



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

**VIRGIN MEDIA INC.
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United States**

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

	September 30, 2018	December 31, 2017
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	£ 32.8	£ 23.8
Trade receivables, net	607.5	574.9
Related-party receivables (note 9)	119.0	90.2
Derivative instruments (notes 4 and 9)	132.5	226.9
Prepaid expenses (note 9)	60.7	48.2
Other current assets (note 3)	118.6	104.4
Total current assets	1,071.1	1,068.4
Property and equipment, net (note 6)	6,264.7	6,207.6
Goodwill (note 6)	6,018.3	6,014.6
Deferred income taxes (note 8)	1,486.6	1,432.4
Related-party notes receivable (note 9)	4,785.8	5,065.9
Other assets, net (notes 3, 4, and 6)	1,527.3	1,621.0
Total assets	£ 21,153.8	£ 21,409.9

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

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

		<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<u>in millions</u>			
LIABILITIES AND OWNER'S EQUITY			
Current liabilities:			
Accounts payable (note 9)	£	373.1	£ 385.4
Deferred revenue (note 3)		374.2	377.4
Current portion of debt and capital lease obligations (note 7)		1,862.6	1,845.1
Accrued interest		132.6	185.1
Accrued capital expenditures (note 9)		174.7	194.1
Other current liabilities (notes 4 and 9)		625.6	488.6
Total current liabilities		<u>3,542.8</u>	<u>3,475.7</u>
Long-term debt and capital lease obligations (note 7 and 9)		10,768.8	10,953.4
Other long-term liabilities (notes 3, 4 and 9)		337.9	489.6
Total liabilities		<u>14,649.5</u>	<u>14,918.7</u>
Commitments and contingencies (notes 4, 7, 8 and 10)			
Owner's equity:			
Additional paid-in capital		7,830.5	7,787.5
Accumulated deficit		(1,412.8)	(1,362.8)
Accumulated other comprehensive earnings, net of taxes		86.6	66.5
Total owner's equity		<u>6,504.3</u>	<u>6,491.2</u>
Total liabilities and owner's equity	£	<u>21,153.8</u>	£ <u>21,409.9</u>

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		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	in millions			
Revenue (note 11).....	£ 1,279.7	£ 1,236.0	£ 3,832.4	£ 3,674.5
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):				
Programming and other direct costs of services (note 9).....	390.3	370.2	1,165.0	1,074.2
Other operating (note 9).....	166.1	161.1	500.3	479.2
Selling, general and administrative (SG&A) (note 9).....	159.5	159.4	505.1	512.9
Related-party fees and allocations, net (note 9).....	43.4	34.1	106.1	95.0
Depreciation and amortization.....	452.2	435.0	1,343.2	1,295.1
Impairment, restructuring and other operating items, net.....	65.7	41.6	77.2	50.1
	<u>1,277.2</u>	<u>1,201.4</u>	<u>3,696.9</u>	<u>3,506.5</u>
Operating income.....	<u>2.5</u>	<u>34.6</u>	<u>135.5</u>	<u>168.0</u>
Non-operating income (expense):				
Interest expense (note 9).....	(168.5)	(152.9)	(491.3)	(455.1)
Interest income — related party (note 9).....	77.7	84.5	239.8	244.3
Realized and unrealized gains (losses) on derivative instruments, net (notes 4 and 9).....	69.7	(153.3)	242.3	(408.9)
Foreign currency transaction gains (losses), net.....	(69.2)	169.8	(228.4)	507.2
Realized and unrealized gains (losses) due to changes in fair values of certain debt, net (notes 5 and 7).....	(0.9)	3.3	4.6	(19.8)
Losses on debt modification and extinguishment, net (note 7).....	(17.4)	—	(17.4)	(29.0)
Other income, net.....	2.4	1.6	6.7	8.1
	<u>(106.2)</u>	<u>(47.0)</u>	<u>(243.7)</u>	<u>(153.2)</u>
Earnings (loss) before income taxes.....	<u>(103.7)</u>	<u>(12.4)</u>	<u>(108.2)</u>	<u>14.8</u>
Income tax benefit (expense) (note 8).....	12.8	(0.6)	25.4	—
Net earnings (loss).....	<u>£ (90.9)</u>	<u>£ (13.0)</u>	<u>£ (82.8)</u>	<u>£ 14.8</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		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	in millions			
Net earnings (loss)	£ (90.9)	£ (13.0)	£ (82.8)	£ 14.8
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	1.8	(11.4)	20.3	(25.9)
Derivative-related adjustments	—	0.3	(0.2)	(1.0)
Other comprehensive earnings (loss)	1.8	(11.1)	20.1	(26.9)
Comprehensive loss	£ (89.1)	£ (24.1)	£ (62.7)	£ (12.1)

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

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

	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings, net of taxes	Total owner's equity
	in millions			
Balance at January 1, 2018, before effect of accounting change.....	£ 7,787.5	£ (1,362.8)	£ 66.5	£ 6,491.2
Accounting change (note 2).....	—	32.8	—	32.8
Balance at January 1, 2018, as adjusted for accounting change.....	7,787.5	(1,330.0)	66.5	6,524.0
Net loss	—	(82.8)	—	(82.8)
Other comprehensive earnings, net of taxes.....	—	—	20.1	20.1
Tax losses surrendered by Liberty Global subsidiaries (notes 8 and 9).....	32.0	—	—	32.0
Share-based compensation (note 9).....	15.8	—	—	15.8
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 9).....	(5.6)	—	—	(5.6)
Deemed contribution of technology-related services (note 9).....	0.6	—	—	0.6
Other	0.2	—	—	0.2
Balance at September 30, 2018.....	<u>£ 7,830.5</u>	<u>£ (1,412.8)</u>	<u>£ 86.6</u>	<u>£ 6,504.3</u>

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

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

	Nine months ended	
	September 30,	
	2018	2017
	in millions	
Cash flows from operating activities:		
Net earnings (loss)	£ (82.8)	£ 14.8
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense	16.8	15.2
Related-party fees and allocations, net	106.1	95.0
Depreciation and amortization	1,343.2	1,295.1
Impairment, restructuring and other operating items, net	77.2	50.1
Amortization of deferred financing costs and non-cash interest	12.3	12.4
Realized and unrealized losses (gains) on derivative instruments, net	(242.3)	408.9
Foreign currency transaction losses (gains), net	228.4	(507.2)
Realized and unrealized losses (gains) due to changes in fair values of certain debt, net	(4.6)	19.8
Losses on debt modification and extinguishment, net	17.4	29.0
Deferred income tax benefit	(32.4)	(2.9)
Changes in operating assets and liabilities	11.3	41.0
Net cash provided by operating activities	<u>1,450.6</u>	<u>1,471.2</u>
Cash flows from investing activities:		
Capital expenditures	(327.7)	(415.3)
Repayments from (advances to) related parties, net	220.7	(849.9)
Other investing activities, net	(1.5)	3.8
Net cash used by investing activities	<u>£ (108.5)</u>	<u>£ (1,261.4)</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)

	Nine months ended	
	September 30,	
	2018	2017
	in millions	
Cash flows from financing activities:		
Repayments and repurchases of third-party debt and capital lease obligations	£ (3,170.7)	£ (2,866.8)
Borrowings of third-party debt	1,853.0	2,842.2
Net repayments of related-party debt	(19.4)	(17.9)
Payment of financing costs and debt premiums	(19.1)	(55.4)
Net cash received (paid) related to derivative instruments	23.9	(0.4)
Other financing activities, net	(0.3)	(90.5)
Net cash used by financing activities	<u>(1,332.6)</u>	<u>(188.8)</u>
Effect of exchange rate changes on cash and cash equivalents and restricted cash	<u>0.1</u>	<u>0.5</u>
Net increase in cash and cash equivalents and restricted cash	9.6	21.5
Cash and cash equivalents and restricted cash:		
Beginning of period	25.2	23.2
End of period	<u>£ 34.8</u>	<u>£ 44.7</u>
Cash paid for interest	<u>£ 537.4</u>	<u>£ 497.1</u>
Net cash paid for taxes	<u>£ 1.4</u>	<u>£ 0.8</u>
Reconciliation of end of period cash and cash equivalents and restricted cash:		
Cash and cash equivalents	£ 32.8	£ 42.8
Restricted cash included in other current assets	<u>2.0</u>	<u>1.9</u>
Total cash and cash equivalents and restricted cash	<u>£ 34.8</u>	<u>£ 44.7</u>

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

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements
September 30, 2018
(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. 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**) and do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2017 annual report.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of September 30, 2018.

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

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 20, 2018, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

ASU 2014-09

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

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

- When we enter into contracts to provide services to our customers, we often provide time-limited discounts or free service periods. Under previous accounting rules, we recognized revenue, net of discounts, during the promotional periods and did not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition for those contracts that contain substantive termination penalties is accelerated, as the impact of the discounts or free service periods is

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

recognized uniformly over the contractual period. For contracts that do not have substantive termination penalties, we continue to record the impacts of partial or full discounts during the applicable promotional periods.

- When we enter into contracts to provide services to our customers, we often charge installation or other upfront fees. Under previous accounting rules, installation fees related to services provided over our cable networks were recognized as revenue during the period in which the installation occurred to the extent these fees were equal to or less than direct selling costs. Under ASU 2014-09, these fees are generally deferred and recognized as revenue over the contractual period, or longer if the upfront fee results in a material renewal right.

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

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

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

	Balance at December 31, 2017		ASU 2014-09 Adjustments		Balance at January 1, 2018
	in millions				
Assets:					
Trade receivables, net.....	£ 574.9		(0.6)	£	574.3
Other current assets	£ 104.4		34.5	£	138.9
Deferred income taxes.....	£ 1,432.4		(10.2)	£	1,422.2
Other assets, net.....	£ 1,621.0		10.5	£	1,631.5
Liabilities:					
Deferred revenue	£ 377.4		1.1	£	378.5
Other long-term liabilities	£ 489.6		0.3	£	489.9
Equity:					
Accumulated deficit	£ (1,362.8)		32.8	£	(1,330.0)

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

ASU 2017-07

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of the Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)*, which changes the presentation of periodic benefit cost components. Under ASU 2017-07, we continue to present the service component of our net benefit cost as a component of operating income but present the other components of our net benefit cost, which can include credits, within non-operating income (expense) in our consolidated statements of operations. We adopted ASU 2017-07 on January 1, 2018 on a retrospective basis, which resulted in the reclassification of credits from SG&A expenses to other non-operating income, net, of £2.0 million and £6.0 million for the three and nine months ended September 30, 2017, respectively.

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

ASU 2016-18

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

Recent Accounting Pronouncements

ASU 2016-02

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

Although we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements, the main impact of the adoption of this standard will be the recognition of right-of-use assets and lease liabilities in our consolidated balance sheet for those leases classified as operating leases under current U.S. GAAP. We do not intend to recognize right-of-use assets or lease liabilities for leases with a term of 12 months or less, as permitted by the short-term lease practical expedient in the standard. We also do not plan to apply the practical expedient that permits a lessee to account for lease and non-lease components in a contract as a single lease component and, accordingly, we will continue to account for these components separately. In transition, we plan to apply the practical expedients that permit us not to reassess (i) whether expired or existing contracts contain a lease under the new standard, (ii) the lease classification for expired or existing leases or (iii) whether previously-capitalized initial direct costs would qualify for capitalization under the new standard. In addition, we do not intend to use hindsight during transition.

For a summary of our undiscounted future minimum lease payments under non-cancellable operating leases as of September 30, 2018, see note 10. We currently do not expect ASU 2016-02 to have a significant impact on our consolidated statements of operations or cash flows.

ASU 2018-15

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (ASU 2018-15)*, which requires entities to defer implementation costs incurred that are related to the application development stage in a cloud computing arrangement that is a service contract. Deferred implementation costs will be amortized over the term of the cloud computing arrangement and presented in the same expense line item as the cloud computing arrangement. All other implementation costs will be expensed as incurred. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the effect that ASU 2018-15 will have on our consolidated financial statements.

(3) Revenue Recognition and Related Costs

Policies

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

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

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

Mobile Revenue— General. Consideration from mobile contracts is allocated to the airtime service component and the handset component based on the relative standalone selling prices of each component. When we offer handsets and airtime services in separate contracts entered into at the same time, we account for these contracts as a single contract.

Mobile Revenue — Airtime Services. We recognize revenue from mobile services in the periods in which the related services are provided. Revenue from pre-pay customers is deferred prior to the commencement of services and recognized as the services are rendered or usage rights expire.

Mobile Revenue — Handset Revenue. Revenue from the sale of handsets is recognized at the point in which the goods have been transferred to the customer. Some of our mobile handset contracts that permit the customer to take control of the handset upfront and pay for the handset in installments over a contractual period may contain a significant financing component. For contracts with terms of one year or more, we recognize any significant financing component as revenue over the contractual period using the effective interest method. We do not record the effect of a significant financing component if the contractual period is less than one year.

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

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

Contract fulfillment costs, such as costs for installation activities for B2B customers, are recognized as assets and amortized to other operating costs over the applicable period benefited, which is generally the substantive contract term for the related service contract.

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

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

Sales and Other Value-Added Taxes. Revenue is recorded net of applicable sales and other value-added taxes.

For a disaggregation of our revenue by major category and geographic segment, see note 11.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing our customers. We record a trade receivable when we have transferred goods or services to a customer but have not yet received payment. Our trade receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated £29.7 million and £49.1 million at September 30, 2018 and January 1, 2018, respectively.

If we transfer goods or services to a customer but do not have an unconditional right to payment, we record a contract asset. Contract assets typically arise from the uniform recognition of introductory promotional discounts over the contract period and accrued revenue for handset sales. Our contract assets were £19.4 million and £0.5 million as of September 30, 2018 and January

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1, 2018, respectively. The current and long-term portions of our contract asset balance at September 30, 2018 are included within other current assets and other assets, net, respectively, in our condensed consolidated balance sheet.

We record deferred revenue when we receive payment prior to transferring goods or services to a customer. We primarily defer revenue for (i) installation and other upfront services and (ii) other services that are invoiced prior to when services are provided. Our deferred revenue balances were £401.8 million and £412.9 million as of September 30, 2018 and January 1, 2018, respectively. The decrease in deferred revenue for the nine months ended September 30, 2018 is primarily due to £353.0 million of revenue recognized that was included in our deferred revenue balance at January 1, 2018, partially offset by advanced billings recorded during the period. The current and long-term portions of our deferred revenue balance at September 30, 2018 are included within deferred revenue and other long-term liabilities, respectively, in our condensed consolidated balance sheet.

Contract Costs

Our aggregate assets associated with incremental costs to obtain and fulfill our contracts were £41.2 million and £41.7 million at September 30, 2018 and January 1, 2018, respectively. The current and long-term portions of our assets related to contract costs at September 30, 2018 are included within other current assets and other assets, net, respectively, in our condensed consolidated balance sheet. We amortized £12.2 million and £40.9 million to operating costs and expenses during the three and nine months ended September 30, 2018, respectively, related to these assets.

Unsatisfied Performance Obligations

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

(4) Derivative Instruments

In general, we enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) foreign currency movements, 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 (€) and the Indian rupee. With the exception of a limited number of our foreign currency forward 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.

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Notes to Condensed Consolidated Financial Statements — (Continued)
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The following table provides details of the fair values of our derivative instrument assets and liabilities:

	September 30, 2018			December 31, 2017		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term (a)	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (b).....	£ 130.5	£ 678.5	£ 809.0	£ 218.0	£ 476.8	£ 694.8
Foreign currency forward and option contracts.....	0.1	—	0.1	0.4	—	0.4
Foreign currency forward contracts — related-party.....	1.9	—	1.9	8.5	—	8.5
Total.....	<u>£ 132.5</u>	<u>£ 678.5</u>	<u>£ 811.0</u>	<u>£ 226.9</u>	<u>£ 476.8</u>	<u>£ 703.7</u>
Liabilities:						
Cross-currency and interest rate derivative contracts (b).....	£ 87.3	£ 254.7	£ 342.0	£ 55.2	£ 396.7	£ 451.9
Foreign currency forward contracts — related-party.....	0.2	—	0.2	0.8	0.1	0.9
Total.....	<u>£ 87.5</u>	<u>£ 254.7</u>	<u>£ 342.2</u>	<u>£ 56.0</u>	<u>£ 396.8</u>	<u>£ 452.8</u>

- (a) Our current derivative liabilities, long-term derivative assets and long-term derivative liabilities are included in other current liabilities, 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 (£13.0 million) and £13.4 million during the three months ended September 30, 2018 and 2017, respectively, and a net gain (loss) of (£22.5 million) and £64.8 million during the nine months ended September 30, 2018 and 2017, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	in millions			
Cross-currency and interest rate derivative contracts	£ 69.3	£ (151.7)	£ 242.5	£ (406.5)
Foreign currency forward contracts — related-party.....	0.4	(1.6)	(0.2)	(2.4)
Total.....	<u>£ 69.7</u>	<u>£ (153.3)</u>	<u>£ 242.3</u>	<u>£ (408.9)</u>

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

	Nine months ended			
	September 30,			
	2018		2017	
	in millions			
Operating activities	£	0.4	£	90.3
Financing activities		23.9		(0.4)
Total	£	24.3	£	89.9

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 September 30, 2018, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £313.2 million.

Details of our Derivative Instruments

Cross-currency Derivative Contracts

We generally match the denomination of our borrowings with the functional currency of the supporting operations, or when it is more cost effective, we 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 September 30, 2018, 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 lives of our cross-currency swap contracts at September 30, 2018:

	Notional amount due from counterparty		Notional amount due to counterparty		Weighted average remaining life	
	in millions				in years	
\$	400.0	€	339.6			4.3
\$	8,385.0	£	5,505.0	(a) (b)		5.1
£	2,365.8	\$	3,400.0	(a)		6.3

- (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 coupon-related payments and receipts. At September 30, 2018, the total pound sterling equivalent of the notional amount of these derivative instruments was £2,622.7 million.
- (b) Includes certain derivative instruments that are “forward-starting” such that the initial exchange occurs at a date subsequent to September 30, 2018. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

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Interest Rate Swap Contracts

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

Pay fixed rate (a)			Receive fixed rate		
Notional amount	Weighted average remaining life		Notional amount	Weighted average remaining life	
in millions	in years		in millions	in years	
£	14,854.3	3.4	£	8,939.1	5.4

(a) Includes forward-starting derivative instruments.

Interest Rate Swap Options

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

Notional amount	Underlying swap currency	Weighted average option expiration period (a)	Weighted average strike rate (b)	
in millions		in years		
£	4,756.4	£	1.2	2.47%
£	458.4	€	1.1	2.08%

(a) Represents the weighted average period until the date on which we have the option to enter into the interest rate swap contracts.

(b) Represents the weighted average interest rate that we would pay if we exercised our option to enter into the interest rate swap contracts.

Basis Swaps

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At September 30, 2018, the pound sterling equivalent of the notional amount of these derivative instruments, including forward-starting derivative instruments, was £6,513.9 million and the related weighted average remaining contractual life of our interest basis swap contracts was 0.6 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 September 30, 2018, the notional amount of our interest rate cap was £200.0 million.

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Impact of Derivative Instruments on Borrowing Costs

Excluding forward-starting instruments and swaptions, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was a decrease of 41 basis points to our borrowing costs as of September 30, 2018.

Foreign Currency Forwards

We enter into foreign currency forward contracts with respect to non-functional currency exposure. As of September 30, 2018, the total pound sterling equivalent of the notional amount of foreign currency forward contracts was £1.1 million.

Foreign Currency Forward Contracts – Related-party

At September 30, 2018, we have £20.2 million notional amount of foreign currency forward contracts with Liberty Global Europe Financing BV (**LGE Financing**), a subsidiary of Liberty Global plc (**Liberty Global**).

(5) Fair Value Measurements

We use the fair value method to account for (i) our derivative instruments and (ii) certain instruments that we classify as debt. The reported fair values of these instruments as of September 30, 2018 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our credit risk valuation adjustments with respect to our cross-currency and interest rate swaps and certain of our debt are quantified and further explained in notes 4 and 7.

For additional information regarding our fair value measurements, see note 6 to the consolidated financial statements included in our 2017 annual report.

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

<u>Description</u>	<u>September 30, 2018</u>	<u>Fair value measurements at September 30, 2018 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		in millions	
Assets:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts	£ 809.0	£ 808.6	£ 0.4
Foreign currency forward and option contracts	0.1	0.1	—
Foreign currency forward contracts — related-party	1.9	1.9	—
Total assets	<u>£ 811.0</u>	<u>£ 810.6</u>	<u>£ 0.4</u>
Liabilities:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts	£ 342.0	£ 336.6	£ 5.4
Foreign currency forward contracts — related-party	0.2	0.2	—
Debt	210.2	210.2	—
Total liabilities	<u>£ 552.4</u>	<u>£ 547.0</u>	<u>£ 5.4</u>

<u>Description</u>	<u>December 31, 2017</u>	<u>Fair value measurements at December 31, 2017 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		in millions	
Assets:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts	£ 694.8	£ 694.5	£ 0.3
Foreign currency forward and option contracts	0.4	0.4	—
Foreign currency forward contracts — related-party	8.5	8.5	—
Total assets	<u>£ 703.7</u>	<u>£ 703.4</u>	<u>£ 0.3</u>
Liabilities:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts	£ 451.9	£ 450.9	£ 1.0
Foreign currency forward contracts — related-party	0.9	0.9	—
Debt	225.4	225.4	—
Total liabilities	<u>£ 678.2</u>	<u>£ 677.2</u>	<u>£ 1.0</u>

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(6) Long-lived Assets

Property and Equipment, Net

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

	September 30, 2018	December 31, 2017
	in millions	
Distribution systems.....	£ 8,352.0	£ 7,874.4
Customer premises equipment.....	2,471.8	2,080.7
Support equipment, buildings and land.....	1,625.9	1,387.4
Total property and equipment, gross.....	12,449.7	11,342.5
Accumulated depreciation.....	(6,185.0)	(5,134.9)
Total property and equipment, net.....	£ 6,264.7	£ 6,207.6

During the nine months ended September 30, 2018 and 2017, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of £810.0 million and £825.0 million, respectively, which exclude related value added tax (VAT) of £144.1 million and £161.6 million, respectively, that was also financed by our vendors under these arrangements. In addition, during the nine months ended September 30, 2018 and 2017, we recorded non-cash increases to our property and equipment related to assets acquired under capital leases of £4.7 million and £7.3 million, respectively.

Goodwill

Changes in the carrying amount of our goodwill during the nine months ended September 30, 2018 are set forth below (in millions):

Balance at January 1, 2018.....	£ 6,014.6
Acquisitions and related adjustments.....	3.4
Foreign currency translation adjustments.....	0.3
Balance at September 30, 2018.....	£ 6,018.3

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill and, to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

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Intangible Assets Subject to Amortization, Net

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

	September 30, 2018			December 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships	£ 2,526.0	£ (1,972.3)	£ 553.7	£ 2,526.0	£ (1,692.3)	£ 833.7
Other (a).....	—	—	—	18.0	(2.0)	16.0
Total.....	£ 2,526.0	£ (1,972.3)	£ 553.7	£ 2,544.0	£ (1,694.3)	£ 849.7

(a) During the three months ended September 30, 2018, we wrote-off the TV3 brand name in Ireland in connection with the rebranding of TV3 to Virgin Media TV. As a result, the TV3 brand name is no longer used.

(7) Debt and Capital Lease Obligations

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

	September 30, 2018		Estimated fair value (c)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	in millions					
VM Notes	5.47%	£ —	£ 6,897.7	£ 7,385.0	£ 6,773.4	£ 7,073.2
VM Credit Facilities (d) (e)	4.63%	675.0	3,979.5	3,461.6	3,959.8	3,457.6
Vendor financing (f).....	4.72%	—	1,411.3	1,814.8	1,411.3	1,814.8
Other (g).....	2.73%	—	428.7	385.0	429.3	386.2
Total third-party debt before deferred financing costs, discounts and premiums....	5.03%	£ 675.0	£ 12,717.2	£ 13,046.4	£ 12,573.8	£ 12,731.8

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

	September 30, 2018	December 31, 2017
	in millions	
Total third-party debt before deferred financing costs, discounts and premiums	£ 12,573.8	£ 12,731.8
Deferred financing costs, discounts and premiums, net	(34.9)	(48.6)
Total carrying amount of third-party debt	12,538.9	12,683.2
Capital lease obligations	54.3	58.4
Total third-party debt and capital lease obligations	12,593.2	12,741.6
Related-party debt (note 9)	38.2	56.9
Total debt and capital lease obligations	12,631.4	12,798.5
Current maturities of debt and capital lease obligations	(1,862.6)	(1,845.1)
Long-term debt and capital lease obligations	£ 10,768.8	£ 10,953.4

- (a) Represents the weighted average interest rate in effect at September 30, 2018 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of deferred financing costs, the weighted average interest rate on our aggregate third-party variable- and fixed-rate indebtedness was 4.74% at September 30, 2018. For information regarding our derivative instruments, see note 4.
- (b) Unused borrowing capacity represents the maximum availability under the VM Credit Facilities at September 30, 2018 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2018, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the full amount of unused borrowing capacity was available to be borrowed and there were no restrictions on our ability to make loans or distributions from this availability to other Virgin Media subsidiaries and ultimately to Virgin Media. Upon completion of the relevant September 30, 2018 compliance reporting requirements, we expect that the full amount of unused borrowing capacity will continue to be available and that there will be no restrictions with respect to loans or distributions. Our above expectations do not consider any actual or potential changes to our borrowing levels or any amounts loaned or distributed subsequent to September 30, 2018. For information regarding a transaction completed subsequent to September 30, 2018 that could have an impact on the availability to be borrowed, loaned or distributed, see note 14.
- (c) The estimated fair values of our debt instruments are generally determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on the market interest rates and estimated credit spreads of the applicable entity, to the extent available, and other relevant factors. For additional information regarding fair value hierarchies, see note 5.
- (d) Amounts include £452.8 million and £43.6 million at September 30, 2018 and December 31, 2017, respectively, of borrowings pursuant to excess cash facilities under the VM Credit Facilities. These borrowings are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from our company to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent that the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities.
- (e) Unused borrowing capacity under the VM Credit Facilities relates to multi-currency revolving facilities with an aggregate maximum borrowing capacity equivalent to £675.0 million. In February 2018, the VM Revolving Facility was amended and split into two revolving facilities. As of September 30, 2018, VM Revolving Facility A was a multi-currency revolving

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facility maturing on December 31, 2021 with a maximum borrowing capacity equivalent to £75.0 million, and VM Revolving Facility B was a multi-currency revolving facility maturing on January 15, 2024 with a maximum borrowing capacity equivalent to £600.0 million. In October 2018, the VM Revolving Facilities were further amended whereby the maximum borrowing capacities of VM Revolving Facility A and VM Revolving Facility B were adjusted to an equivalent of £50.0 million and £625.0 million, respectively. All other terms from the previously existing VM Revolving Facilities continue to apply to the new revolving facilities.

- (f) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and, to a lesser extent, certain of our operating expenses. These obligations are generally 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.
- (g) Includes amounts associated with certain derivative-related borrowing instruments that mature at various dates through January 2025, including £210.2 million and £225.4 million at September 30, 2018 and December 31, 2017, respectively, that are carried at fair value. The fair value of this debt has been reduced by credit risk valuation adjustments resulting in net gains of £30.5 million and £1.5 million during the three months ended September 30, 2018 and 2017, respectively, and net gains of £30.8 million and £7.2 million during the nine months ended September 30, 2018 and 2017, respectively, which are included in realized and unrealized gains (losses) due to changes in fair values of certain debt, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 5. In addition, amounts include debt collateralized by certain trade receivables of our company of £177.3 million and £119.0 million at September 30, 2018 and December 31, 2017, respectively.

Financing Transactions

In August 2018, we received cash of £417.3 million (equivalent) through the partial repayment of a related-party loan from Liberty Global Europe 2 Limited (**LG Europe 2**), our immediate parent. We in turn used this cash to redeem (i) \$190.0 million (£145.7 million) of the \$530.0 million (£406.4 million) outstanding principal amount of the 2023 VM Dollar Senior Notes and (ii) in full the £250.0 million outstanding principal amount of the 2023 VM Sterling Senior Notes. This transaction was funded with a portion of the proceeds received by another Liberty Global subsidiary in connection with the sale of Liberty Global's operations in Austria. In connection with this transaction, we recognized a loss on debt modification and extinguishment, net, of £17.3 million related to (a) the payment of £13.5 million of redemption premiums and (b) the write-off of £3.8 million of unamortized deferred financing costs and discounts.

For information regarding a financing transaction we completed subsequent to September 30, 2018, see note 14.

Non-cash Financing Transactions

During the nine-months ended September 30, 2018 and 2017, non-cash borrowings and repayments aggregated £99.3 million and £521.3 million, respectively.

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Maturities of Debt and Capital Lease Obligations

The pound sterling equivalents of the maturities of our debt and capital lease obligations as of September 30, 2018 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:				
2018 (remainder of year).....	£ 519.7	£ —	£ 3.6	£ 523.3
2019.....	1,338.0	—	8.8	1,346.8
2020.....	12.1	—	6.6	18.7
2021.....	1,027.7	38.2	6.8	1,072.7
2022.....	281.2	—	8.3	289.5
2023.....	333.6	—	5.0	338.6
Thereafter.....	9,061.5	—	148.6	9,210.1
Total debt maturities.....	<u>12,573.8</u>	<u>38.2</u>	<u>187.7</u>	<u>12,799.7</u>
Deferred financing costs, discounts and premiums, net.....	(34.9)	—	—	(34.9)
Amounts representing interest.....	—	—	(133.4)	(133.4)
Total.....	<u>£ 12,538.9</u>	<u>£ 38.2</u>	<u>£ 54.3</u>	<u>£ 12,631.4</u>
Current portion.....	<u>£ 1,856.1</u>	<u>£ —</u>	<u>£ 6.5</u>	<u>£ 1,862.6</u>
Noncurrent portion.....	<u>£ 10,682.8</u>	<u>£ 38.2</u>	<u>£ 47.8</u>	<u>£ 10,768.8</u>

(8) 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 nine months ended September 30, 2018, tax losses with an aggregate tax effect of £32.0 million were surrendered by Liberty Global and its U.K. subsidiaries outside of Virgin Media to our U.K. subsidiaries. These surrendered tax assets are reflected as an increase to additional paid-in capital in our condensed consolidated statement of owner's equity.

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Income tax benefit (expense) attributable to our earnings (loss) before income taxes differs from the amounts computed using the U.S. federal income tax rates of 21.0% and 35.0% for the three and nine months ended September 30, 2018 and 2017, respectively, as a result of the following factors:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	in millions			
Computed “expected” tax benefit (expense).....	£ 21.8	£ 4.3	£ 22.7	£ (5.2)
Basis and other differences in the treatment of items associated with investments in subsidiaries.....	(12.2)	5.5	(25.9)	(1.4)
Change in valuation allowances.....	12.2	(20.0)	25.0	(12.8)
Enacted tax law and rate change.....	(6.0)	0.6	12.9	8.6
International rate differences (a).....	(2.8)	1.4	(4.8)	(1.6)
Non-deductible or non-taxable foreign currency exchange results.....	(0.6)	1.6	(3.2)	6.5
Non-deductible or non-taxable interest and other expenses.....	0.9	6.9	1.5	4.3
Other, net.....	(0.5)	(0.9)	(2.8)	1.6
Total income tax benefit (expense).....	£ 12.8	£ (0.6)	£ 25.4	£ —

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

The Tax Cuts and Jobs Act (the **2017 U.S. Tax Act**) was signed into law on December 22, 2017. In addition to lowering the U.S. corporate tax rate from 35.0% to 21.0% effective January 1, 2018, the 2017 U.S. Tax Act contains significant changes to the U.S. income tax regime, including (i) changes to the formation and use of net operating losses incurred after December 31, 2017, (ii) changes to the income tax deductibility of certain business expenses, including interest expense and compensation paid to certain executive officers, (iii) the imposition of taxes on a one-time deemed mandatory repatriation of earnings and profits of foreign corporations (the **Mandatory Repatriation Tax**) and (iv) a new tax on global intangible low-taxed income.

The Mandatory Repatriation Tax requires that the aggregate post-1986 earnings and profits of our foreign corporations be included in our U.S. taxable income. At September 30, 2018, we have estimated that we do not have a Mandatory Repatriation Tax liability. Our estimate is subject to change during the fourth quarter of 2018 as we finalize our estimates, review various historical transactions and analyze substantial information that supports our ownership structure and the operating history of our foreign subsidiaries, as well as evaluate guidance from the tax authorities on the application of the tax laws underlying the Mandatory Repatriation Tax.

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(9) Related-party Transactions

Our related-party transactions consist of the following:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>in millions</u>			
Credits (charges) included in:				
Programming and other direct costs of services.....	£ (2.5)	£ (1.0)	£ (4.2)	£ (1.9)
Other operating.....	0.8	1.6	3.1	3.7
SG&A.....	4.0	(0.4)	4.8	0.7
Allocated share-based compensation expense.....	(5.6)	(3.6)	(15.8)	(13.3)
Fees and allocations, net:				
Operating and SG&A (exclusive of depreciation and share-based compensation).....	(7.8)	(11.3)	(22.5)	(27.8)
Depreciation.....	(10.5)	(7.8)	(24.1)	(27.3)
Share-based compensation.....	(10.0)	(2.7)	(26.5)	(12.7)
Management fee.....	(15.1)	(12.3)	(33.0)	(27.2)
Total fees and allocations, net.....	<u>(43.4)</u>	<u>(34.1)</u>	<u>(106.1)</u>	<u>(95.0)</u>
Included in operating income.....	(46.7)	(37.5)	(118.2)	(105.8)
Interest expense.....	(0.5)	(0.2)	(2.3)	(1.2)
Interest income.....	77.7	84.5	239.8	244.3
Realized and unrealized gains (losses) on derivative instruments, net.....	0.4	(1.6)	(0.2)	(2.4)
Included in net earnings (loss).....	<u>£ 30.9</u>	<u>£ 45.2</u>	<u>£ 119.1</u>	<u>£ 134.9</u>
Property and equipment transfers in (out), net.....	<u>£ 4.2</u>	<u>£ 1.7</u>	<u>£ (2.4)</u>	<u>£ 59.1</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 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 primarily consist of interconnect, roaming, lease and access fees and other services provided to our company by other Liberty Global subsidiaries.

Other operating expenses. Amounts primarily consist of recharges of £1.2 million and £1.9 million during the three months ended September 30, 2018 and 2017, respectively, and £4.5 million and £4.1 million during the nine months ended September 30, 2018 and 2017, respectively, for network and technology services provided by our company to other Liberty Global subsidiaries.

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SG&A expenses. Amounts primarily consist of the net effect of (i) recharges of £2.9 million and £1.5 million during the three months ended September 30, 2018 and 2017, respectively, and £7.8 million and £3.8 million during the nine months ended September 30, 2018 and 2017, respectively, for support function staffing and other services provided by our company to another Liberty Global subsidiary and (ii) charges of nil and £0.4 million during the three months ended September 30, 2018 and 2017, respectively, and £4.0 million and £1.1 million during the nine months ended September 30, 2018 and 2017, respectively, 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 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 subsidiaries, whose activities benefit multiple operations, including operations within and outside of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's subsidiaries, without a mark-up. Amounts in this category are generally deducted to arrive at our Covenant EBITDA.
- *Depreciation.* The amounts included in this category, which are generally loan settled, represent our estimated share of depreciation of assets not owned by our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's subsidiaries, without a mark-up.
- *Share-based compensation.* The amounts included in this category, which are generally loan settled, represent our estimated share of share-based compensation associated with Liberty Global employees who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's subsidiaries, without a mark-up.
- *Management fee.* The amounts included in this category, which are generally loan settled, represent our estimated allocable share of (i) operating and SG&A expenses related to stewardship services provided by certain Liberty Global subsidiaries and (ii) the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

Liberty Global charges technology-based costs to our company using a royalty-based method. For the nine months ended September 30, 2018, our proportional share of the technology-based costs of £37.5 million was £0.6 million more than the actual amount charged under the royalty-based method. Accordingly, these excess amounts have been reflected as a deemed contribution of technology-related services in our condensed consolidated statement of owner's 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 expense. Amounts relate to interest expense associated with the note payable to LG Europe 2.

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 4, these amounts relate to related-party foreign currency forward contracts with LGE Financing.

Property and equipment transfers, net. These amounts, which are generally cash settled, include the net carrying values of (i) construction in progress, including certain capitalized labor, transferred to or acquired from other Liberty Global subsidiaries, (ii) customer premises equipment acquired from other Liberty Global subsidiaries, which centrally procure equipment on behalf of

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our company and various other Liberty Global subsidiaries, and (iii) used equipment transferred to or acquired from other Liberty Global subsidiaries outside of Virgin Media.

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

	September 30, 2018	December 31, 2017
	in millions	
Current receivables (a)	£ 119.0	£ 90.2
Derivative instruments (b)	1.9	8.5
Prepaid expenses	—	1.6
Long-term notes receivable (c)	4,785.8	5,065.9
Total related-party assets	<u>£ 4,906.7</u>	<u>£ 5,166.2</u>
Accounts payable	£ 67.6	£ 3.0
Accrued capital expenditures (d)	17.1	17.3
Other current liabilities (e)	46.7	8.9
Long-term related-party debt (f)	38.2	56.9
Other long-term liabilities (b)	—	0.1
Total related-party liabilities	<u>£ 169.6</u>	<u>£ 86.2</u>

(a) Amounts represent (i) accrued interest on long-term notes receivable from LG Europe 2, including £80.2 million (equivalent) and £39.7 million (equivalent), respectively, owed to Virgin Media Finco Limited (VMFL) and (ii) certain receivables from other Liberty Global subsidiaries arising in the normal course of business, which are settled periodically.

(b) Amounts represent the fair value of related-party derivative instruments with LGE Financing, as further described in note 4.

(c) Amounts represent:

(i) a note receivable from LG Europe 2 that is owed to VMFL. This note matures on April 15, 2023 and bears interest at a rate of 8.50%. At September 30, 2018 and December 31, 2017, the principal amount outstanding under this note was £1,757.3 million and £2,174.6 million, respectively. The decrease during the 2018 period relates to £417.3 million of cash repayments. The accrued interest on this note is payable semi-annually on April 15 and October 15 and may be cash settled or, if mutually agreed, loan settled;

(ii) a note receivable from LG Europe 2 that is owed to VMFL. At September 30, 2018 and December 31, 2017, the principal amount outstanding under this note was £3,019.5 million and £2,891.3 million, respectively. The increase during the 2018 period relates to (i) £3,584.8 million of cash advances, (ii) £3,396.6 million of cash repayments and (iii) £60.0 million of other non-cash settlements. Pursuant to the agreement, the maturity date is July 16, 2023, however VMFL may agree to advance additional amounts to LG Europe 2 at any time and LG Europe 2 may, with agreement from VMFL, repay all or part of the outstanding principal at any time prior to the maturity date. The note receivable is subject to further advances and repayments. The interest rate on this note, which is subject to adjustment, was 4.955% as of September 30, 2018, 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 LG Europe 2 that is owed to Virgin Media. This note matures on April 15, 2023 and bears interest at a rate of 7.875%. At September 30, 2018 and December 31, 2017, the principal amount outstanding under this note was £9.0 million (equivalent) and nil, respectively. The increase during the 2018 period relates to

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cash advances. The accrued interest on this note receivable is payable semi-annually on April 15 and October 15 and may be cash settled or, if mutually agreed, loan settled.

- (d) Amounts represent accrued capital expenditures for property and equipment transferred to our company from other Liberty Global subsidiaries.
- (e) Amounts primarily represent (i) certain payables to other Liberty Global subsidiaries arising in the normal course of business and (ii) unpaid capital charges from Liberty Global, as described below, which are settled periodically. None of these payables are interest bearing.
- (f) Represents a note payable to LG Europe 2 which matures on December 18, 2021 and bears interest at a rate of 3.93%. The decrease during the 2018 period relates to the net effect of (i) £76.4 million of cash repayments, (ii) £57.0 million of cash advances and (iii) the transfer of £0.7 million in non-cash accrued interest to the loan balance. Accrued interest may be, as agreed to by our company and LG Europe 2, (a) transferred to the loan balance annually on January 1 or (b) repaid on the last day of each month and on the date of principal repayments.

During the nine months ended September 30, 2018, we recorded capital charges of \$7.6 million (£5.6 million at the applicable rate) in our condensed consolidated statement of owner's 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, 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 nine months ended September 30, 2018, tax losses with an aggregate tax effect of £32.0 million were surrendered by Liberty Global and its U.K. subsidiaries outside of Virgin Media to our U.K. subsidiaries. For additional information, see note 8.

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

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(10) 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 commitments, network and connectivity commitments, purchases of customer premises and other equipment and services, non-cancellable operating leases and other items. The following table sets forth the pound sterling equivalents of such commitments as of September 30, 2018. The commitments included in this table do not reflect liabilities that are included in our September 30, 2018 condensed consolidated balance sheet.

	Payments due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	in millions							
Programming commitments....	£ 166.6	£ 501.3	£ 314.5	£ 160.0	£ 13.8	£ 11.1	£ 35.1	£ 1,202.4
Network and connectivity commitments	147.1	181.8	169.7	154.6	15.9	4.3	8.9	682.3
Purchase commitments (a).....	252.1	123.6	78.0	22.0	2.7	0.7	0.1	479.2
Operating leases	8.7	32.4	25.9	21.2	16.5	13.5	33.7	151.9
Other commitments	7.1	11.6	0.5	—	—	—	—	19.2
Total.....	£ 581.6	£ 850.7	£ 588.6	£ 357.8	£ 48.9	£ 29.6	£ 77.8	£ 2,535.0

(a) Includes £10.1 million of related-party purchase obligations due during the remainder of 2018.

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. 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 programming and copyright costs aggregated £652.0 million and £636.3 million during the nine months ended September 30, 2018 and 2017, respectively.

Network and connectivity commitments include, among other items, (i) the fixed minimum commitments associated with our mobile virtual network operator (**MVNO**) agreements and (ii) service commitments associated with the network extension program initiated in the U.K. during 2015, which was subsequently expanded to include Ireland (the **Network Extension**). 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.

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 nine months ended September 30, 2018 and 2017, see note 4.

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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 £47 million as of September 30, 2018. 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 a decision is expected by the end of 2018.

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 appealed this decision. As part of the appeal process, we were required to make aggregate payments of £67.0 million, comprising (i) the challenged amount of £63.7 million (which we paid during the fourth quarter of 2015) and (ii) related interest of £3.3 million (which we paid during the first quarter of 2016). No provision was recorded by our company at that time as the likelihood of loss was not considered to be probable. The aggregate amount paid does not include penalties, which could be significant in the event that penalties were to be assessed. In September 2018, the court rejected our appeal and ruled in favor of the U.K. tax authority. Accordingly, during the third quarter of 2018, we recorded a provision for litigation of £63.7 million and related interest expense of £3.3 million in our condensed consolidated statements of operations. We intend to appeal this decision to the Upper Tribunal; however, no assurance can be given as to the ultimate outcome of this matter.

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 has and will continue to significantly increase our network infrastructure charges. As compared to 2017, we expect that the 2018 full year impact of this increase will be approximately £18 million, with an additional increase of £28 million expected during 2019. Beyond 2019, we expect further but declining increases to these charges through the first quarter of 2022. 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, channel carriage fees and network build costs. While we generally expect that the amounts required to satisfy these contingencies will not materially differ from any estimated amounts we have accrued, no assurance can be given that the resolution of one or more of these contingencies will not result in a material impact on our results of operations, cash flows or financial position in any given period. Due, in general, to the complexity of the issues involved and, in certain cases,

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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.

(11) Segment Reporting

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

Our revenue by major category is set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
Residential revenue:				
Residential cable revenue (a):				
Subscription revenue (b):				
Video	£ 262.9	£ 252.2	£ 779.9	£ 764.2
Broadband internet	395.0	373.9	1,196.1	1,103.7
Fixed-line telephony	229.2	234.5	689.9	708.9
Total subscription revenue	887.1	860.6	2,665.9	2,576.8
Non-subscription revenue	17.8	24.6	52.7	70.1
Total residential cable revenue	904.9	885.2	2,718.6	2,646.9
Residential mobile revenue (c):				
Subscription revenue (b)	96.3	95.7	270.9	279.1
Non-subscription revenue	72.9	54.5	220.8	151.7
Total residential mobile revenue	169.2	150.2	491.7	430.8
Total residential revenue	1,074.1	1,035.4	3,210.3	3,077.7
B2B revenue (d):				
Subscription revenue	19.5	15.3	56.0	40.7
Non-subscription revenue	171.6	170.7	518.5	515.1
Total B2B revenue	191.1	186.0	574.5	555.8
Other revenue (e)	14.5	14.6	47.6	41.0
Total	£ 1,279.7	£ 1,236.0	£ 3,832.4	£ 3,674.5

- (a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services. Residential cable non-subscription revenue includes, among other items, channel carriage fees, late fees and revenue from the sale of equipment. As described in note 2, we adopted ASU 2014-09 on January 1, 2018 using the cumulative effect transition method. For periods subsequent to our adoption of ASU 2014-09, installation revenue is generally deferred and recognized over the contractual period as residential cable subscription revenue. For periods prior to the adoption of ASU 2014-09, installation revenue is included in residential cable non-subscription revenue.
- (b) Residential subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

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- (c) Residential mobile subscription revenue includes amounts received from subscribers for ongoing services. Residential mobile non-subscription revenue includes, among other items, interconnect revenue and revenue from sales of mobile handsets and other devices.
- (d) B2B subscription revenue represents revenue from services to certain small or home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. B2B non-subscription revenue includes business broadband internet, video, fixed-line telephony, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.
- (e) Other revenue primarily includes broadcasting revenue in Ireland.

Geographic Segments

The revenue of our geographic segments is set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
U.K.	£ 1,184.0	£ 1,143.2	£ 3,545.5	£ 3,410.8
Ireland.....	95.7	92.8	286.9	263.7
Total.....	£ 1,279.7	£ 1,236.0	£ 3,832.4	£ 3,674.5

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(12) Condensed Consolidating Financial Information — Senior Notes

We present the following condensed consolidating financial information as of and for the three and nine months ended September 30, 2018, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2017 and for the three and nine months ended September 30, 2017, see our 2017 annual report and the September 30, 2017 quarterly report, respectively.

As of September 30, 2018, Virgin Media Finance PLC (**Virgin Media Finance**) is the issuer of the following senior notes:

- \$93.3 million (£71.6 million) aggregate principal amount of 2022 VM 4.875% Dollar Senior Notes;
- \$92.3 million (£70.7 million) aggregate principal amount of 2022 VM 5.25% Dollar Senior Notes;
- £44.1 million aggregate principal amount of 2022 VM Sterling Senior Notes;
- \$340.0 million (£260.7 million) aggregate principal amount of 2023 VM Dollar Senior Notes;
- \$500.0 million (£383.4 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 (£409.6 million) aggregate principal amount of 2025 VM Euro Senior Notes; and
- \$400.0 million (£306.7 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 Limited (**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.

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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.....	£ 0.1	£ —	£ —	£ —	£ —	£ 32.7	£ —	£ 32.8
Related-party receivables.....	0.1	—	—	—	—	118.9	—	119.0
Other current assets:								
Third-party.....	—	—	—	130.5	—	786.9	—	917.4
Intercompany and related-party.....	—	55.3	—	7.7	—	13.0	(74.1)	1.9
Total current assets.....	0.2	55.3	—	138.2	—	951.5	(74.1)	1,071.1
Property and equipment, net.....	—	—	—	—	—	6,264.7	—	6,264.7
Goodwill.....	—	—	—	—	—	6,018.3	—	6,018.3
Investments in, and loans to, parent and subsidiary companies.....	6,499.9	8,474.3	6,508.1	15,337.4	14,204.2	(5,143.3)	(45,880.6)	—
Deferred income taxes.....	—	—	—	—	—	1,486.6	—	1,486.6
Related-party notes receivable.....	9.0	—	—	—	—	4,776.8	—	4,785.8
Other assets, net:								
Third-party.....	7.7	—	—	695.7	—	823.9	—	1,527.3
Intercompany.....	—	324.4	—	3.2	—	151.3	(478.9)	—
Total assets.....	<u>£ 6,516.8</u>	<u>£ 8,854.0</u>	<u>£ 6,508.1</u>	<u>£ 16,174.5</u>	<u>£ 14,204.2</u>	<u>£ 15,329.8</u>	<u>£ (46,433.6)</u>	<u>£ 21,153.8</u>
LIABILITIES AND OWNER'S EQUITY								
Current liabilities:								
Intercompany payables.....	£ —	£ 65.9	£ —	£ 49.0	£ —	£ 366.6	£ (481.5)	£ —
Other current liabilities:								
Third-party.....	0.3	35.6	—	1,928.2	—	1,447.3	—	3,411.4
Intercompany and related-party.....	12.2	5.7	—	68.4	—	119.2	(74.1)	131.4
Total current liabilities.....	12.5	107.2	—	2,045.6	—	1,933.1	(555.6)	3,542.8
Long-term debt and capital lease obligations:								
Third-party.....	—	1,835.0	—	264.6	—	8,631.0	—	10,730.6
Related-party.....	—	—	—	—	—	38.2	—	38.2
Other long-term liabilities:								
Third-party.....	—	—	—	254.7	—	83.2	—	337.9
Intercompany.....	—	—	—	475.6	—	3.3	(478.9)	—
Total liabilities.....	12.5	1,942.2	—	3,040.5	—	10,688.8	(1,034.5)	14,649.5
Total owner's equity.....	6,504.3	6,911.8	6,508.1	13,134.0	14,204.2	4,641.0	(45,399.1)	6,504.3
Total liabilities and owner's equity.....	<u>£ 6,516.8</u>	<u>£ 8,854.0</u>	<u>£ 6,508.1</u>	<u>£ 16,174.5</u>	<u>£ 14,204.2</u>	<u>£ 15,329.8</u>	<u>£ (46,433.6)</u>	<u>£ 21,153.8</u>

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Statements of operations	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
Revenue	£ —	£ —	£ —	£ —	£ —	£ 1,279.7	£ —	£ 1,279.7
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):								
Programming and other direct costs of services	—	—	—	—	—	390.3	—	390.3
Other operating	—	—	—	—	—	166.1	—	166.1
SG&A	0.4	—	—	—	—	159.1	—	159.5
Related-party fees and allocations, net.....	(0.1)	—	—	—	—	43.5	—	43.4
Depreciation and amortization.....	—	—	—	—	—	452.2	—	452.2
Impairment, restructuring and other operating items, net.....	—	—	—	—	—	65.7	—	65.7
	0.3	—	—	—	—	1,276.9	—	1,277.2
Operating income (loss)	(0.3)	—	—	—	—	2.8	—	2.5
Non-operating income (expense):								
Interest expense:								
Third-party	—	(29.3)	—	(24.8)	—	(113.9)	—	(168.0)
Related-party and intercompany ...	—	(94.9)	—	(74.8)	—	(313.2)	482.4	(0.5)
Interest income – related-party and intercompany	0.2	35.8	—	6.7	—	517.4	(482.4)	77.7
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party	—	—	—	68.8	—	0.5	—	69.3
Related-party.....	—	81.7	—	(98.3)	—	17.0	—	0.4
Foreign currency transaction losses, net.....	(2.7)	(49.9)	—	(5.6)	—	(11.0)	—	(69.2)
Realized and unrealized losses due to changes in fair values of certain debt, net.....	—	—	—	(0.9)	—	—	—	(0.9)
Loss on debt modification and extinguishment, net.....	—	(17.3)	—	—	—	(0.1)	—	(17.4)
Other income, net.....	—	—	—	—	—	2.4	—	2.4
	(2.5)	(73.9)	—	(128.9)	—	99.1	—	(106.2)
Earnings (loss) before income taxes.....	(2.8)	(73.9)	—	(128.9)	—	101.9	—	(103.7)
Income tax benefit (expense).....	(1.0)	—	—	—	—	13.8	—	12.8
Earnings (loss) after income taxes.....	(3.8)	(73.9)	—	(128.9)	—	115.7	—	(90.9)
Equity in net earnings of subsidiaries	(87.1)	(13.5)	(88.5)	115.5	79.1	—	(5.5)	—
Net earnings (loss).....	£ (90.9)	£ (87.4)	£ (88.5)	£ (13.4)	£ 79.1	£ 115.7	£ (5.5)	£ (90.9)
Total comprehensive earnings (loss).....	£ (89.1)	£ (88.3)	£ (89.4)	£ (14.3)	£ 78.2	£ 115.0	£ (1.2)	£ (89.1)

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
(unaudited)

Nine months ended September 30, 2018

Statements of operations	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
Revenue	£ —	£ —	£ —	£ —	£ —	£ 3,832.4	£ —	£ 3,832.4
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):								
Programming and other direct costs of services	—	—	—	—	—	1,165.0	—	1,165.0
Other operating	—	—	—	—	—	500.3	—	500.3
SG&A	0.9	—	—	—	—	504.2	—	505.1
Related-party fees and allocations, net	(0.1)	—	—	—	—	106.2	—	106.1
Depreciation and amortization	—	—	—	—	—	1,343.2	—	1,343.2
Impairment, restructuring and other operating items, net	—	—	—	—	—	77.2	—	77.2
	<u>0.8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,696.1</u>	<u>—</u>	<u>3,696.9</u>
Operating income (loss)	<u>(0.8)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>136.3</u>	<u>—</u>	<u>135.5</u>
Non-operating income (expense):								
Interest expense:								
Third-party	—	(94.6)	—	(70.6)	—	(323.8)	—	(489.0)
Related-party and intercompany	—	(335.3)	—	(267.5)	—	(1,078.1)	1,678.6	(2.3)
Interest income – related-party and intercompany	0.4	115.7	—	100.2	—	1,702.1	(1,678.6)	239.8
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party	—	—	—	242.3	—	0.2	—	242.5
Related-party	—	360.3	—	(398.4)	—	37.9	—	(0.2)
Foreign currency transaction gains (losses), net	(9.2)	(405.7)	(3.2)	162.0	—	27.7	—	(228.4)
Realized and unrealized gains due to changes in fair values of certain debt, net	—	—	—	4.6	—	—	—	4.6
Loss on debt modification and extinguishment, net	—	(17.3)	—	—	—	(0.1)	—	(17.4)
Other income (expense), net	—	—	—	(0.3)	—	7.0	—	6.7
	<u>(8.8)</u>	<u>(376.9)</u>	<u>(3.2)</u>	<u>(227.7)</u>	<u>—</u>	<u>372.9</u>	<u>—</u>	<u>(243.7)</u>
Earnings (loss) before income taxes	<u>(9.6)</u>	<u>(376.9)</u>	<u>(3.2)</u>	<u>(227.7)</u>	<u>—</u>	<u>509.2</u>	<u>—</u>	<u>(108.2)</u>
Income tax benefit (expense)	(2.9)	—	—	—	—	28.3	—	25.4
Earnings (loss) after income taxes	(12.5)	(376.9)	(3.2)	(227.7)	—	537.5	—	(82.8)
Equity in net earnings of subsidiaries	(70.3)	299.8	(74.7)	527.6	370.0	—	(1,052.4)	—
Net earnings (loss)	<u>£ (82.8)</u>	<u>£ (77.1)</u>	<u>£ (77.9)</u>	<u>£ 299.9</u>	<u>£ 370.0</u>	<u>£ 537.5</u>	<u>£ (1,052.4)</u>	<u>£ (82.8)</u>
 Total comprehensive earnings (loss)	<u>£ (62.7)</u>	<u>£ (69.5)</u>	<u>£ (70.4)</u>	<u>£ 307.5</u>	<u>£ 377.6</u>	<u>£ 545.1</u>	<u>£ (1,090.3)</u>	<u>£ (62.7)</u>

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
(unaudited)

Statements of cash flows	Nine months ended September 30, 2018						
	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	£ (0.6)	£ (367.9)	£ —	£ (255.2)	£ —	£ 2,074.3	£1,450.6
Cash flows from investing activities:							
Capital expenditures	—	—	—	—	—	(327.7)	(327.7)
Repayments from (advances to) related parties, net	(8.4)	—	—	—	—	229.1	220.7
Other investing activities, net	—	—	—	—	—	(1.5)	(1.5)
Net cash used by investing activities	(8.4)	—	—	—	—	(100.1)	(108.5)
Cash flows from financing activities:							
Repayments and repurchases of third-party debt and capital lease obligations	—	(417.4)	—	(2,682.7)	—	(70.6)	(3,170.7)
Borrowings of third-party debt	—	—	—	1,775.0	—	78.0	1,853.0
Net repayments of related-party debt	—	—	—	—	—	(19.4)	(19.4)
Contributions (distributions)	8.9	798.7	—	1,144.2	—	(1,951.8)	—
Payment of financing costs and debt premiums	—	(13.4)	—	(5.3)	—	(0.4)	(19.1)
Net cash received related to derivative instruments	—	—	—	23.9	—	—	23.9
Other financing activities, net	—	—	—	—	—	(0.3)	(0.3)
Net cash provided (used) by financing activities	8.9	367.9	—	255.1	—	(1,964.5)	(1,332.6)
Effect of exchange rate changes on cash and cash equivalents and restricted cash							
Net increase (decrease) in cash and cash equivalents and restricted cash	0.1	—	—	—	—	—	0.1
Cash and cash equivalents and restricted cash:							
Beginning of period	0.1	—	—	0.1	—	25.0	25.2
End of period	£ 0.1	£ —	£ —	£ —	£ —	£ 34.7	£ 34.8
Reconciliation of end of period cash and cash equivalents and restricted cash:							
Cash and cash equivalents	£ 0.1	£ —	£ —	£ —	£ —	£ 32.7	£ 32.8
Restricted cash included in other current assets	—	—	—	—	—	2.0	2.0
Total cash and cash equivalents and restricted cash	£ 0.1	£ —	£ —	£ —	£ —	£ 34.7	£ 34.8

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
(unaudited)

(13) Condensed Consolidating Financial Information — Senior Secured Notes

We present the following condensed consolidating financial information as of and for the three and nine months ended September 30, 2018, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2017 and for the three and nine months ended September 30, 2017, see our 2017 annual report and the September 30, 2017 quarterly report, respectively.

As of September 30, 2018, Virgin Media Secured Finance PLC (**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 (£343.4 million) aggregate principal amount of January 2021 VM Dollar Senior Secured Notes;
- £521.3 million aggregate principal amount of 2025 VM 6.0% 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 (£325.9 million) aggregate principal amount of 2025 VM Dollar Senior Secured Notes;
- \$1.0 billion (£766.8 million) aggregate principal amount of 2026 VM 5.25% Dollar Senior Secured Notes;
- \$750.0 million (£575.1 million) aggregate principal amount of 2026 VM 5.5% Dollar Senior Secured Notes;
- £525.0 million aggregate principal amount of 2027 VM 4.875% Sterling Senior Secured Notes;
- £675.0 million aggregate principal amount of 2027 VM 5.0% Sterling Senior Secured Notes; and
- £400.0 million aggregate principal amount of 2029 VM Sterling 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)
September 30, 2018
(unaudited)

Balance sheets	September 30, 2018					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
ASSETS						
Current assets:						
Cash and cash equivalents	£ 0.1	£ 3.1	£ 17.0	£ 12.6	£ —	£ 32.8
Related-party receivables.....	0.1	—	37.9	81.0	—	119.0
Other current assets:						
Third-party	—	—	693.4	224.0	—	917.4
Intercompany and related-party	—	13.0	63.0	—	(74.1)	1.9
Total current assets.....	0.2	16.1	811.3	317.6	(74.1)	1,071.1
Property and equipment, net	—	—	5,655.2	609.5	—	6,264.7
Goodwill.....	—	—	5,793.8	224.5	—	6,018.3
Investments in, and loans to, parent and subsidiary companies.....	6,499.9	4,850.2	(2,513.2)	3,212.1	(12,049.0)	—
Deferred income taxes	—	—	1,486.6	—	—	1,486.6
Related-party notes receivable	9.0	—	—	4,776.8	—	4,785.8
Other assets, net:						
Third-party	7.7	—	1,339.2	180.4	—	1,527.3
Intercompany	—	151.3	327.6	—	(478.9)	—
Total assets.....	£ 6,516.8	£ 5,017.6	£ 12,900.5	£ 9,320.9	£ (12,602.0)	£ 21,153.8
LIABILITIES AND OWNER'S EQUITY						
Current liabilities:						
Intercompany payables	£ —	£ —	£ 400.7	£ 80.8	£ (481.5)	£ —
Other current liabilities:						
Third-party	0.3	61.4	3,211.1	138.6	—	3,411.4
Intercompany and related-party	12.2	—	147.6	45.7	(74.1)	131.4
Total current liabilities.....	12.5	61.4	3,759.4	265.1	(555.6)	3,542.8
Long-term debt and capital lease obligations:						
Third-party	—	4,927.6	5,626.2	176.8	—	10,730.6
Related-party.....	—	—	—	38.2	—	38.2
Other long-term liabilities:						
Third-party	—	—	325.3	12.6	—	337.9
Intercompany	—	—	475.6	3.3	(478.9)	—
Total liabilities	12.5	4,989.0	10,186.5	496.0	(1,034.5)	14,649.5
Total owner's equity.....	6,504.3	28.6	2,714.0	8,824.9	(11,567.5)	6,504.3
Total liabilities and owner's equity ...	£ 6,516.8	£ 5,017.6	£ 12,900.5	£ 9,320.9	£ (12,602.0)	£ 21,153.8

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
(unaudited)

Statements of operations	Three months ended September 30, 2018					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
Revenue	£ —	£ —	£ 1,127.1	£ 152.6	£ —	£ 1,279.7
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):						
Programming and other direct costs of services	—	—	347.8	42.5	—	390.3
Other operating	—	—	144.7	21.4	—	166.1
SG&A	0.4	—	138.6	20.5	—	159.5
Related-party fees and allocations, net	(0.1)	—	34.1	9.4	—	43.4
Depreciation and amortization	—	—	390.1	62.1	—	452.2
Impairment, restructuring and other operating items, net	—	—	61.4	4.3	—	65.7
	<u>0.3</u>	<u>—</u>	<u>1,116.7</u>	<u>160.2</u>	<u>—</u>	<u>1,277.2</u>
Operating income (loss)	<u>(0.3)</u>	<u>—</u>	<u>10.4</u>	<u>(7.6)</u>	<u>—</u>	<u>2.5</u>
Non-operating income (expense):						
Interest expense:						
Third-party	—	(68.3)	(98.7)	(1.0)	—	(168.0)
Related-party and intercompany	—	—	(344.6)	(138.3)	482.4	(0.5)
Interest income – related-party and intercompany	0.2	64.2	238.6	257.1	(482.4)	77.7
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party	—	—	69.4	(0.1)	—	69.3
Related-party	—	18.0	(16.9)	(0.7)	—	0.4
Foreign currency transaction gains (losses), net	(2.7)	(12.7)	(58.9)	5.1	—	(69.2)
Realized and unrealized losses due to changes in fair values of certain debt, net	—	—	(0.9)	—	—	(0.9)
Loss on debt modification and extinguishment, net	—	—	(17.4)	—	—	(17.4)
Other income, net	—	—	2.4	—	—	2.4
	<u>(2.5)</u>	<u>1.2</u>	<u>(227.0)</u>	<u>122.1</u>	<u>—</u>	<u>(106.2)</u>
Earnings (loss) before income taxes	<u>(2.8)</u>	<u>1.2</u>	<u>(216.6)</u>	<u>114.5</u>	<u>—</u>	<u>(103.7)</u>
Income tax benefit (expense)	(1.0)	—	13.8	—	—	12.8
Earnings (loss) after income taxes	(3.8)	1.2	(202.8)	114.5	—	(90.9)
Equity in net earnings (loss) of subsidiaries	(87.1)	—	115.2	(202.9)	174.8	—
Net earnings (loss)	<u>£ (90.9)</u>	<u>£ 1.2</u>	<u>£ (87.6)</u>	<u>£ (88.4)</u>	<u>£ 174.8</u>	<u>£ (90.9)</u>
Total comprehensive earnings (loss)	<u>£ (89.1)</u>	<u>£ 1.2</u>	<u>£ (88.4)</u>	<u>£ (89.3)</u>	<u>£ 176.5</u>	<u>£ (89.1)</u>

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
(unaudited)

Nine months ended September 30, 2018

Statements of operations	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
Revenue	£ —	£ —	£ 3,300.8	£ 531.6	£ —	£ 3,832.4
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):						
Programming and other direct costs of services.....	—	—	1,013.7	151.3	—	1,165.0
Other operating	—	—	425.5	74.8	—	500.3
SG&A	0.9	—	434.5	69.7	—	505.1
Related-party fees and allocations, net	(0.1)	—	72.6	33.6	—	106.1
Depreciation and amortization	—	—	1,157.8	185.4	—	1,343.2
Impairment, restructuring and other operating items, net.....	—	—	71.0	6.2	—	77.2
	<u>0.8</u>	<u>—</u>	<u>3,175.1</u>	<u>521.0</u>	<u>—</u>	<u>3,696.9</u>
Operating income (loss)	<u>(0.8)</u>	<u>—</u>	<u>125.7</u>	<u>10.6</u>	<u>—</u>	<u>135.5</u>
Non-operating income (expense):						
Interest expense:						
Third-party.....	—	(202.2)	(283.5)	(3.3)	—	(489.0)
Related-party and intercompany.....	—	—	(1,103.2)	(577.7)	1,678.6	(2.3)
Interest income – related-party and intercompany.....	0.4	199.6	877.6	840.8	(1,678.6)	239.8
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party.....	—	—	242.8	(0.3)	—	242.5
Related-party	—	38.4	(38.3)	(0.3)	—	(0.2)
Foreign currency transaction gains (losses), net	(9.2)	(39.3)	(226.6)	46.7	—	(228.4)
Realized and unrealized gains due to changes in fair values of certain debt, net.....	—	—	4.6	—	—	4.6
Loss on debt modification and extinguishment, net.....	—	—	(17.4)	—	—	(17.4)
Other income, net	—	—	6.7	—	—	6.7
	<u>(8.8)</u>	<u>(3.5)</u>	<u>(537.3)</u>	<u>305.9</u>	<u>—</u>	<u>(243.7)</u>
Earnings (loss) before income taxes	<u>(9.6)</u>	<u>(3.5)</u>	<u>(411.6)</u>	<u>316.5</u>	<u>—</u>	<u>(108.2)</u>
Income tax benefit (expense)	(2.9)	—	28.3	—	—	25.4
Earnings (loss) after income taxes	<u>(12.5)</u>	<u>(3.5)</u>	<u>(383.3)</u>	<u>316.5</u>	<u>—</u>	<u>(82.8)</u>
Equity in net earnings (loss) of subsidiaries...	(70.3)	—	306.1	(394.3)	158.5	—
Net loss.....	<u>£ (82.8)</u>	<u>£ (3.5)</u>	<u>£ (77.2)</u>	<u>£ (77.8)</u>	<u>£ 158.5</u>	<u>£ (82.8)</u>
Total comprehensive loss	<u>£ (62.7)</u>	<u>£ (3.5)</u>	<u>£ (69.6)</u>	<u>£ (70.3)</u>	<u>£ 143.4</u>	<u>£ (62.7)</u>

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
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Statements of cash flows	Nine months ended September 30, 2018				
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Total
	in millions				
Cash flows from operating activities:					
Net cash provided (used) by operating activities	£ (0.6)	£ 23.2	£ 1,240.1	£ 187.9	£ 1,450.6
Cash flows from investing activities:					
Capital expenditures	—	—	(282.9)	(44.8)	(327.7)
Repayments from (advances to) related parties, net ...	(8.4)	—	—	229.1	220.7
Other investing activities, net	—	—	(1.5)	—	(1.5)
Net cash provided (used) by investing activities	(8.4)	—	(284.4)	184.3	(108.5)
Cash flows from financing activities:					
Repayments and repurchases of third-party debt and capital lease obligations	—	—	(3,108.7)	(62.0)	(3,170.7)
Borrowings of third-party debt	—	—	1,775.0	78.0	1,853.0
Net repayments of related party debt	—	—	—	(19.4)	(19.4)
Contributions (distributions)	8.9	(20.1)	380.5	(369.3)	—
Payment of financing costs and debt premiums	—	—	(18.8)	(0.3)	(19.1)
Net cash received related to derivative instruments	—	—	23.9	—	23.9
Other financing activities, net	—	—	(0.1)	(0.2)	(0.3)
Net cash provided (used) by financing activities	8.9	(20.1)	(948.2)	(373.2)	(1,332.6)
Effect of exchange rate changes on cash and cash equivalents and restricted cash					
Net increase (decrease) in cash and cash equivalents and restricted cash	0.1	—	—	—	0.1
Cash and cash equivalents and restricted cash:					
Beginning of period	0.1	—	9.5	15.6	25.2
End of period	£ 0.1	£ 3.1	£ 17.0	£ 14.6	£ 34.8
Reconciliation of end of period cash and cash equivalents and restricted cash:					
Cash and cash equivalents	£ 0.1	£ 3.1	£ 17.0	£ 12.6	£ 32.8
Restricted cash included in other current assets	—	—	—	2.0	2.0
Total cash and cash equivalents and restricted cash	£ 0.1	£ 3.1	£ 17.0	£ 14.6	£ 34.8

VIRGIN MEDIA INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
September 30, 2018
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(14) Subsequent Event

In October 2018, we received a cash repayment on a related party note receivable which we used to redeem in full the \$340.0 million (£260.7 million) outstanding principal amount of the 2023 VM Dollar Senior Notes.

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

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

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

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of September 30, 2018.

Forward-looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product, foreign currency and finance strategies, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, foreign currency risks, target leverage levels, our future projected contractual commitments and cash flows and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties discussed in our 2017 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 industries in which we operate, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;

- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would open our broadband distribution networks to competitors and any adverse change in our accreditations or licenses;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in 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;
- 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 the Network Extension;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers;
- adverse changes in public perception of the “Virgin” brand, which we and others license from Virgin Enterprises Limited, and any resulting impacts on the goodwill of customers toward us; and

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

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

Overview

General

We are a subsidiary of Liberty Global that provides video, broadband internet, fixed-line telephony, mobile and broadcasting 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.

Operations

At September 30, 2018, our network passed 15,236,700 homes and served 14,643,400 revenue generating units (**RGUs**), consisting of 5,578,000 broadband internet subscribers, 4,893,300 fixed-line telephony subscribers and 4,172,100 video subscribers. In addition, at September 30, 2018, we served 3,103,600 mobile subscribers.

During the first nine months of 2018, pursuant to the Network Extension, we connected approximately 337,000 additional residential and commercial premises (excluding upgrades) to our two-way networks in the U.K. and Ireland. The 337,000 additional premises includes 8,100 premises where construction was completed in prior periods, but serviceability was confirmed during 2018. Depending on a variety of factors, including the financial and operational results of the programs, the Network Extension may be continued, modified or cancelled at our discretion.

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 we are experiencing, 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 to competition, our operations are subject to macroeconomic, political and other risks that are outside of our control. For example, on June 23, 2016, the U.K. held a referendum in which U.K. citizens voted in favor of, on an advisory basis, an exit from the E.U. commonly referred to as "**Brexit**." Failing the implementation of an agreed extension, the U.K. will leave the E.U. on March 29, 2019. The potential impacts, if any, of the considerable uncertainty relating to Brexit or the resulting terms of Brexit on the free movement of goods, services, people and capital between the U.K. and the E.U., customer behavior, economic conditions, interest rates, currency exchange rates, availability of capital or other matters are unclear. The effects of Brexit could adversely affect our business, results of operations, financial condition and liquidity.

Material Changes in Results of Operations

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
Increase (decrease) to revenue	£ 10.4	£ (5.5)	£ 22.7	£ (8.9)
Increase (decrease) to Segment OCF	£ 10.1	£ (7.9)	£ 16.5	£ (15.2)

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.

We are subject to inflationary pressures with respect to certain costs and foreign currency exchange risk with respect to costs and expenses that are denominated in currencies other than British pound sterling. 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

General. We derive our revenue primarily from residential and B2B communications services, including video, broadband internet, fixed-line telephony and mobile services. For detailed information regarding how we define and categorize our revenue components, see note 11 to our condensed consolidated financial statements.

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 September 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	£	%	%
	pro forma				
	in millions, except percentages				
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Video	£ 262.9	£ 252.7	£ 10.2	4.0	3.8
Broadband internet.....	395.0	375.0	20.0	5.3	5.4
Fixed-line telephony	229.2	236.0	(6.8)	(2.9)	(2.9)
Total subscription revenue.....	887.1	863.7	23.4	2.7	2.7
Non-subscription revenue.....	17.8	16.4	1.4	8.5	8.5
Total residential cable revenue	904.9	880.1	24.8	2.8	2.9
Residential mobile revenue (c):					
Subscription revenue (b).....	96.3	94.7	1.6	1.7	1.7
Non-subscription revenue.....	72.9	55.1	17.8	32.3	32.3
Total residential mobile revenue	169.2	149.8	19.4	13.0	13.0
Total residential revenue	1,074.1	1,029.9	44.2	4.3	4.3
B2B revenue (d):					
Subscription revenue.....	19.5	15.3	4.2	27.5	28.2
Non-subscription revenue	171.6	170.7	0.9	0.5	0.5
Total B2B revenue	191.1	186.0	5.1	2.7	2.8
Other revenue (e).....	14.5	14.6	(0.1)	(0.7)	(0.7)
Total.....	£ 1,279.7	£ 1,230.5	£ 49.2	4.0	4.1

	Nine months ended September 30,		Increase (decrease)		Organic increase (decrease)
	2018	2017	£	%	%
pro forma					
in millions, except percentages					
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Video.....	£ 779.9	£ 768.3	£ 11.6	1.5	1.3
Broadband internet.....	1,196.1	1,109.5	86.6	7.8	7.7
Fixed-line telephony	689.9	713.9	(24.0)	(3.4)	(3.4)
Total subscription revenue.....	2,665.9	2,591.7	74.2	2.9	2.7
Non-subscription revenue	52.7	51.5	1.2	2.3	2.3
Total residential cable revenue.....	2,718.6	2,643.2	75.4	2.9	2.8
Residential mobile revenue (c):					
Subscription revenue (b)	270.9	272.6	(1.7)	(0.6)	(0.6)
Non-subscription revenue	220.8	152.9	67.9	44.4	44.3
Total residential mobile revenue	491.7	425.5	66.2	15.6	15.5
Total residential revenue.....	3,210.3	3,068.7	141.6	4.6	4.5
B2B revenue (d):					
Subscription revenue	56.0	40.7	15.3	37.6	37.4
Non-subscription revenue.....	518.5	515.2	3.3	0.6	0.6
Total B2B revenue	574.5	555.9	18.6	3.3	3.3
Other revenue (e)	47.6	41.0	6.6	16.1	14.7
Total.....	£ 3,832.4	£ 3,665.6	£ 166.8	4.6	4.5

- (a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services and the recognition of deferred installation revenue over the associated contract period. Residential cable non-subscription revenue includes, among other items, channel carriage fees, late fees and revenue from the sale of equipment.
- (b) Residential subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (c) Residential mobile subscription revenue includes amounts received from subscribers for ongoing services. Residential mobile non-subscription revenue includes, among other items, interconnect revenue and revenue from sales of mobile handsets and other devices. Residential mobile interconnect revenue was £14.8 million and £13.8 million during the three months ended September 30, 2018 and 2017, respectively, and £42.8 million and £39.9 million during the nine months ended September 30, 2018 and 2017, respectively.
- (d) B2B subscription revenue represents revenue from SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. A portion of the increases in our B2B subscription revenue is attributable to the conversion of certain residential subscribers to SOHO subscribers. B2B non-subscription revenue includes revenue from business broadband internet, video, fixed-line telephony, mobile and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.

(e) Other revenue primarily includes broadcasting revenue in Ireland.

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

	Three-month period			Nine-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase in residential cable subscription revenue due to change in:						
Average number of RGUs (a).....	£ 14.7	£ —	£ 14.7	£ 39.2	£ —	£ 39.2
ARPU (b).....	8.1	—	8.1	31.6	—	31.6
Increase in residential cable non-subscription revenue	—	1.3	1.3	—	1.2	1.2
Total increase in residential cable revenue.....	22.8	1.3	24.1	70.8	1.2	72.0
Increase (decrease) in residential mobile revenue (c)	1.5	17.8	19.3	(1.9)	67.9	66.0
Increase in B2B revenue (d).....	4.4	2.2	6.6	15.3	4.1	19.4
Increase (decrease) in other revenue (e)...	—	(0.1)	(0.1)	—	5.9	5.9
Total organic increase.....	28.7	21.2	49.9	84.2	79.1	163.3
Impact of foreign currency translation effects (FX).....	(0.1)	(0.6)	(0.7)	3.0	0.5	3.5
Total.....	£ 28.6	£ 20.6	£ 49.2	£ 87.2	£ 79.6	£ 166.8

- (a) The increases in residential cable subscription revenue related to changes in the average number of RGUs are attributable to increases in the average number of broadband internet, video and fixed-line telephony RGUs.
- (b) The increases in cable subscription revenue related to changes in ARPU are primarily attributable to (i) net increases due to (a) higher ARPU from broadband internet services, (b) lower ARPU from fixed-line telephony and (c) for the three-month comparison, higher ARPU from video services and (ii) improvements in RGU mix.
- (c) The changes in residential mobile subscription revenue relate to the net effect of (i) decreases in the U.K., due primarily to lower ARPU, and (ii) increases in Ireland, mainly due to increases in the average number of mobile subscribers. The changes in residential mobile subscription revenue also include revenue of £2.9 million recognized during the third quarter of 2018 related to the expected recovery of certain prior-period VAT payments. The increases in residential mobile non-subscription revenue are primarily due to increases in revenue from mobile handset sales in the U.K., which typically generate relatively low margins.
- (d) The increases in B2B subscription revenue are primarily due to increases in the average number of broadband internet SOHO subscribers in the U.K. The increases in B2B non-subscription revenue are primarily driven by changes in the U.K., including the net effect of (i) higher revenue related to business network services, (ii) decreases in interconnect revenue and (iii) decreases in installation revenue.
- (e) The increase in other revenue for the nine-month comparison is primarily due to an increase in broadcasting revenue in Ireland.

Programming and other direct costs of services

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

Our programming and other direct costs of services increased £19.6 million or 5.3% and £90.4 million and 8.4%, on a pro forma basis, during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our programming and other direct costs of services increased £19.7 million or 5.3% and £89.3 million and 8.3%, respectively. These increases include the following factors:

- Increases in mobile handset and other device costs of £9.4 million or 25.1% and £43.8 million or 43.6%, respectively, primarily due to the net effect of (i) a higher average cost per handset sold and (ii) lower mobile handset and other device sales volumes;
- Increases in interconnect and access costs of £4.3 million or 4.1% and £25.1 million or 8.8%, respectively, primarily due to (i) for the nine-month comparison, higher costs of £18.6 million resulting from the net impact of credits recorded during the second quarter of 2017 (£22.5 million) and the second quarter of 2018 (£3.9 million) in connection with a telecommunications operator's agreement to compensate communications providers, including our company, for certain contractual breaches related to network charges and (ii) higher interconnect and roaming costs;
- Increases in programming and copyright costs of £8.3 million or 3.9% and £19.2 million or 3.0%, respectively, primarily due to the net effect of (i) higher costs for certain premium and/or basic content, including, for the nine-month comparison, an £8.0 million increase in costs associated with our broadcasting rights in Ireland, and (ii) lower costs of £2.3 million and £1.8 million, respectively, associated with the release of an accrual following the settlement of an operational contingency during the third quarter of 2018; and
- Decreases of £2.6 million and £8.0 million, respectively, in the U.K. associated with the fourth quarter 2017 modification of a software agreement that resulted in the acquisition of a perpetual license and related conversion of the operating costs to capitalized costs.

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 £4.1 million or 2.5% and £18.9 million or 3.9%, on a pro forma basis, during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, our other operating expenses increased £4.4 million or 2.7% and £18.4 million or 3.8%, respectively. These increases include the following factors:

- Increases in personnel costs of £4.7 million or 10.2% and £14.6 million or 10.6%, respectively, primarily due to the net effect of (i) a higher average cost per employee, (ii) lower staffing levels and (iii) increases in temporary personnel costs;
- Increases in network infrastructure charges of £3.6 million and £14.0 million, respectively, following an increase in the rateable value of existing assets. For additional information, including our estimate of the full year 2018 impact of this rate increase, see "Other Regulatory Issues" in note 10 to our condensed consolidated financial statements;
- Decreases in customer service costs of £1.9 million or 6.4% and £4.0 million or 4.6%, respectively, primarily due to (i) lower call center costs and (ii) decreases in customer premises equipment refurbishment costs; and
- Decreases in core network and information technology-related costs of £0.6 million or 3.1% and £3.4 million or 5.4%, respectively, primarily due to (i) for the nine-month comparison, a decrease in information technology-related expenses

and (ii) a £1.7 million decrease during each period associated with the reassessment of an accrual during the third quarter of 2018.

SG&A expenses

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

Our SG&A expenses decreased £0.9 million or 0.6% and £11.5 million or 2.2%, respectively, on a pro forma basis, during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. Our SG&A expenses include share-based compensation expense, which increased £1.8 million and £1.6 million during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. On an organic basis, and excluding share-based compensation, our SG&A expenses decreased £2.8 million or 1.8% and £14.0 million or 2.8%, respectively. These decreases include the following factors:

- Decreases in external sales and marketing costs of £6.7 million or 13.4% and £25.2 million or 14.5%, respectively, primarily due to lower costs associated with advertising campaigns;
- Decreases in personnel costs of £1.1 million or 1.8% and £9.3 million or 4.8%, respectively, primarily due to the net effect of (i) lower staffing levels, (ii) a higher average cost per employee and (iii) decreases in temporary personnel;
- Increases in core network and information technology-related costs of £1.2 million or 9.1% and £5.1 million or 13.9%, respectively, primarily due to increases in information technology-related expenses; and
- Increases in business service and certain other costs of £1.0 million or 8.5% and £2.6 million or 6.4%, respectively, primarily due to the net effect of (i) for the nine-month comparison, an increase of £5.0 million during the second quarter of 2018 due to the reassessment of an accrual and (ii) lower consulting costs.

Related-party fees and allocations, net

We recorded related-party fees and allocations, net, related to our estimated share of the applicable costs incurred by Liberty Global's subsidiaries of £43.4 million and £106.1 million during the three and nine months ended September 30, 2018, respectively, as compared to £34.1 million and £95.0 million during the three and nine months ended September 30, 2017, respectively. These charges generally relate to management, finance, legal, technology and other corporate and administrative services provided to or by our subsidiaries. For additional information, see note 9 to our condensed consolidated financial statements.

Depreciation and amortization expense

Our depreciation and amortization expense increased £17.2 million or 4.0% and £48.1 million or 3.7% during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. Excluding the effects of FX, depreciation and amortization expense increased £19.9 million or 4.6% and £47.7 million or 3.7%, respectively. 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 £65.7 million and £77.2 million during the three and nine months ended September 30, 2018, respectively, as compared to £41.6 million and £50.1 million during the three and nine months ended September 30, 2017, respectively. The 2018 amounts primarily include (i) a provision for litigation of £63.7 million related to a VAT matter in the U.K. recorded during the third quarter of 2018 and (ii) restructuring charges of £5.0 million and £13.6 million, respectively, predominantly related to employee severance and termination costs for certain reorganization activities. The 2017 amounts primarily include (a) a litigation settlement of £30.1 million recorded during the third quarter of 2017 and (b) restructuring charges of £8.1 million and £16.3 million, respectively, predominantly related to employee severance and termination costs for certain reorganization activities.

Interest expense – third-party

Our third-party interest expense increased £15.3 million or 10.0% and £35.1 million or 7.7% during the three and nine months ended September 30, 2018, respectively, as compared to the corresponding periods in 2017. These increases were due to higher weighted average interest rates and higher average outstanding third-party debt balances. For additional information regarding our outstanding third-party indebtedness, see note 7 to our condensed consolidated financial statements.

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

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

Interest expense – related-party

Our related-party interest expense remained relatively unchanged during the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017. For additional information regarding our related-party indebtedness, see note 9 to our condensed consolidated financial statements.

Interest income – related-party

Our related-party interest income decreased £6.8 million or 8.0% and £4.5 million or 1.8% during the three and nine months ended September 30, 2018, as compared to the corresponding periods in 2017 primarily due to the partial repayment of intercompany loans from LG Europe 2 in the period. For additional information, see note 9 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
Cross-currency and interest rate derivative contracts (a)	£ 69.3	£ (151.7)	£ 242.5	£ (406.5)
Foreign currency forward contracts — related-party	0.4	(1.6)	(0.2)	(2.4)
Total	<u>£ 69.7</u>	<u>£ (153.3)</u>	<u>£ 242.3</u>	<u>£ (408.9)</u>

- (a) The gains during the 2018 periods are primarily attributable to the net effect of (i) net gains associated with changes in the relative value of certain currencies and (ii) for the nine-month period, net losses associated with changes in certain market

interest rates. In addition, the gains during the 2018 periods include net losses of £13.0 million and £22.5 million, respectively, resulting from changes in our credit risk valuation adjustments. The losses during the 2017 periods are primarily attributable to the net effect of (a) net losses associated with changes in the relative value of certain currencies and (b) net gains associated with changes in certain market interest rates. In addition, the losses during the 2017 periods include net gains of £13.4 million and £64.8 million, respectively, resulting from changes in our credit risk valuation adjustments.

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

Foreign currency transaction gains (losses), net

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	in millions			
U.S. dollar-denominated debt issued by our company	£ (53.9)	£ 91.0	£ (116.2)	£ 248.8
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a).....	(28.4)	75.5	(110.7)	241.6
Euro-denominated debt issued by our company	13.2	1.7	(0.7)	12.3
Other	(0.1)	1.6	(0.8)	4.5
Total.....	£ (69.2)	£ 169.8	£ (228.4)	£ 507.2

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

Realized and unrealized gains (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 realized and unrealized gains (losses) due to changes in fair values of certain debt, net, of (£0.9 million) and £4.6 million during the three and nine months ended September 30, 2018, respectively, as compared to £3.3 million and (£19.8 million) during the three and nine months ended September 30, 2017, respectively. For additional information regarding our fair value measurements, see note 5 to our condensed consolidated financial statements.

Losses on debt modification and extinguishment, net

We recognized net losses on debt modification and extinguishment, net of £17.4 million and nil during the three months ended September 30, 2018 and 2017, respectively, and £17.4 million and £29.0 million during the nine months ended September 30, 2018 and 2017, respectively. The loss during the 2018 periods is primarily attributable to the payment of £13.5 million of redemption premiums. The loss during the 2017 period is primarily attributable to the payment of £26.0 million of redemption premiums.

Income tax benefit (expense)

We recognized income tax benefit (expense) of £12.8 million and (£0.6 million) during the three months ended September 30, 2018 and 2017, respectively.

The income tax benefit during the three months ended September 30, 2018 differs from the expected income tax benefit of £21.8 million (based on the U.S. federal income tax rate of 21.0%) primarily due to the net negative impact of (i) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries and (ii) a

decrease in deferred tax assets in the U.K. due to enacted tax law rate changes. The negative impact of these items was partially offset by the net positive impact of a decrease in valuation allowances.

The income tax expense during the three months ended September 30, 2017 differs from the expected income tax benefit of £4.3 million (based on the U.S. federal income tax rate of 35.0%) primarily due to the net negative impact of an increase in valuation allowances. The negative impact of this item was partially offset by the net positive impact of (i) non-deductible or non-taxable interest and other expenses and (ii) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries.

We recognized income tax benefits of £25.4 million and nil during the nine months ended September 30, 2018 and 2017, respectively.

The income tax benefit during the nine months ended September 30, 2018 differs from the expected income tax benefit of £22.7 million (based on the U.S. federal income tax rate of 21.0%) primarily due to the net negative impact of certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries. The net negative impact of this item was more than offset by the net positive impact of (i) a decrease in valuation allowances and (ii) an increase in deferred tax assets in the U.K. due to enacted tax law rate changes.

The income tax benefit during the nine months ended September 30, 2017 differs from the expected income tax expense of £5.2 million (based on the U.S. federal income tax rate of 35.0%) primarily due to the net positive impact of (i) an increase in deferred tax assets in the U.K. due to enacted tax law rate changes, (ii) non-deductible or non-taxable foreign currency exchange results and (iii) non-deductible or non-taxable interest and other expenses. The positive impact of these items was partially offset by a net increase in valuation allowances.

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

Net earnings (loss)

During the three months ended September 30, 2018 and 2017, we reported net losses of £90.9 million and £13.0 million, respectively, including (i) operating income of £2.5 million and £34.6 million, respectively, (ii) net non-operating expense of £106.2 million and £47.0 million, respectively, and (iii) income tax benefit (expense) of £12.8 million and (£0.6 million), respectively.

During the nine months ended September 30, 2018 and 2017, we reported net earnings (loss) of (£82.8 million) and £14.8 million, respectively, including (i) operating income of £135.5 million and £168.0 million, respectively, (ii) net non-operating expense of £243.7 million and £153.2 million, respectively, and (iii) income tax benefits of £25.4 million and nil, 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 September 30, 2018, we had cash and cash equivalents of £32.8 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 7 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 (including the repurchase or exchange of outstanding debt securities in the open market or privately-negotiated transactions), (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 7 to our condensed consolidated financial statements.

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

Capitalization

At September 30, 2018, the outstanding principal amount of our consolidated third-party debt, together with our capital lease obligations, aggregated £12,628.1 million, including £1,862.6 million that is classified as current in our condensed consolidated balance sheet and £9,095.2 million that is not due until 2024 or thereafter. For additional information regarding our debt maturities, see note 7 to our condensed consolidated financial statements.

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

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase our Covenant EBITDA and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by incurrence-based leverage covenants contained in the various debt instruments of our subsidiaries. In this regard, if our Covenant EBITDA were to decline, our ability to obtain additional debt could be limited. No assurance can be given that we would have

sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment. We 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 September 30, 2018, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

All of our consolidated debt and capital lease obligations at September 30, 2018 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and capital lease obligations, see note 7 to our condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

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

	Nine months ended		Change
	September 30,		
	2018	2017	
	in millions		
Net cash provided by operating activities	£ 1,450.6	£ 1,471.2	£ (20.6)
Net cash used by investing activities	(108.5)	(1,261.4)	1,152.9
Net cash used by financing activities	(1,332.6)	(188.8)	(1,143.8)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	0.1	0.5	(0.4)
Net increase in cash and cash equivalents and restricted cash	<u>£ 9.6</u>	<u>£ 21.5</u>	<u>£ (11.9)</u>

Operating Activities. The decrease 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 cash payments related to derivative instruments and (iii) a decrease in cash provided due to higher payments for interest.

Investing Activities. The decrease in net cash used by our investing activities is primarily attributable to (i) a decrease in cash used of £1,070.6 million related to higher net repayments from related parties and (ii) a decrease in cash used of £87.6 million due to lower capital expenditures.

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

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

	Nine months ended September 30,	
	2018	2017
in millions		
Property and equipment additions.....	£ 1,104.7	£ 1,239.2
Assets acquired under capital-related vendor financing arrangements.....	(810.0)	(825.0)
Assets acquired under capital leases	(4.7)	(7.3)
Changes in current liabilities related to net capital expenditures (including related-party amounts).....	37.7	8.4
Capital expenditures	<u>£ 327.7</u>	<u>£ 415.3</u>

The decrease in our property and equipment additions is primarily due to (i) a decrease in expenditures for new build and upgrade projects, including the Network Extension and (ii) a decrease in expenditures to support new customer products and operational efficiency initiatives. For additional information regarding the Network Extension, see *Overview* above.

Financing Activities. The increase in cash used by our financing activities is primarily attributable to the net effect of (i) an increase in cash used of £1,293.1 million related to higher net repayments and repurchases of third-party debt and capital lease obligations, (ii) a decrease in cash used of £36.3 million due to lower payments of financing costs and debt premiums and (iii) a decrease in cash used of £24.3 million due to higher cash receipts related to derivative instruments.

Contractual Commitments

The pound sterling equivalents of our commitments as of September 30, 2018 are presented below:

	Payments due during:							
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	Total
in millions								
Debt (excluding interest):								
Third-party.....	£ 519.7	£ 1,338.0	£ 12.1	£ 1,027.7	£ 281.2	£ 333.6	£ 9,061.5	£12,573.8
Related-party	—	—	—	38.2	—	—	—	38.2
Capital leases (excluding interest).....	2.6	5.0	3.0	3.3	4.9	1.8	33.7	54.3
Programming commitments	166.6	501.3	314.5	160.0	13.8	11.1	35.1	1,202.4
Network and connectivity commitments	147.1	181.8	169.7	154.6	15.9	4.3	8.9	682.3
Purchase commitments (a)...	252.1	123.6	78.0	22.0	2.7	0.7	0.1	479.2
Operating leases.....	8.7	32.4	25.9	21.2	16.5	13.5	33.7	151.9
Other commitments.....	7.1	11.6	0.5	—	—	—	—	19.2
Total (b).....	<u>£ 1,103.9</u>	<u>£ 2,193.7</u>	<u>£ 603.7</u>	<u>£ 1,427.0</u>	<u>£ 335.0</u>	<u>£ 365.0</u>	<u>£ 9,173.0</u>	<u>£15,201.3</u>
Projected cash interest payments on third-party debt and capital lease obligations (c).....	<u>£ 88.4</u>	<u>£ 605.8</u>	<u>£ 619.5</u>	<u>£ 589.5</u>	<u>£ 555.5</u>	<u>£ 533.6</u>	<u>£ 1,335.8</u>	<u>£ 4,328.1</u>

(a) Includes £10.1 million of related-party purchase obligations due during the remainder of 2018.

- (b) The commitments included in this table do not reflect any liabilities that are included in our September 30, 2018 condensed consolidated balance sheet other than debt and capital lease obligations.
- (c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of September 30, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs, original issue premiums or discounts.

For information concerning our debt and capital lease obligations, see note 7 to our condensed consolidated financial statements. For information concerning our commitments, see note 10 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the nine months ended September 30, 2018 and 2017, see note 4 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected cash flows associated with our derivative instruments. The pound sterling equivalents presented below are based on interest rates and exchange rates that were in effect as of September 30, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments see note 4 to our condensed consolidated financial statements.

	Payments (receipts) due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	in millions							
Projected derivative cash payments (receipts), net:								
Interest-related (a)	£ (194.4)	£ 25.2	£ (43.8)	£ (23.5)	£ (14.8)	£ (14.4)	£ 55.8	£ (209.9)
Principal-related (b).....	—	4.5	—	(66.7)	(107.0)	(171.2)	(389.1)	(729.5)
Other (c)	(1.1)	—	—	—	—	—	—	(1.1)
Total.....	£ (195.5)	£ 29.7	£ (43.8)	£ (90.2)	£(121.8)	£(185.6)	£ (333.3)	£ (940.5)

- (a) Includes (i) the cash flows of our interest rate cap, swaption and swap contracts and (ii) the interest-related cash flows of our cross-currency and interest rate swap contracts.
- (b) Includes the principal-related cash flows of our cross-currency swap contracts.
- (c) Includes amounts related to our foreign currency forward contracts.