£ 163.2	£ 7.6	4.7	1.5

(a) The increase in data revenue is primarily attributable to higher volumes.

Programming and other direct costs of services

Programming and other direct costs of services include programming and copyright costs, mobile access and interconnect costs, mobile handset and other equipment cost of goods sold and other direct costs related to our operations. Programming and copyright costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, (ii) rate increases and (iii) growth in the number of our enhanced video subscribers.

Our programming and other direct costs of services increased £9.5 million or 2.7% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. This increase includes (i) an increase of £4.0 million attributable to the impact of acquisitions and (ii) a decrease of £0.7 million attributable to a disposition. Excluding the effects of acquisitions, a disposition and FX, programming and other direct costs of services increased £3.7 million or 1.0%. This increase includes the following factors:

- An increase in programming and copyright costs of £16.9 million or 8.8%, primarily due to higher costs for certain premium and/or basic content, including an increase of (i) higher costs for sports rights and (ii) £1.8 million associated with a programming contract that was entered into in June 2016 with retroactive impact to January 1, 2016;
- A decrease in mobile access and interconnect costs of £7.2 million or 7.2%, primarily due to the net effect of (i) lower mobile usage, (ii) higher MVNO costs, (iii) a decline resulting from lower interconnect rates and (iv) lower fixed-line telephony call volumes;
- A decrease in mobile handset costs of £4.0 million or 11.7%, primarily due to the net effect of (i) lower mobile handset sales volumes and (ii) a higher average cost per handset sold; and
- A net decrease resulting from individually insignificant changes in other programming and other direct costs of services categories.

Other operating expenses

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

Our other operating expenses increased £8.2 million or 5.3% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. This increase includes an increase of £0.6 million attributable to the impact of acquisitions. Excluding the effects of acquisitions and FX, other operating expenses increased £6.0 million or 3.8%. This increase includes the following factors:

- An increase in network-related expenses of £9.0 million or 21.4%. This increase is primarily due to (i) a £4.1 million increase associated with the impact of the settlement of an operational contingency recorded during the first quarter of 2016 and (ii) higher network maintenance costs. For information regarding significantly increased charges for network infrastructure in the U.K. and Ireland that became effective April 1, 2017, see note 9 to our condensed consolidated financial statements;
- A decrease in personnel costs of £7.3 million or 13.2%, primarily due to the net effect of (i) lower staffing levels, (ii) decreased costs resulting from higher proportions of capitalized labor costs associated with the network extension project (iii) lower incentive compensation costs and (iv) annual wage increases;
- An increase in outsourced labor and professional fees of £2.3 million or 11.1%, primarily due to higher third-party call center costs; and
- A net increase resulting from individually insignificant changes in other operating expense categories.

SG&A expenses

SG&A expenses include human resources, information technology, general services, management, finance, legal, external sales and marketing costs, share-based compensation and other general expenses.

Our SG&A expenses increased £12.6 million or 8.0% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. Our SG&A expenses include share-based compensation expense, which decreased £2.7 million. The increase in SG&A expenses also includes an increase of £2.2 million attributable to the impact of acquisitions. Excluding share-based compensation, the effects of acquisitions and FX, SG&A expenses increased £11.7 million or 7.7%. This increase includes the following factors:

- An increase in external sales and marketing costs of £7.8 million or 13.5%, primarily due to higher (i) costs associated with advertising campaigns and (ii) third-party sales commissions; and
- An increase in personnel costs of £2.2 million or 3.7%, primarily due to increased staffing levels.

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 £29.8 million and £24.7 million during the three months ended March 31, 2017, and 2016, 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 8 to our condensed consolidated financial statements.

Depreciation and amortization expense

Our depreciation and amortization expense increased £32.0 million or 8.1% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. Excluding the effects of FX, depreciation and amortization expense increased £30.6 million or 7.7%. These increases are primarily due to the net effect of (i) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives and (ii) decreases associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of £1.1 million and £3.2 million during the three months ended March 31, 2017 and 2016, respectively, primarily related to restructuring charges for employee severance and termination costs related to certain reorganization activities.

Interest expense – third-party

Our third-party interest expense increased £15.4 million or 11.4% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. This increase is primarily attributable to higher average outstanding third-party debt balances. For additional information regarding our outstanding third-party indebtedness, see note 6 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 3 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 remained relatively unchanged during the three months ended March 31, 2017, as compared to the corresponding period in 2016. For additional information regarding our related-party indebtedness, see note 8 to our condensed consolidated financial statements.

Interest income – related-party

Our related-party interest income increased £15.5 million or 24.1%, during the three months ended March 31, 2017, as compared to the corresponding period in 2016, primarily due to interest income earned on related-party notes receivable from LG Europe 2. For additional information, see note 8 to our condensed consolidated financial statements.

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

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

	Three months ended March 31,	
	2017	2016
	in millions	
Cross-currency and interest rate derivative contracts (a)	£ (94.2)	£ 16.7
Foreign currency forward contracts	(1.1)	0.6
Equity-related derivative instruments (b)	—	6.8
Total	<u>£ (95.3)</u>	<u>£ 24.1</u>

- (a) The loss during the 2017 period is primarily attributable to (i) losses associated with an increase in the value of the pound sterling relative to the U.S. dollar and (ii) losses associated with increases in market interest rates in the U.S. dollar market. In addition, the loss during the 2017 period includes a net gain of £41.5 million resulting from changes in our credit risk valuation adjustments. The gain during the 2016 period is primarily attributable to the net effect of (a) gains associated with decreases in market interest rates in the U.S. dollar market, (b) losses associated with decreases in market interest rates in the pound sterling market and (c) 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.

(b) The gain during the 2016 period is attributable to the equity-related derivative assets that were cash settled during 2016.

For additional information regarding our derivative instruments, see notes 3 and 4 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:

	Three months ended March 31,	
	2017	2016
	in millions	
U.S. dollar-denominated debt issued by our company	£ 55.4	£ (87.6)
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a).....	45.2	3.3
Euro-denominated debt issued by our company	0.7	(24.5)
Other.....	1.3	(0.3)
Total.....	<u>£ 102.6</u>	<u>£ (109.1)</u>

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

Realized and unrealized losses due to changes in fair values of certain debt, net

Our realized and unrealized gains or losses due to changes in fair values of certain debt include unrealized gains or losses associated with changes in fair values that are non-cash in nature until such time as these gains or losses are realized through cash transactions. We recognized unrealized losses due to changes in fair values of certain debt, net, of £27.2 million and nil during the three months ended March 31, 2017, and 2016, respectively. For additional information regarding our fair value measurements, see note 4 to our condensed consolidated financial statements.

Losses on debt modification and extinguishment, net

We recognized losses on debt modification and extinguishment, net, of £29.0 million and nil during the three months ended March 31, 2017, and 2016, respectively. The loss during 2017 is attributable to the net effect of (i) a redemption premium payment of £26.0 million, (ii) the write-off of £6.7 million of deferred financing costs, (iii) the write-off of £4.8 million of net unamortized premiums and (iv) the payment of £1.1 million of third-party costs.

Income tax benefit

We recognized income tax benefits of £11.8 million and £14.1 million during the three months ended March 31, 2017 and 2016, respectively.

The income tax benefit during the three months ended March 31, 2017 differs from the expected income tax benefit of £21.2 million (based on the U.S. federal income tax rate of 35.0%) primarily due to the negative impact of (i) statutory tax rates in certain jurisdictions in which we operate that are lower than the U.S. federal income tax rate and (ii) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries. The negative impact of these items was partially offset by the positive impact of a net decrease in valuation allowances.

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 impact 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 impact of these items was partially offset by the positive impact of a net decrease in valuation allowances.

For additional information concerning our income taxes, see note 7 to our condensed consolidated financial statements.

Net loss

During the three months ended March 31, 2017 and 2016, we reported net losses of £48.7 million and £52.9 million, respectively, including (i) operating income of £59.9 million and £89.1 million, respectively, (ii) net non-operating expense of £120.4 million and £156.1 million, respectively, and (iii) income tax benefit of £11.8 million and £14.1 million, respectively.

Gains or losses associated with (i) changes in the fair values of derivative instruments and (ii) movements in foreign currency exchange rates are subject to a high degree of volatility and, as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-operating items, our ability to achieve earnings is largely dependent on our ability to increase our 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 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, 2017, we had cash and cash equivalents of £48.5 million, substantially 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 6 to our condensed consolidated financial statements.

The ongoing cash needs of Virgin Media include corporate general and administrative expenses. 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 any borrowing availability under the VM Credit Facilities. For details of the borrowing availability of the VM Credit Facilities, see note 6 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, 2017, the outstanding principal amount of our third-party debt, together with our capital lease obligations, aggregated £12,171.7 million, including £873.6 million that is classified as current in our condensed consolidated balance sheet and £11,172.9 million that is not due until 2021 or thereafter. For additional information concerning our current debt maturities, see note 6 to our condensed consolidated financial statements.

As further discussed in note 3 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 Facilities in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment. We 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, 2017, 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.

All of our consolidated debt and capital lease obligations at March 31, 2017 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and capital lease obligations, see note 6 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, 2017 and 2016 are summarized as follows:

	Three months ended March 31,		Change
	2017	2016	
	in millions		
Net cash provided by operating activities	£ 387.3	£ 299.0	£ 88.3
Net cash used by investing activities	(148.3)	(183.6)	35.3
Net cash provided (used) by financing activities	(212.6)	52.0	(264.6)
Effect of exchange rate changes on cash	—	0.6	(0.6)
Net increase in cash and cash equivalents	<u>£ 26.4</u>	<u>£ 168.0</u>	<u>£ (141.6)</u>

Operating Activities. The increase in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase in cash provided by our Segment OCF and related working capital items, (ii) a decrease in cash provided due to higher 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 (i) a decrease in cash used to fund loans to subsidiaries of Liberty Global of £17.1 million and (ii) a decrease in capital expenditures.

The capital expenditures that we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or 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 5 to our condensed consolidated financial statements.

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

	Three months ended March 31,	
	2017	2016
	in millions	
Property and equipment additions	£ 330.2	£ 257.4
Assets acquired under capital-related vendor financing arrangements	(240.1)	(112.1)
Assets acquired under capital leases	(1.6)	(7.4)
Changes in current liabilities related to capital expenditures	42.0	7.1
Capital expenditures	<u>£ 130.5</u>	<u>£ 145.0</u>

The increase in our property and equipment additions is primarily related to new build and upgrade projects, including our network extension projects. Based on ongoing review of our network extension projects, we currently expect that we will be at the lower-end of, or fall below, the 2017 property and equipment additions forecast range of 31% to 33% of revenue as described in our 2016 annual report.

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, 2017. 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 3 to our condensed consolidated financial statements.

	Payments (receipts) due during:							Total
	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter	
in millions								
Projected derivative cash payments (receipts), net:								
Interest-related (a).....	£ (7.9)	£ (28.7)	£ (36.5)	£ (35.5)	£ (25.3)	£ (7.5)	£ 66.5	£ (74.9)
Principal-related (b).....	—	—	4.5	—	(80.4)	(132.9)	(800.2)	(1,009.0)
Total	<u>£ (7.9)</u>	<u>£ (28.7)</u>	<u>£ (32.0)</u>	<u>£ (35.5)</u>	<u>£(105.7)</u>	<u>£(140.4)</u>	<u>£ (733.7)</u>	<u>£(1,083.9)</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.