



**Condensed Consolidated Financial Statements  
September 30, 2019**

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

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

	September 30, 2019	December 31, 2018
	in millions	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	£ 34.6	£ 16.8
Trade receivables, net .....	605.1	604.7
Related-party receivables (note 10) .....	80.8	47.1
Derivative instruments (notes 4 and 10) .....	178.0	143.1
Prepaid expenses .....	86.0	64.3
Other current assets (note 3) .....	140.3	138.9
Total current assets .....	1,124.8	1,014.9
Property and equipment, net (notes 6 and 8) .....	6,095.4	6,272.2
Goodwill (note 6) .....	6,015.6	6,018.4
Deferred income taxes (note 9) .....	1,510.3	1,453.5
Related-party notes receivable (note 10) .....	4,676.3	4,863.6
Other assets, net (notes 3, 4, 6 and 8) .....	1,906.0	1,532.0
Total assets .....	£ 21,328.4	£ 21,154.6

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

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>in millions</b>	
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable (note 10) .....	£ 335.7	£ 410.6
Deferred revenue (note 3) .....	361.8	369.4
Current portion of debt and finance lease obligations (notes 7 and 8) .....	1,879.8	1,931.2
Accrued interest .....	127.9	197.8
Accrued capital expenditures (note 10) .....	134.9	146.8
Other current liabilities (notes 4, 8 and 10) .....	647.7	577.7
Total current liabilities .....	3,487.8	3,633.5
Long-term debt and finance lease obligations (notes 7, 8 and 10) .....	10,858.7	10,609.2
Other long-term liabilities (notes 3, 4, 8 and 10) .....	616.0	370.8
Total liabilities .....	14,962.5	14,613.5
Commitments and contingencies (notes 4, 7, 9 and 11)		
Owners' equity:		
Parent's equity:		
Additional paid-in capital .....	7,866.3	7,818.9
Accumulated deficit .....	(1,584.1)	(1,367.0)
Accumulated other comprehensive earnings, net of taxes .....	103.2	89.2
Total parent's equity .....	6,385.4	6,541.1
Noncontrolling interest .....	(19.5)	—
Total owners' equity .....	6,365.9	6,541.1
Total liabilities and owners' equity .....	£ 21,328.4	£ 21,154.6

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,	
	2019	2018	2019	2018
	in millions			
Revenue (note 12).....	£ 1,281.7	£ 1,279.7	£ 3,836.5	£ 3,832.4
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):				
Programming and other direct costs of services (note 10) .....	406.1	390.3	1,197.7	1,165.0
Other operating (note 10) .....	170.5	166.1	513.7	500.3
Selling, general and administrative (SG&A) (note 10).....	169.2	159.5	524.9	505.1
Related-party fees and allocations, net (note 10) .....	78.8	43.4	182.0	106.1
Depreciation and amortization .....	432.5	452.2	1,320.1	1,343.2
Impairment, restructuring and other operating items, net .....	5.4	65.7	46.6	77.2
	<u>1,262.5</u>	<u>1,277.2</u>	<u>3,785.0</u>	<u>3,696.9</u>
Operating income .....	<u>19.2</u>	<u>2.5</u>	<u>51.5</u>	<u>135.5</u>
Non-operating income (expense):				
Interest expense (note 10).....	(164.0)	(168.5)	(487.5)	(491.3)
Interest income — related party (note 10).....	71.3	77.7	213.2	239.8
Realized and unrealized gains on derivative instruments, net (notes 4 and 10) .....	258.2	69.7	319.0	242.3
Foreign currency transaction losses, net.....	(207.7)	(69.2)	(238.2)	(228.4)
Realized and unrealized gains (losses) due to changes in fair values of certain debt, net (notes 5 and 7) .....	(2.2)	(0.9)	(19.7)	4.6
Losses on debt modification and extinguishment, net (note 7).....	(23.3)	(17.4)	(61.2)	(17.4)
Other income, net .....	1.2	2.4	3.7	6.7
	<u>(66.5)</u>	<u>(106.2)</u>	<u>(270.7)</u>	<u>(243.7)</u>
Loss before income taxes .....	<u>(47.3)</u>	<u>(103.7)</u>	<u>(219.2)</u>	<u>(108.2)</u>
Income tax benefit (expense) (note 9) .....	(1.8)	12.8	5.1	25.4
Net loss .....	<u>(49.1)</u>	<u>(90.9)</u>	<u>(214.1)</u>	<u>(82.8)</u>
Net earnings attributable to noncontrolling interest.....	(1.0)	—	(3.0)	—
Net loss attributable to parent .....	<u>£ (50.1)</u>	<u>£ (90.9)</u>	<u>£ (217.1)</u>	<u>£ (82.8)</u>

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>in millions</b>			
Net loss.....	£ (49.1)	£ (90.9)	£ (214.1)	£ (82.8)
Other comprehensive earnings, net of taxes:				
Foreign currency translation adjustments and other.....	11.5	1.8	14.0	20.1
Other comprehensive earnings .....	11.5	1.8	14.0	20.1
Comprehensive loss .....	(37.6)	(89.1)	(200.1)	(62.7)
Comprehensive earnings attributable to noncontrolling interest .....	(1.0)	—	(3.0)	—
Comprehensive loss attributable to parent.....	£ (38.6)	£ (89.1)	£ (203.1)	£ (62.7)

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

**VIRGIN MEDIA INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF OWNERS' 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
Impact of ASU No. 2014-09, Revenue from Contracts with Customers .....	—	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 earnings .....	—	16.9	—	16.9
Other comprehensive earnings, net of taxes .....	—	—	4.0	4.0
Tax losses surrendered to Liberty Global subsidiaries (notes 9 and 10) .....	(13.0)	—	—	(13.0)
Share-based compensation (note 10) .....	4.3	—	—	4.3
Deemed contribution of technology-related services (note 10) .....	1.9	—	—	1.9
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10) .....	(1.8)	—	—	(1.8)
Other .....	(0.1)	—	—	(0.1)
Balance at March 31, 2018 .....	7,778.8	(1,313.1)	70.5	6,536.2
Net loss .....	—	(8.8)	—	(8.8)
Other comprehensive earnings, net of taxes .....	—	—	14.3	14.3
Tax losses surrendered by Liberty Global subsidiaries (notes 9 and 10) .....	43.5	—	—	43.5
Share-based compensation (note 10) .....	5.9	—	—	5.9
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10) .....	(1.9)	—	—	(1.9)
Adjustments to deemed contribution of technology-related services (note 10) .....	(0.3)	—	—	(0.3)
Other .....	0.4	—	—	0.4
Balance at June 30, 2018 .....	7,826.4	(1,321.9)	84.8	6,589.3
Net loss .....	—	(90.9)	—	(90.9)
Other comprehensive earnings, net of taxes .....	—	—	1.8	1.8
Tax losses surrendered by Liberty Global subsidiaries (notes 9 and 10) .....	1.5	—	—	1.5
Share-based compensation (note 10) .....	5.6	—	—	5.6
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10) .....	(1.9)	—	—	(1.9)
Adjustments to deemed contribution of technology-related services (note 10) .....	(1.0)	—	—	(1.0)
Other .....	(0.1)	—	—	(0.1)
Balance at September 30, 2018 .....	£ 7,830.5	£ (1,412.8)	£ 86.6	£ 6,504.3

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

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

	<b>Parent's Equity</b>					
	<b>Additional paid-in capital</b>	<b>Accumulated deficit</b>	<b>Accumulated other comprehensive earnings, net of taxes</b>	<b>Total parent's equity</b>	<b>Non- controlling Interest</b>	<b>Total owners' equity</b>
	<b>in millions</b>					
Balance at January 1, 2019.....	£ 7,818.9	£ (1,367.0)	£ 89.2	£ 6,541.1	£ —	£ 6,541.1
Net loss.....	—	(112.7)	—	(112.7)	0.7	(112.0)
Other comprehensive earnings, net of taxes.....	—	—	3.5	3.5	—	3.5
Impact of consolidation of the Liberty Property Companies (note 1).....	22.5	—	—	22.5	(22.5)	—
Share-based compensation (note 10) .....	9.3	—	—	9.3	—	9.3
Tax losses surrendered by Liberty Global subsidiaries (notes 9 and 10) ...	6.8	—	—	6.8	—	6.8
Deemed contribution of technology- related services (note 10).....	1.8	—	—	1.8	—	1.8
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10).....	(1.2)	—	—	(1.2)	—	(1.2)
Other.....	2.8	—	—	2.8	—	2.8
Balance at March 31, 2019.....	<u>7,860.9</u>	<u>(1,479.7)</u>	<u>92.7</u>	<u>6,473.9</u>	<u>(21.8)</u>	<u>6,452.1</u>
Net loss.....	—	(54.3)	—	(54.3)	1.3	(53.0)
Other comprehensive loss, net of taxes...	—	—	(1.0)	(1.0)	—	(1.0)
Conversion of related-party loans receivable and related accrued interest to equity.....	(32.4)	—	—	(32.4)	—	(32.4)
Tax losses surrendered by Liberty Global subsidiaries (notes 9 and 10) ...	13.1	—	—	13.1	—	13.1
Share-based compensation (note 10) .....	12.8	—	—	12.8	—	12.8
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10).....	(9.4)	—	—	(9.4)	—	(9.4)
Deemed contribution of technology- related services (note 10).....	0.9	—	—	0.9	—	0.9
Other.....	(0.1)	—	—	(0.1)	—	(0.1)
Balance at June 30, 2019.....	<u>£ 7,845.8</u>	<u>£ (1,534.0)</u>	<u>£ 91.7</u>	<u>£ 6,403.5</u>	<u>£ (20.5)</u>	<u>£ 6,383.0</u>

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



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

	Parent's Equity					
	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings, net of taxes	Total parent's equity	Non- controlling Interest	Total owners' equity
	in millions					
Balance at June 30, 2019 .....	£ 7,845.8	£ (1,534.0)	£ 91.7	£ 6,403.5	£ (20.5)	£ 6,383.0
Net loss.....	—	(50.1)	—	(50.1)	1.0	(49.1)
Other comprehensive earnings, net of taxes.....	—	—	11.5	11.5	—	11.5
Tax losses surrendered by Liberty Global subsidiaries (notes 9 and 10) ...	12.0	—	—	12.0	—	12.0
Share-based compensation (note 10) .....	9.8	—	—	9.8	—	9.8
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10).....	(3.7)	—	—	(3.7)	—	(3.7)
Deemed contribution of technology- related services (note 10).....	2.4	—	—	2.4	—	2.4
Balance at September 30, 2019 .....	£ 7,866.3	£ (1,584.1)	£ 103.2	£ 6,385.4	£ (19.5)	£ 6,365.9

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

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

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>in millions</b>	
Cash flows from operating activities:		
Net loss .....	£ (214.1)	£ (82.8)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense .....	37.7	16.8
Related-party fees and allocations, net .....	182.0	106.1
Depreciation and amortization .....	1,320.1	1,343.2
Impairment, restructuring and other operating items, net .....	46.6	77.2
Amortization of deferred financing costs and non-cash interest .....	11.9	12.3
Realized and unrealized gains on derivative instruments, net .....	(319.0)	(242.3)
Foreign currency transaction losses, net .....	238.2	228.4
Realized and unrealized losses (gains) due to changes in fair values of certain debt, net .....	19.7	(4.6)
Losses on debt modification and extinguishment, net .....	61.2	17.4
Deferred income tax benefit .....	(24.4)	(32.4)
Changes in operating assets and liabilities .....	(103.8)	11.3
Net cash provided by operating activities .....	1,256.1	1,450.6
Cash flows from investing activities:		
Capital expenditures, net .....	(325.5)	(327.7)
Repayments from (advances to) related parties, net .....	(35.8)	220.7
Other investing activities, net .....	1.0	(1.5)
Net cash used by investing activities .....	£ (360.3)	£ (108.5)

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

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

	<b>Nine months ended</b>	
	<b>2019</b>	<b>2018</b>
	<b>in millions</b>	
Cash flows from financing activities:		
Repayments and repurchases of third-party debt and finance lease obligations .....	£ (3,521.9)	£ (3,170.7)
Borrowings of third-party debt .....	2,739.8	1,853.0
Payment of financing costs and debt premiums .....	(67.9)	(19.1)
Net repayments of related-party debt .....	(11.9)	(19.4)
Net cash received (paid) related to derivative instruments .....	(7.3)	23.9
Other financing activities, net .....	0.5	(0.3)
Net cash used by financing activities .....	(868.7)	(1,332.6)
Effect of exchange rate changes on cash and cash equivalents and restricted cash .....	0.2	0.1
Net increase in cash and cash equivalents and restricted cash .....	27.3	9.6
Cash and cash equivalents and restricted cash:		
Beginning of period .....	24.4	25.2
End of period .....	£ 51.7	£ 34.8
Cash paid for interest .....	£ 553.4	£ 537.4
Net cash paid (received) for taxes .....	£ (1.8)	£ 1.4
Details of end of period cash and cash equivalents and restricted cash:		
Cash and cash equivalents .....	£ 34.6	£ 32.8
Restricted cash included in other current assets and other assets, net .....	17.1	2.0
Total cash and cash equivalents and restricted cash .....	£ 51.7	£ 34.8

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

VIRGIN MEDIA INC.  
Notes to Condensed Consolidated Financial Statements  
September 30, 2019  
(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 (**GAAP**) and do not include all of the information required by 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 2018 annual report.

The preparation of financial statements in conformity with 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, lease terms, useful lives of long-lived assets, share-based compensation and actuarial liabilities associated with certain benefit plans. Actual results could differ from those estimates.

During the fourth quarter of 2018, in connection with certain Liberty Global plc (**Liberty Global**) reorganizations, we completed the transfer of Liberty Property Co I Limited and Liberty Property Co II Limited from our company to Liberty Property Holdco III Limited (**Liberty Property Holdco III**), another subsidiary of Liberty Global outside of Virgin Media (the **VM Property Transfers**). Liberty Property Co I Limited, Liberty Property Co II Limited and Liberty Property Holdco III are collectively referred to as “the Liberty Property Companies.” The assets held by the Liberty Property Companies are used by Virgin Media and its subsidiaries creating a variable interest in the Liberty Property Companies for which Virgin Media is the primary beneficiary and, accordingly, Virgin Media is required to consolidate the Liberty Property Companies.

Unless otherwise indicated, convenience translations into pound sterling are calculated as of September 30, 2019.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 20, 2019, the date of issuance.

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

*Accounting Change*

*ASU 2016-02*

In February 2016, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, results in lessees recognizing right-of-use (**ROU**) assets and lease liabilities on the balance sheet. 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. We adopted ASU 2016-02 on January 1, 2019.

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

The main impact of the adoption of ASU 2016-02 relates to the recognition of ROU assets and lease liabilities on our consolidated balance sheet for those leases classified as operating leases under previous GAAP. In transition, we have applied 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 have not used hindsight during transition.

Upon adoption of ASU 2016-02, on January 1, 2019 we recorded ROU assets of £137.3 million and lease liabilities of £138.4 million related to operating leases. In addition, (i) we reclassified our existing prepaid lease expense, accrued lease expense and lease incentive liabilities, resulting in a net reduction of our ROU assets of £1.1 million and (ii) restructuring liabilities related to operating leases of £1.9 million are now reflected as operating lease liabilities. The adoption of ASU 2016-02 did not have a significant impact on our consolidated statements of operations or cash flows.

We have implemented a new lease accounting system and related internal controls over financial reporting to meet the requirements of ASU 2016-02.

For additional information regarding our leases, see note 8.

***Recent Accounting Pronouncement***

*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, 2020, 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**

***Contract Balances***

The timing of our recognition of revenue 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 £24.6 million and £24.9 million at September 30, 2019 and December 31, 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 £16.7 million and £23.8 million as of September 30, 2019 and December 31, 2018, respectively. The current and long-term portions of our contract asset balances are included within other current assets and other assets, net, respectively, on our condensed consolidated balance sheets.

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 £384.7 million and £396.5 million as of September 30, 2019 and December 31, 2018, respectively. The decrease in deferred revenue for the nine months ended September 30, 2019 is primarily due to £353.0 million of revenue recognized that was included in our deferred revenue balance at December 31, 2018, partially offset by advanced billings recorded in the period. The current and long-term portions of our deferred revenue balances are included within deferred revenue and other long-term liabilities, respectively, on our condensed consolidated balance sheets.

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

***Contract Costs***

Our aggregate assets associated with incremental costs to obtain and fulfill our contracts were £48.0 million and £44.4 million at September 30, 2019 and December 31, 2018, respectively. The current and long-term portions of our assets related to contract costs are included within other current assets and other assets, net, respectively, on our condensed consolidated balance sheets. We amortized £14.8 million and £43.9 million during the three and nine months ended September 30, 2019, respectively, and £12.2 million and £40.9 million for the three and nine months ended September 30, 2018, respectively, to operating costs and expenses 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 contracts, one to three years for our mobile service contracts and one to five years for our B2B service 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. We do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

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

	September 30, 2019			December 31, 2018		
	Current	Long-term	Total	Current	Long-term	Total
	in millions					
Assets (a):						
Cross-currency and interest rate derivative contracts (b).....	£ 177.2	£ 1,245.7	£ 1,422.9	£ 141.4	£ 743.5	£ 884.9
Foreign currency forward and option contracts.....	0.8	—	0.8	0.1	—	0.1
Foreign currency forward contracts — related-party.....	—	—	—	1.6	—	1.6
Total.....	£ 178.0	£ 1,245.7	£ 1,423.7	£ 143.1	£ 743.5	£ 886.6
Liabilities (a):						
Cross-currency and interest rate derivative contracts (b).....	£ 116.1	£ 399.6	£ 515.7	£ 81.9	£ 292.7	£ 374.6

- (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, on our condensed consolidated balance sheets.
- (b) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of £15.1 million and £13.0 million during the three months ended September 30, 2019 and 2018, respectively, and net losses of £17.3 million and £22.5 million during the nine months ended September 30, 2019 and 2018, respectively. These amounts are included in realized and unrealized gains on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>in millions</b>			
Cross-currency and interest rate derivative contracts .....	£ 257.6	£ 69.3	£ 318.3	£ 242.5
Foreign currency forward and option contracts:				
Third-party .....	0.6	—	1.6	—
Related-party .....	—	0.4	(0.9)	(0.2)
Total .....	<u>£ 258.2</u>	<u>£ 69.7</u>	<u>£ 319.0</u>	<u>£ 242.3</u>

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:

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>in millions</b>	
Operating activities .....	£ (69.8)	£ 0.4
Financing activities .....	(7.3)	23.9
Total .....	<u>£ (77.1)</u>	<u>£ 24.3</u>

***Counterparty Credit Risk***

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At September 30, 2019, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £699.8 million.

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**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, 2019, 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, 2019:

<u>Notional amount due from counterparty</u>	<u>Notional amount due to counterparty</u>		<u>Weighted average remaining life</u>
	in millions		in years
\$	400.0	€ 339.6	3.3
\$	8,036.4	£ 5,451.8 (a)	4.8
£	2,365.8	\$ 3,400.0 (b)	5.3

(a) Includes certain derivative instruments that are “forward-starting,” such that the initial exchange occurs at a date subsequent to September 30, 2019. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

(b) This derivative instrument does not involve the exchange of notional amounts at the inception and maturity of the instrument. Accordingly, the only cash flows associated with this derivative instrument are coupon-related payments and receipts.

*Interest Rate Swap Contracts*

The following table sets forth the total pound sterling equivalent of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts at September 30, 2019:

<u>Pay fixed rate (a)</u>			<u>Receive fixed rate (a)</u>		
<u>Notional amount</u>	<u>Weighted average remaining life</u>		<u>Notional amount</u>	<u>Weighted average remaining life</u>	
in millions	in years		in millions	in years	
£ 16,441.3	2.9		£ 9,122.3	4.6	

(a) Includes forward-starting derivative instruments.



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***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, 2019:

<b>Notional amount</b>	<b>Underlying swap currency</b>	<b>Weighted average option expiration period (a)</b>	<b>Weighted average strike rate (b)</b>
<b>in millions</b>		<b>in years</b>	
£ 5,342.4	£	1.2	2.40%
£ 381.4	€	0.8	1.96%

- (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, 2019, the total pound sterling equivalent of the notional amount due from the counterparty, including forward-starting derivative instruments, was £3,666.5 million and the related weighted average remaining contractual life of our basis swap contracts was 0.8 years.

***Interest Rate Cap***

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, 2019, the notional amount of our interest rate cap was £200.0 million.

***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 44 basis points to our borrowing costs as of September 30, 2019.

***Foreign Currency Forwards and Options***

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of September 30, 2019, the total notional amount of foreign currency forward and option contracts was £16.5 million.

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**(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, 2019 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

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

We use a Monte Carlo based approach to 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 2018 annual report.

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, 2019</u>	<u>Fair value measurements at September 30, 2019 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
	<b>in millions</b>		
<b>Assets:</b>			
Derivative instruments:			
Cross-currency and interest rate derivative contracts.....	£ 1,422.9	£ 1,422.9	£ —
Foreign currency forward and option contracts.....	0.8	0.8	—
Total assets .....	<u>£ 1,423.7</u>	<u>£ 1,423.7</u>	<u>£ —</u>
<b>Liabilities:</b>			
Derivative instruments:			
Cross-currency and interest rate derivative contracts.....	£ 515.7	£ 496.7	£ 19.0
Debt.....	177.4	177.4	—
Total liabilities.....	<u>£ 693.1</u>	<u>£ 674.1</u>	<u>£ 19.0</u>

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<u>Description</u>	<u>December 31, 2018</u>	<u>Fair value measurements at December 31, 2018 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		<u>in millions</u>	
Assets:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts .....	£ 884.9	£ 884.7	£ 0.2
Foreign currency forward and option contracts:			
Third-party .....	0.1	0.1	—
Related-party .....	1.6	1.6	—
Total assets .....	<u>£ 886.6</u>	<u>£ 886.4</u>	<u>£ 0.2</u>
Liabilities:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts .....	£ 374.6	£ 366.2	£ 8.4
Debt .....	195.0	195.0	—
Total liabilities .....	<u>£ 569.6</u>	<u>£ 561.2</u>	<u>£ 8.4</u>

**(6) Long-lived Assets**

***Property and Equipment, Net***

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	<u>in millions</u>	
Distribution systems .....	£ 8,814.0	£ 8,385.9
Customer premises equipment .....	2,527.5	2,255.5
Support equipment, buildings and land .....	1,749.8	1,606.4
Total property and equipment, gross .....	13,091.3	12,247.8
Accumulated depreciation .....	(6,995.9)	(5,975.6)
Total property and equipment, net (a) .....	<u>£ 6,095.4</u>	<u>£ 6,272.2</u>

(a) For additional information regarding finance leases included within our property and equipment, see note 8.

During the nine months ended September 30, 2019 and 2018, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of £625.7 million and £810.0 million, respectively, which exclude related value-added-taxes (VAT) of £108.7 million and £144.1 million, respectively, that were also financed by our vendors under these arrangements.

***Goodwill***

The change in the carrying amount of our goodwill during the nine months ended September 30, 2019 is due to foreign currency translation adjustments.

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline 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

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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.

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

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

	September 30, 2019			December 31, 2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships .....	£ 2,527.8	£ (2,345.9)	£ 181.9	£ 2,527.9	£ (2,065.7)	£ 462.2

**(7) Debt**

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

	September 30, 2019		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	September 30, 2019	December 31, 2018
	in millions			
VM Senior Secured Notes .....	5.40%	£ —	£ 5,304.7	£ 4,917.9
VM Credit Facilities (c) (d) .....	4.65%	675.0	3,806.2	3,609.4
Vendor financing (e) .....	4.96%	—	1,792.1	1,893.0
VM Senior Notes .....	5.35%	—	1,273.0	1,569.0
Other (f) .....	2.93%	—	481.1	414.1
Total third-party debt before deferred financing costs, discounts and premiums (g) .....	<u>5.01%</u>	<u>£ 675.0</u>	<u>£ 12,657.1</u>	<u>£ 12,403.4</u>

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

	September 30, 2019	December 31, 2018
	in millions	
Total third-party debt before deferred financing costs, discounts and premiums .....	£ 12,657.1	£ 12,403.4
Deferred financing costs, discounts and premiums, net .....	(18.6)	(29.9)
Total carrying amount of third-party debt .....	12,638.5	12,373.5
Finance lease obligations (note 8) .....	54.3	54.2
Total third-party debt and finance lease obligations .....	12,692.8	12,427.7
Related-party debt (note 10) .....	45.7	112.7
Total debt and finance lease obligations .....	12,738.5	12,540.4
Current maturities of debt and finance lease obligations .....	(1,879.8)	(1,931.2)
Long-term debt and finance lease obligations .....	<u>£ 10,858.7</u>	<u>£ 10,609.2</u>

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- (a) Represents the weighted average interest rate in effect at September 30, 2019 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 4.64% at September 30, 2019. 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, 2019 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2019, 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, 2019 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect the equivalent of £592.1 million of unused borrowing capacity will be available, with no additional restriction to loan or distribute. 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, 2019. For information regarding certain financing transactions completed subsequent to September 30, 2019 that could have an impact on the availability to be borrowed, loaned or distributed, see footnote (d) below and note 15.
- (c) Amounts include £139.7 million and £41.9 million at September 30, 2019 and December 31, 2018, 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 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.
- (d) Unused borrowing capacity under the VM Credit Facilities primarily relates to multi-currency revolving facilities with an aggregate maximum borrowing capacity equivalent to £675.0 million. As of September 30, 2019, the VM Revolving Facilities were undrawn and comprise (i) VM Revolving Facility A, which is a multi-currency revolving facility maturing on December 31, 2021 with a maximum borrowing capacity equivalent to £50.0 million, and (ii) VM Revolving Facility B, which is a multi-currency revolving facility maturing on January 15, 2024 with a maximum borrowing capacity equivalent to £625.0 million. For borrowing limitations under the VM Credit Facilities, see footnote (b) above. On or after September 30, 2019, certain lenders under the VM Credit Facilities agreed to increase and/or extend their commitments and, accordingly, we expect that VM Revolving Facility A and VM Revolving Facility B will effectively be replaced with a new revolving credit facility. The new revolving credit facility is expected to provide for aggregate maximum borrowing capacity equivalent to £1,000.0 million, with a final maturity date of January 31, 2026. We plan to complete this process and establish the new revolving credit facility during the fourth quarter of 2019.
- (e) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and 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 finance lease obligations in our condensed consolidated statements of cash flows.
- (f) Includes amounts associated with certain derivative-related borrowing instruments, including £177.4 million and £195.0 million at September 30, 2019 and December 31, 2018, respectively, carried at fair value. These instruments mature at various dates through January 2025. The fair value of this debt has been reduced by credit risk valuation adjustments resulting in net gains of £3.3 million and £30.5 million during the three months ended September 30, 2019 and 2018, respectively, and a net gain (loss) of (£3.9 million) and £30.8 million during the nine months ended September 30, 2019 and 2018, 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,

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see note 5. In addition, amounts include £185.5 million and £177.3 million at September 30, 2019 and December 31, 2018, respectively, of debt collateralized by certain trade receivables of our company.

- (g) As of September 30, 2019 and December 31, 2018, our debt had an estimated fair value of £13.0 billion and £12.1 billion, respectively. 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, to the extent available, and other relevant factors. For additional information regarding fair value hierarchies, see note 5.

### ***Financing Transactions***

Below we provide summary descriptions of any financing transactions completed during the first nine months of 2019. Unless otherwise noted, the terms and conditions of any new notes and/or credit facilities are largely consistent with those of existing notes and credit facilities with regard to covenants, events of default and change of control provisions, among other items. For information regarding the general terms and conditions of our debt and capitalized terms not defined herein, see note 8 to the consolidated financial statements included in our 2018 annual report.

In May 2019, we issued (i) \$825.0 million (£671.3 million) principal amount of 5.50% senior secured notes (the “**2029 VM 5.50% Dollar Senior Secured Notes**”) and (ii) £300.0 million principal amount of 5.25% senior secured notes (the “**2029 VM 5.25% Sterling Senior Secured Notes**”). Each series of notes was issued at par and will mature on May 15, 2029. The net proceeds from the issuance of these notes were used to redeem in full (a) £387.0 million outstanding principal amount under the 2025 VM 5.5% Sterling Senior Secured Notes, (b) \$354.5 million (£288.4 million) outstanding principal amount under the 2025 VM Dollar Senior Secured Notes and (c) £300.0 million outstanding principal amount under the 2024 VM Sterling Senior Notes. In connection with the above transactions, we recognized a loss on debt modification and extinguishment of £37.4 million related to (1) the payment of £34.0 million of redemption premiums and (2) the write-off of £3.4 million of unamortized deferred financing costs and discounts.

In July 2019, we issued an additional \$600.0 million (£488.2 million) principal amount of 2029 VM 5.50% Dollar Senior Secured Notes at 101.75% of par. The net proceeds from the issuance of these notes were used to redeem in full (i) \$447.9 million (£364.4 million) outstanding principal amount under the 2021 VM Dollar Senior Secured Notes and (ii) £107.1 million outstanding principal amount under the 2021 VM Sterling Senior Secured Notes. In August 2019, we issued an additional £40.0 million principal amount of 2029 VM 5.25% Sterling Senior Secured Notes at 103% of par. The net proceeds from the issuance of these notes were used to redeem an equal outstanding principal amount of 2029 VM 6.25% Sterling Senior Secured Notes. In connection with these transactions, we recognized a net loss on debt modification and extinguishment of £23.3 million related to (a) the payment of £25.7 million of redemption premiums and (b) the write-off of £2.4 million of unamortized deferred financing costs, discounts and premiums.

Subject to certain exceptions as specified in the applicable indenture, the 2029 VM 5.50% Dollar Senior Secured Notes and the 2029 VM 5.25% Sterling Senior Secured Notes are non-callable prior to May 15, 2024. At any time prior to May 15, 2024, we may redeem some or all of the applicable notes by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments through May 15, 2024 using the discount rate (as specified in the applicable indenture) as of the redemption date plus 50 basis points.

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On or after May 15, 2024, we may redeem some or all of the 2029 VM 5.50% Dollar Senior Secured Notes and the 2029 VM 5.25% Sterling Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the applicable indenture), if any, to but excluding the applicable redemption date, as set forth below:

	Redemption price	
	2029 VM 5.50% Dollar Senior Secured Notes	2029 VM 5.25% Sterling Senior Secured Notes
12-month period commencing May 15:		
2024 .....	102.750%	102.625%
2025 .....	101.375%	101.313%
2026 and thereafter .....	100.000%	100.000%

***Maturities of Debt***

The pound sterling equivalents of the maturities of our debt as of September 30, 2019 are presented below:

	Third-party debt	Related- party debt	Total
	in millions		
Year ending December 31:			
2019 (remainder of year) .....	£ 650.9	£ —	£ 650.9
2020 .....	1,227.2	—	1,227.2
2021 (a) .....	582.4	45.7	628.1
2022 .....	250.2	—	250.2
2023 .....	155.1	—	155.1
2024 .....	593.6	—	593.6
Thereafter .....	9,197.7	—	9,197.7
Total debt maturities .....	12,657.1	45.7	12,702.8
Deferred financing costs, discounts and premiums, net .....	(18.6)	—	(18.6)
Total .....	£ 12,638.5	£ 45.7	£ 12,684.2
Current portion .....	£ 1,874.4	£ —	£ 1,874.4
Noncurrent portion .....	£ 10,764.1	£ 45.7	£ 10,809.8

(a) Includes certain senior secured notes that have a contractual maturity date of January 15, 2025. Interest on these senior secured notes accrues at a rate of 6.0% through January 15, 2021 and at a rate of 11.0% thereafter. In light of these terms, the above maturity table assumes that these senior secured notes will be repaid or refinanced in 2021.

**(8) Leases**

***General***

We enter into operating and finance leases for network equipment, real estate and vehicles. We provide residual value guarantees on certain of our vehicle leases.

***Policies***

For leases with a term greater than 12 months, we recognize on the lease commencement date (i) ROU assets representing our right to use an underlying asset and (ii) lease liabilities representing our obligation to make lease payments over the lease term. Lease and non-lease components in a contract are generally accounted for separately.

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We initially measure lease liabilities at the present value of the remaining lease payments over the lease term. Options to extend or terminate the lease are included only when it is reasonably certain that we will exercise that option. As most of our leases do not provide enough information to determine an implicit interest rate, we generally use a portfolio level incremental borrowing rate in our present value calculation. We initially measure ROU assets at the value of the lease liability, plus any initial direct costs and prepaid lease payments, less any lease incentives received.

With respect to our finance leases, (i) ROU assets are generally depreciated on a straight-line basis over the useful life of the asset and (ii) interest expense on the lease liability is recorded using the effective interest method. Operating lease expense is recognized on a straight-line basis over the lease term. For leases with a term of 12 months or less (short-term leases), we do not recognize ROU assets or lease liabilities. Short-term lease expense is recognized on a straight-line basis over the lease term.

***Lease Balances***

A summary of our ROU assets as of September 30, 2019 is set forth below (in millions):

Operating leases (a).....	£	146.8
Finance leases (b).....		49.2
Total.....	£	<u>196.0</u>

- (a) Our operating lease ROU assets are included in other assets, net, on our condensed consolidated balance sheet. At September 30, 2019, the weighted average remaining lease term for operating leases was 8.4 years and the weighted average discount rate was 4.4%.
- (b) Our finance lease ROU assets are included in property and equipment, net, on our condensed consolidated balance sheet. At September 30, 2019, the weighted average remaining lease term for finance leases was 27.5 years and the weighted average discount rate was 6.7%.

A summary of additions to our ROU assets during the nine months ended September 30, 2019 is set forth below (in millions):

ROU assets recorded during the period associated with:

Operating leases.....	£	36.3
Finance leases (a).....		5.4
Total.....	£	<u>41.7</u>

- (a) During the nine months ended September 30, 2018, we recorded additions to our ROU assets associated with finance leases of £4.7 million.

A summary of our lease liabilities as of September 30, 2019 is set forth below (in millions):

Operating leases (a).....	£	159.2
Finance leases (b).....		54.3
Total.....	£	<u>213.5</u>

- (a) The current and long-term portions of our operating lease liabilities are included within other current liabilities and other long-term liabilities, respectively, on our condensed consolidated balance sheet.
- (b) The current and long-term portions of our finance lease obligations are included within current portion of debt and finance lease obligations and long-term debt and finance lease obligations, respectively, on our condensed consolidated balance sheets. As of December 31, 2018, we had £54.2 million of finance lease liabilities included on our condensed consolidated balance sheet.



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A summary of our aggregate lease expense is set forth below:

	<b>Three months ended September 30, 2019</b>	<b>Nine months ended September 30, 2019</b>
	<b>in millions</b>	
Total lease expense:		
Finance lease expense:		
Depreciation and amortization .....	£ 2.3	£ 6.3
Interest expense .....	1.0	3.1
Total finance lease expense .....	3.3	9.4
Operating lease expense (a) .....	9.7	28.3
Total lease expense .....	£ 13.0	£ 37.7

(a) Our operating lease expense is included in other operating expenses, SG&A expenses and impairment, restructuring and other operating items, net, in our condensed consolidated statements of operations.

A summary of our cash outflows from operating and finance leases recorded during the nine months ended September 30, 2019 is set forth below (in millions):

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases .....	£	29.7
Operating cash outflows from finance leases .....		3.1
Financing cash outflows from finance leases .....		5.2
Total cash outflows from operating and finance leases .....	£	38.0

Maturities of our operating and finance lease obligations as of September 30, 2019 are presented below. Amounts represent the pound sterling equivalents based on September 30, 2019 exchange rates:

	<b>Operating leases</b>		<b>Finance leases</b>	
	<b>in millions</b>			
Year ending December 31:				
2019 (remainder of year) .....	£	9.4	£	2.9
2020 .....		33.9		8.2
2021 .....		29.4		7.8
2022 .....		24.9		9.7
2023 .....		21.6		7.2
2024 .....		17.4		3.5
Thereafter .....		53.1		134.5
Total payments .....		189.7		173.8
Less: present value discount .....		(30.5)		(119.5)
Present value of lease payments .....	£	159.2	£	54.3
Current portion .....	£	29.5	£	5.4
Noncurrent portion .....	£	129.7	£	48.9

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Maturities of our operating and finance lease obligations as of December 31, 2018 are presented below. Amounts represent the pound sterling equivalents based on December 31, 2018 exchange rates:

	<u>Operating leases</u>		<u>Finance leases</u>	
	in millions			
Year ending December 31:				
2019 .....	£	36.8	£	9.6
2020 .....		29.6		7.3
2021 .....		24.9		7.0
2022 .....		20.3		8.8
2023 .....		17.2		5.4
Thereafter .....		52.1		135.6
Total payments .....	£	<u>180.9</u>		<u>173.7</u>
Amounts representing interest .....				(119.5)
Total finance leases .....			£	<u>54.2</u>
Current portion .....			£	<u>5.7</u>
Noncurrent portion .....			£	<u>48.5</u>

**(9) 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. Tax losses with an aggregate tax effect of £12.0 million and £1.5 million during the three months ended September 30, 2019 and 2018, respectively, and £31.9 million and £32.0 million during the nine months ended September 30, 2019 and 2018, respectively, 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 changes to additional paid-in capital in our condensed consolidated statements of owners' equity.

Income tax benefit (expense) attributable to our loss before income taxes differs from the amounts computed using the U.S. federal income tax rate of 21.0% for the three and nine months ended September 30, 2019 and 2018 as a result of the following factors:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	in millions			
Computed "expected" tax benefit .....	£	9.9	£	21.8
Basis and other differences in the treatment of items associated with investments in subsidiaries .....		(10.3)		(12.2)
International rate differences (a) .....		(1.4)		(2.8)
Change in valuation allowances .....		(0.7)		12.2
Enacted tax law and rate change .....		3.0		(6.0)
Other, net .....		(2.3)		(0.2)
Total income tax benefit (expense) .....	£	<u>(1.8)</u>	£	<u>12.8</u>
			£	<u>46.0</u>
			£	<u>22.7</u>
				(23.2)
				(25.9)
				(6.8)
				(4.8)
				(3.5)
				25.0
				12.9
				(3.9)
				(4.5)
	£	<u>5.1</u>	£	<u>25.4</u>

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

**(10) 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	in millions			
Credits (charges) included in:				
Programming and other direct costs of services.....	£ (7.8)	£ (2.5)	£ (13.8)	£ (4.2)
Other operating.....	1.2	0.8	3.1	3.1
SG&A.....	3.3	4.0	10.9	4.8
Allocated share-based compensation expense.....	(10.4)	(5.6)	(35.7)	(15.8)
Fees and allocations, net:				
Operating and SG&A (exclusive of depreciation and share-based compensation).....	(13.0)	(7.8)	(30.3)	(22.5)
Depreciation.....	(19.2)	(10.5)	(48.0)	(24.1)
Share-based compensation.....	(23.3)	(10.0)	(49.2)	(26.5)
Management fee.....	(23.3)	(15.1)	(54.5)	(33.0)
Total fees and allocations, net.....	<u>(78.8)</u>	<u>(43.4)</u>	<u>(182.0)</u>	<u>(106.1)</u>
Included in operating income.....	(92.5)	(46.7)	(217.5)	(118.2)
Interest expense.....	(0.4)	(0.5)	(1.5)	(2.3)
Interest income.....	71.3	77.7	213.2	239.8
Realized and unrealized gains (losses) on derivative instruments, net.....	—	0.4	(0.9)	(0.2)
Included in net loss.....	<u>£ (21.6)</u>	<u>£ 30.9</u>	<u>£ (6.7)</u>	<u>£ 119.1</u>
Property and equipment transfers in (out), net.....	<u>£ (2.4)</u>	<u>£ 4.2</u>	<u>£ (9.0)</u>	<u>£ (2.4)</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.

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*Other operating expenses.* Amounts primarily consist of recharges of £1.6 million and £1.2 million during the three months ended September 30, 2019 and 2018, respectively, and £4.1 million and £4.5 million during the nine months ended September 30, 2019 and 2018, respectively, for network and technology services provided by our company to other Liberty Global subsidiaries.

*SG&A expenses.* Amounts primarily consist of (i) recharges of £2.7 million and £2.9 million during the three months ended September 30, 2019 and 2018, respectively, and £7.9 million and £7.8 million during the nine months ended September 30, 2019 and 2018, respectively, for support function staffing and other services provided by our company to another Liberty Global subsidiary and (ii) a charge of £4.0 million during the nine months ended September 30, 2018 for information technology-related services provided to our company from 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 expense 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 three months ended September 30, 2019, our proportional share of the technology-based costs of £40.3 million was £2.4 million more than the actual amount charged under the royalty-based method. For the nine months ended September 30, 2019 and 2018, our proportional share of the technology-based costs of £87.9 million and £37.5 million, respectively, was £5.1 million and £0.6 million more than the actual amount charged under the royalty-based method, respectively. Accordingly, these excess amounts have been reflected as deemed contributions of technology-related services in our condensed consolidated statements of owners' equity. Any excess of these charges over our estimated proportionate share of the underlying technology-based costs is classified as a management fee and added back to arrive at Covenant EBITDA.

*Interest expense.* Amounts represent interest expense on long-term related-party debt, as further described below.

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

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*Realized and unrealized gains (losses) on derivative instruments, net.* These amounts relate to related-party foreign currency forward contracts with Liberty Global Europe Financing BV (**LGE Financing**), a subsidiary of Liberty Global, which were settled during the second quarter of 2019.

*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 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:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>in millions</b>	
Current receivables (a).....	£ 80.8	£ 47.1
Derivative instruments (b).....	—	1.6
Long-term notes receivable (c).....	4,676.3	4,863.6
Total related-party assets.....	<u>£ 4,757.1</u>	<u>£ 4,912.3</u>
Accounts payable.....	£ 11.9	£ 34.9
Accrued capital expenditures (d).....	5.4	15.1
Other current liabilities (e).....	25.2	27.0
Long-term related-party debt (f).....	45.7	112.7
Other long-term liabilities.....	1.0	—
Total related-party liabilities.....	<u>£ 89.2</u>	<u>£ 189.7</u>

(a) Amounts represent (i) accrued interest on long-term notes receivable from LG Europe 2, including £61.0 million and £27.6 million, respectively, owed to Virgin Media Finco Limited (**Virgin Media Finco**) and (ii) certain receivables from other Liberty Global subsidiaries arising in the normal course of business.

(b) The December 31, 2018 amount represents the fair value of related-party derivative instruments with LGE Financing.

(c) Amounts primarily represent:

- (i) a note receivable from LG Europe 2 that is owed to Virgin Media Finco. This note matures on April 15, 2023 and bears interest at a rate of 8.50%. At September 30, 2019 and December 31, 2018, the principal amount outstanding under this note was £1,501.5 million. 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; and
- (ii) a note receivable from LG Europe 2 that is owed to Virgin Media Finco. At September 30, 2019 and December 31, 2018, the principal amount outstanding under this note was £3,148.8 million and £3,324.5 million, respectively. The decrease during the 2019 period relates to (i) £3,601.8 million of cash borrowings, (ii) £3,569.1 million of cash repayments and (iii) £208.4 million of other non-cash settlements. Pursuant to the agreement, the maturity date is July 16, 2023, however Virgin Media Finco may agree to advance additional amounts to LG Europe 2 at any time and LG Europe 2 may, with agreement from Virgin Media Finco, repay all or part of the outstanding principal at any time prior to the maturity date. The interest rate on this note, which is subject to adjustment, was 4.806% as of September 30, 2019, 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.

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- (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) Amounts represent:
  - (i) a note payable from Virgin Media Mobile Finance Limited to LG Europe 2, which matures on December 18, 2021 and bears interest at a rate of 3.930%. At September 30, 2019 and December 31, 2018, the principal amount outstanding under this note was £45.7 million and £57.2 million, respectively. The decrease during the 2019 period relates to (i) £19.4 million of cash repayments, (ii) £7.5 million of cash borrowings and (iii) £0.4 million of 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; and
  - (ii) a note payable from Liberty Property Holdco III to Liberty Property Holdco II S.à r.l. (**Liberty Property Holdco II**), which matures on November 30, 2028 and bears interest at a rate of 6.240%. Accrued interest may be, as agreed to by our company and Liberty Property Holdco II, (i) transferred to the loan balance annually on January 1 or (ii) repaid on the last day of each month and on the date of principal payments. At September 30, 2019 and December 31, 2018, the principal amount outstanding under this note was nil and £55.5 million, respectively. The outstanding balance of this note payable was non-cash settled during the first quarter of 2019.

We recorded capital charges of \$4.6 million (£3.7 million at the applicable rate) and \$2.7 million (£1.9 million at the applicable rate) during the three months ended September 30, 2019 and 2018, respectively, and \$18.2 million (£14.3 million at the applicable rate) and \$7.6 million (£5.6 million at the applicable rate) during the nine months ended September 30, 2019 and 2018, respectively, in our condensed consolidated statements of owners' equity in connection with the exercise of Liberty Global share appreciation rights and options and the vesting of Liberty Global restricted share 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.

Tax losses with an aggregate tax effect of £12.0 million and £1.5 million during the three months ended September 30, 2019 and 2018, respectively, and £31.9 million and £32.0 million during the nine months ended September 30, 2019 and 2018, respectively, were surrendered by Liberty Global and its U.K. subsidiaries outside of Virgin Media to our U.K. subsidiaries. For additional information, see note 9.

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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**(11) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, purchases of customer premises and other equipment and services and other items. The following table sets forth the pound sterling equivalents of such commitments as of September 30, 2019. The commitments included in this table do not reflect any liabilities that are included on our September 30, 2019 condensed consolidated balance sheet.

	Remainder of 2019	Payments due during:					Thereafter	Total
		2020	2021	2022	2023	2024		
								in millions
Programming commitments (a)...	£ 183.2	£ 735.2	£ 590.2	£ 235.7	£ 11.0	£ 10.9	£ 23.7	£ 1,789.9
Network and connectivity commitments.....	202.3	279.4	174.7	26.5	3.1	2.1	7.4	695.5
Purchase commitments.....	134.5	127.0	51.7	11.0	1.0	0.1	0.1	325.4
Other commitments.....	8.2	9.8	1.5	0.8	—	—	—	20.3
Total.....	<u>£ 528.2</u>	<u>£ 1,151.4</u>	<u>£ 818.1</u>	<u>£ 274.0</u>	<u>£ 15.1</u>	<u>£ 13.1</u>	<u>£ 31.2</u>	<u>£ 2,831.1</u>

(a) Includes £2.7 million, £4.0 million and £0.8 million of related-party programming obligations due during the remainder of 2019, 2020 and 2021, respectively.

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 £686.2 million and £652.0 million during the nine months ended September 30, 2019 and 2018, respectively.

Network and connectivity commitments include (i) commitments associated with our mobile virtual network operator (**MVNO**) agreements and (ii) service commitments associated with the network extension program in the U.K. and Ireland (the **Network Extension**). The amounts reflected in the above table with respect to certain of our MVNO commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly less than the actual amounts we ultimately pay in these periods. Subsequent to September 30, 2019, we entered into a new five-year MVNO agreement that will replace our existing MVNO agreement in 2021. The table above does not reflect any commitments related to this new MVNO agreement.

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, 2019 and 2018, 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, 2019. No portion of this exposure has been accrued by our company as the likelihood of loss is not considered to be probable. A court hearing was held at the end of September 2014 in relation to the U.K. tax authorities' challenge and the timing of a final decision is uncertain.

On March 19, 2014, the U.K. government announced a change in legislation with respect to the charging of VAT in connection with prompt payment discounts such as those that we offer to our fixed-line telephony customers. This change, which took effect on May 1, 2014, impacted our company and some of our competitors. The U.K. tax authority issued a decision in the fourth quarter of 2015 challenging our application of the prompt payment discount rules prior to the May 1, 2014 change in legislation. We 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 statement of operations. The First Tier Tribunal gave permission to appeal to the Upper Tribunal and we submitted grounds for appeal on February 22, 2019. We expect the hearing to take place in the first half of 2020; 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 2018, we expect the aggregate amount of this increase will be approximately £32 million in 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 our network and other assets in the U.K. remains subject to review by the U.K. government.

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



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a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavorable outcomes.

**(12) Segment Reporting**

We have one reportable segment that provides video, broadband internet, fixed-line telephony, 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,	
	2019	2018	2019	2018
in millions				
Residential revenue:				
Residential cable revenue (a):				
Subscription revenue (b):				
Video .....	£ 266.8	£ 262.9	£ 797.1	£ 779.9
Broadband internet .....	418.6	395.0	1,249.9	1,196.1
Fixed-line telephony .....	211.0	229.2	644.9	689.9
Total subscription revenue .....	896.4	887.1	2,691.9	2,665.9
Non-subscription revenue .....	13.9	17.8	43.3	52.7
Total residential cable revenue .....	910.3	904.9	2,735.2	2,718.6
Residential mobile revenue (c):				
Subscription revenue (b) .....	92.6	96.3	269.3	270.9
Non-subscription revenue .....	72.5	72.9	209.4	220.8
Total residential mobile revenue .....	165.1	169.2	478.7	491.7
Total residential revenue .....	1,075.4	1,074.1	3,213.9	3,210.3
B2B revenue (d):				
Subscription revenue .....	22.6	19.5	66.0	56.0
Non-subscription revenue .....	167.9	171.6	507.8	518.5
Total B2B revenue .....	190.5	191.1	573.8	574.5
Other revenue (e) .....	15.8	14.5	48.8	47.6
Total .....	£ 1,281.7	£ 1,279.7	£ 3,836.5	£ 3,832.4

- (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.
- (d) B2B subscription revenue represents revenue from services to certain small or home office (SOHO) subscribers. SOHO

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

***Geographic Segments***

The revenue of our geographic segments is set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	<b>in millions</b>			
U.K. ....	£ 1,181.4	£ 1,184.0	£ 3,539.8	£ 3,545.5
Ireland.....	100.3	95.7	296.7	286.9
Total.....	£ 1,281.7	£ 1,279.7	£ 3,836.5	£ 3,832.4

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

**(13) 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, 2019, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2018 and for the three and nine months ended September 30, 2018, see our 2018 annual report and the September 30, 2018 quarterly report, respectively.

As of September 30, 2019, Virgin Media Finance PLC (**Virgin Media Finance**) is the issuer of the following senior notes:

- \$71.6 million (£58.3 million) principal amount of 2022 VM 4.875% Dollar Senior Notes;
- \$51.5 million (£41.9 million) principal amount of 2022 VM 5.25% Dollar Senior Notes;
- £44.1 million principal amount of 2022 VM Sterling Senior Notes;
- \$497.0 million (£404.4 million) principal amount of 2024 VM Dollar Senior Notes;
- €460.0 million (£408.1 million) principal amount of 2025 VM Euro Senior Notes; and
- \$388.7 million (£316.2 million) 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**) and Virgin Media Communications Limited (**Virgin Media Communications**). Each of Virgin Media Investment Holdings Limited (**VMIH**) and Virgin Media Investments Limited (**VMIL**) have guaranteed the senior notes on a senior subordinated basis.

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

	September 30, 2019							
Balance sheet	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents.....	£ —	£ 1.4	£ —	£ —	£ —	£ 33.2	£ —	£ 34.6
Related-party receivables.....	0.4	—	—	—	—	80.4	—	80.8
Other current assets:								
Third-party.....	5.8	—	—	178.1	—	825.5	—	1,009.4
Intercompany.....	—	43.2	—	7.6	—	21.8	(72.6)	—
Total current assets.....	6.2	44.6	—	185.7	—	960.9	(72.6)	1,124.8
Property and equipment, net.....	—	—	—	—	—	6,095.4	—	6,095.4
Goodwill.....	—	—	—	—	—	6,015.6	—	6,015.6
Investments in, and loans to, parent and subsidiary companies.....	6,402.5	7,926.8	6,373.3	15,580.2	14,599.0	(3,399.8)	(47,482.0)	—
Deferred income taxes.....	(0.8)	—	—	—	—	1,511.1	—	1,510.3
Related-party notes receivable.....	10.2	—	—	—	—	4,666.1	—	4,676.3
Other assets, net:								
Third-party.....	2.6	—	—	1,261.8	—	641.6	—	1,906.0
Intercompany.....	—	380.5	—	63.6	—	289.9	(734.0)	—
Total assets.....	<u>£ 6,420.7</u>	<u>£ 8,351.9</u>	<u>£ 6,373.3</u>	<u>£ 17,091.3</u>	<u>£ 14,599.0</u>	<u>£ 16,780.8</u>	<u>£ (48,288.6)</u>	<u>£ 21,328.4</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>								
Current liabilities:								
Intercompany payables.....	£ —	£ 194.4	£ —	£ 136.5	£ —	£ 538.5	£ (869.4)	£ —
Other current liabilities:								
Third-party.....	0.9	19.6	—	1,965.5	—	1,459.3	—	3,445.3
Intercompany and related- party.....	17.4	7.2	—	65.0	—	25.5	(72.6)	42.5
Total current liabilities.....	18.3	221.2	—	2,167.0	—	2,023.3	(942.0)	3,487.8
Long-term debt and finance lease obligations:								
Third-party.....	—	1,266.1	—	280.8	—	9,266.1	—	10,813.0
Related-party.....	—	—	—	—	—	45.7	—	45.7
Other long-term liabilities:								
Third-party.....	17.0	—	—	397.6	—	200.4	—	615.0
Intercompany and related- party.....	—	59.1	—	670.4	—	5.5	(734.0)	1.0
Total liabilities.....	35.3	1,546.4	—	3,515.8	—	11,541.0	(1,676.0)	14,962.5
Total parent's equity.....	6,385.4	6,805.5	6,373.3	13,575.5	14,599.0	5,259.3	(46,612.6)	6,385.4
Noncontrolling interest.....	—	—	—	—	—	(19.5)	—	(19.5)
Total owners' equity.....	6,385.4	6,805.5	6,373.3	13,575.5	14,599.0	5,239.8	(46,612.6)	6,365.9
Total liabilities and owners' equity.....	<u>£ 6,420.7</u>	<u>£ 8,351.9</u>	<u>£ 6,373.3</u>	<u>£ 17,091.3</u>	<u>£ 14,599.0</u>	<u>£ 16,780.8</u>	<u>£ (48,288.6)</u>	<u>£ 21,328.4</u>

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

Three months ended September 30, 2019

Statement of operations	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
Revenue .....	£ —	£ —	£ —	£ —	£ —	£ 1,281.7	£ —	£ 1,281.7
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):								
Programming and other direct costs of services .....	—	—	—	—	—	406.1	—	406.1
Other operating .....	—	—	—	—	—	170.5	—	170.5
SG&A .....	0.4	—	—	—	—	168.8	—	169.2
Related-party fees and allocations, net .....	—	—	—	—	—	78.8	—	78.8
Depreciation and amortization .....	—	—	—	—	—	432.5	—	432.5
Impairment, restructuring and other operating items, net .....	—	—	—	—	—	5.4	—	5.4
	0.4	—	—	—	—	1,262.1	—	1,262.5
Operating income (loss) .....	(0.4)	—	—	—	—	19.6	—	19.2
Non-operating income (expense):								
Interest expense:								
Third-party .....	—	(17.4)	—	(26.3)	—	(119.9)	—	(163.6)
Intercompany and related-party .....	—	(98.7)	—	(83.9)	—	(218.2)	400.4	(0.4)
Interest income – related-party and intercompany .....	0.2	23.0	—	25.8	—	422.7	(400.4)	71.3
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party .....	—	—	—	259.2	—	(1.0)	—	258.2
Intercompany .....	—	57.2	—	(128.7)	—	71.5	—	—
Foreign currency transaction gains (losses), net .....	(6.0)	(114.9)	—	(108.8)	—	22.0	—	(207.7)
Realized and unrealized losses due to changes in fair values of certain debt, net .....	—	—	—	(2.2)	—	—	—	(2.2)
Losses on debt modification and extinguishment, net .....	—	—	—	—	—	(23.3)	—	(23.3)
Other income (expense), net .....	—	(0.1)	—	(0.1)	—	1.4	—	1.2
	(5.8)	(150.9)	—	(65.0)	—	155.2	—	(66.5)
Earnings (loss) before income taxes...	(6.2)	(150.9)	—	(65.0)	—	174.8	—	(47.3)
Income tax benefit (expense) .....	(11.3)	—	—	—	—	9.5	—	(1.8)
Earnings (loss) after income taxes .....	(17.5)	(150.9)	—	(65.0)	—	184.3	—	(49.1)
Equity in net earnings (loss) of subsidiaries .....	(32.6)	115.1	(35.6)	180.0	75.5	—	(302.4)	—
Net earnings (loss) .....	(50.1)	(35.8)	(35.6)	115.0	75.5	184.3	(302.4)	(49.1)
Net earnings attributable to noncontrolling interest .....	—	—	—	—	—	(1.0)	—	(1.0)
Net earnings (loss) attributable to parent .....	£ (50.1)	£ (35.8)	£ (35.6)	£ 115.0	£ 75.5	£ 183.3	£ (302.4)	£ (50.1)
Total comprehensive earnings (loss) .....	£ (38.6)	£ (32.8)	£ (32.6)	£ 118.0	£ 78.5	£ 187.3	£ (317.4)	£ (37.6)
Comprehensive earnings attributable to noncontrolling interest .....	—	—	—	—	—	(1.0)	—	(1.0)
Comprehensive earnings (loss) attributable to parent .....	£ (38.6)	£ (32.8)	£ (32.6)	£ 118.0	£ 78.5	£ 186.3	£ (317.4)	£ (38.6)

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

Nine months ended September 30, 2019

Statements of operations	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
Revenue .....	£ —	£ —	£ —	£ —	£ —	£ 3,836.5	£ —	£ 3,836.5
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):								
Programming and other direct costs of services .....	—	—	—	—	—	1,197.7	—	1,197.7
Other operating .....	—	—	—	—	—	513.7	—	513.7
SG&A .....	0.9	—	—	—	—	524.0	—	524.9
Related-party fees and allocations, net .....	—	—	—	—	—	182.0	—	182.0
Depreciation and amortization .....	—	—	—	—	—	1,320.1	—	1,320.1
Impairment, restructuring and other operating items, net .....	—	—	—	—	—	46.6	—	46.6
	0.9	—	—	—	—	3,784.1	—	3,785.0
Operating income (loss) .....	(0.9)	—	—	—	—	52.4	—	51.5
Non-operating income (expense):								
Interest expense:								
Third-party .....	—	(58.5)	—	(78.1)	—	(349.4)	—	(486.0)
Intercompany and related-party .....	—	(295.9)	—	(257.3)	—	(778.1)	1,329.8	(1.5)
Interest income – related-party and intercompany .....	0.4	77.3	0.5	74.4	—	1,390.4	(1,329.8)	213.2
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party .....	—	—	—	323.8	—	(3.9)	—	319.9
Intercompany and related-party .....	—	(6.7)	—	(105.1)	—	110.9	—	(0.9)
Foreign currency transaction gains (losses), net .....	(5.7)	(128.0)	—	(113.7)	—	9.2	—	(238.2)
Realized and unrealized losses due to changes in fair values of certain debt, net .....	—	—	—	(19.7)	—	—	—	(19.7)
Losses on debt modification and extinguishment, net .....	—	(17.7)	—	—	—	(43.5)	—	(61.2)
Other income (expense), net .....	—	(0.1)	—	(0.5)	—	4.3	—	3.7
	(5.3)	(429.6)	0.5	(176.2)	—	339.9	—	(270.7)
Earnings (loss) before income taxes ..	(6.2)	(429.6)	0.5	(176.2)	—	392.3	—	(219.2)
Income tax benefit (expense) .....	(25.3)	—	—	—	—	30.4	—	5.1
Earnings (loss) after income taxes .....	(31.5)	(429.6)	0.5	(176.2)	—	422.7	—	(214.1)
Equity in net earnings (loss) of subsidiaries .....	(185.6)	239.3	(190.2)	415.4	241.2	—	(520.1)	—
Net earnings (loss) .....	(217.1)	(190.3)	(189.7)	239.2	241.2	422.7	(520.1)	(214.1)
Net earnings attributable to noncontrolling interest .....	—	—	—	—	—	(3.0)	—	(3.0)
Net earnings (loss) attributable to parent .....	£ (217.1)	£ (190.3)	£ (189.7)	£ 239.2	£ 241.2	£ 419.7	£ (520.1)	£ (217.1)
Total comprehensive earnings (loss) ....	£ (203.1)	£ (186.0)	£ (185.4)	£ 243.5	£ 245.5	£ 427.0	£ (541.6)	£ (200.1)
Comprehensive earnings attributable to noncontrolling interest .....	—	—	—	—	—	(3.0)	—	(3.0)
Comprehensive earnings (loss) attributable to parent .....	£ (203.1)	£ (186.0)	£ (185.4)	£ 243.5	£ 245.5	£ 424.0	£ (541.6)	£ (203.1)

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

<b>Statement of cash flows</b>	<b>Nine months ended September 30, 2019</b>					
	<b>Virgin Media</b>	<b>Virgin Media Finance</b>	<b>Other guarantors</b>	<b>VMIH</b>	<b>All other subsidiaries</b>	<b>Total</b>
	<b>in millions</b>					
Cash flows from operating activities:						
Net cash provided (used) by operating activities .....	£ (18.3)	£ (166.8)	£ —	£ (364.8)	£ 1,806.0	£ 1,256.1
Cash flows from investing activities:						
Capital expenditures, net .....	—	—	—	—	(325.5)	(325.5)
Advances to related parties, net .....	—	—	—	—	(35.8)	(35.8)
Other investing activities, net .....	—	—	—	—	1.0	1.0
Net cash used by investing activities .....	—	—	—	—	(360.3)	(360.3)
Cash flows from financing activities:						
Repayments and repurchases of third-party debt and finance lease obligations .....	—	(319.6)	—	(1,991.7)	(1,210.6)	(3,521.9)
Borrowings of third-party debt .....	—	—	—	1,246.4	1,493.4	2,739.8
Payment of financing costs and debt premiums .....	—	(16.3)	—	—	(51.6)	(67.9)
Net repayments of related-party debt .....	—	—	—	—	(11.9)	(11.9)
Net cash paid related to derivative instruments .....	—	—	—	(2.2)	(5.1)	(7.3)
Contributions (distributions) .....	18.0	504.1	—	1,112.3	(1,634.4)	—
Other financing activities, net .....	—	—	—	—	0.5	0.5
Net cash provided (used) by financing activities .....	18.0	168.2	—	364.8	(1,419.7)	(868.7)
Effect of exchange rate changes on cash and cash equivalents and restricted cash .....						
	0.2	—	—	—	—	0.2
Net increase (decrease) in cash and cash equivalents and restricted cash .....	(0.1)	1.4	—	—	26.0	27.3
Cash and cash equivalents and restricted cash:						
Beginning of period .....	0.1	—	—	—	24.3	24.4
End of period .....	£ —	£ 1.4	£ —	£ —	£ 50.3	£ 51.7
Details of end of period cash and cash equivalents and restricted cash:						
Cash and cash equivalents .....	£ —	£ 1.4	£ —	£ —	£ 33.2	£ 34.6
Restricted cash included in other current assets .....	—	—	—	—	17.1	17.1
Total cash and cash equivalents and restricted cash ...	£ —	£ 1.4	£ —	£ —	£ 50.3	£ 51.7

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

**(14) 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, 2019, as required by the applicable underlying indentures. For the condensed consolidating financial information as of December 31, 2018 and for the three and nine months ended September 30, 2018, see our 2018 annual report and the September 30, 2018 quarterly report, respectively.

As of September 30, 2019, Virgin Media Secured Finance PLC (**Virgin Media Secured Finance**) is the issuer of the following senior secured notes:

- £300.0 million principal amount of 2025 VM 5.125% Sterling Senior Secured Notes;
- £521.3 million principal amount of 2025 VM 6.0% Sterling Senior Secured Notes;
- \$1,000.0 million (£813.7 million) principal amount of 2026 VM 5.25% Dollar Senior Secured Notes;
- \$750.0 million (£610.2 million) principal amount of 2026 VM 5.5% Dollar Senior Secured Notes;
- £525.0 million principal amount of 2027 VM 4.875% Sterling Senior Secured Notes;
- £675.0 million principal amount of 2027 VM 5.0% Sterling Senior Secured Notes;
- £360.0 million principal amount of 2029 VM 6.25% Sterling Senior Secured Notes;
- \$1,425.0 million (£1,159.5 million) principal amount of 2029 VM 5.50% Dollar Senior Secured Notes; and
- £340.0 million principal amount of 2029 VM 5.25% 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 Communications, 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, 2019**  
**(unaudited)**

Balance sheet	September 30, 2019					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents .....	£ —	£ —	£ 22.1	£ 12.5	£ —	£ 34.6
Related-party receivables.....	0.4	—	18.1	62.3	—	80.8
Other current assets:						
Third-party .....	5.8	0.6	744.6	258.4	—	1,009.4
Intercompany.....	—	21.7	50.9	—	(72.6)	—
Total current assets.....	6.2	22.3	835.7	333.2	(72.6)	1,124.8
Property and equipment, net .....	—	—	5,534.7	560.7	—	6,095.4
Goodwill.....	—	—	5,793.8	221.8	—	6,015.6
Investments in, and loans to, parent and subsidiary companies.....	6,402.5	5,209.0	(2,893.3)	3,571.7	(12,289.9)	—
Deferred income taxes .....	(0.8)	—	1,511.1	—	—	1,510.3
Related-party notes receivable .....	10.2	—	—	4,666.1	—	4,676.3
Other assets, net:						
Third-party .....	2.6	—	1,737.7	165.7	—	1,906.0
Intercompany .....	—	289.9	444.1	—	(734.0)	—
Total assets.....	£ 6,420.7	£ 5,521.2	£ 12,963.8	£ 9,519.2	£ (13,096.5)	£ 21,328.4
<b>LIABILITIES AND OWNERS' EQUITY</b>						
Current liabilities:						
Intercompany payables .....	£ —	£ —	£ 501.4	£ 368.0	£ (869.4)	£ —
Other current liabilities:						
Third-party .....	0.9	79.6	3,227.0	137.8	—	3,445.3
Intercompany and related-party .....	17.4	0.4	91.4	5.9	(72.6)	42.5
Total current liabilities.....	18.3	80.0	3,819.8	511.7	(942.0)	3,487.8
Long-term debt and finance lease obligations:						
Third-party .....	—	5,316.3	5,236.7	260.0	—	10,813.0
Related-party.....	—	—	—	45.7	—	45.7
Other long-term liabilities:						
Third-party .....	17.0	—	569.1	28.9	—	615.0
Intercompany and related-party .....	—	2.3	730.5	2.2	(734.0)	1.0
Total liabilities .....	35.3	5,398.6	10,356.1	848.5	(1,676.0)	14,962.5
Total parent's equity.....	6,385.4	122.6	2,607.7	8,690.2	(11,420.5)	6,385.4
Noncontrolling interest .....	—	—	—	(19.5)	—	(19.5)
Total owners' equity.....	6,385.4	122.6	2,607.7	8,670.7	(11,420.5)	6,365.9
Total liabilities and owners' equity....	£ 6,420.7	£ 5,521.2	£ 12,963.8	£ 9,519.2	£ (13,096.5)	£ 21,328.4

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

Three months ended September 30, 2019

Statements of operations	in millions					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Eliminations	Total
Revenue .....	£ —	£ —	£ 1,086.4	£ 195.3	£ —	£ 1,281.7
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):						
Programming and other direct costs of services .....	—	—	320.7	85.4	—	406.1
Other operating .....	—	—	159.7	10.8	—	170.5
SG&A .....	0.4	—	137.0	31.8	—	169.2
Related-party fees and allocations, net .....	—	—	61.0	17.8	—	78.8
Depreciation and amortization .....	—	—	401.0	31.5	—	432.5
Impairment, restructuring and other operating items, net .....	—	—	4.6	0.8	—	5.4
	<u>0.4</u>	<u>—</u>	<u>1,084.0</u>	<u>178.1</u>	<u>—</u>	<u>1,262.5</u>
Operating income (loss) .....	<u>(0.4)</u>	<u>—</u>	<u>2.4</u>	<u>17.2</u>	<u>—</u>	<u>19.2</u>
Non-operating income (expense):						
Interest expense:						
Third-party .....	—	(73.6)	(87.9)	(2.1)	—	(163.6)
Intercompany and related-party .....	—	—	(244.1)	(156.7)	400.4	(0.4)
Interest income – related-party and intercompany .....	0.2	67.7	210.6	193.2	(400.4)	71.3
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party .....	—	—	259.2	(1.0)	—	258.2
Intercompany .....	—	70.2	(71.4)	1.2	—	—
Foreign currency transaction gains (losses), net .....	(6.0)	34.7	(220.7)	(15.7)	—	(207.7)
Realized and unrealized losses due to changes in fair values of certain debt, net .....	—	—	(2.2)	—	—	(2.2)
Losses on debt modification and extinguishment, net .....	—	(23.3)	—	—	—	(23.3)
Other income (expense), net .....	—	—	1.3	(0.1)	—	1.2
	<u>(5.8)</u>	<u>75.7</u>	<u>(155.2)</u>	<u>18.8</u>	<u>—</u>	<u>(66.5)</u>
Earnings (loss) before income taxes .....	<u>(6.2)</u>	<u>75.7</u>	<u>(152.8)</u>	<u>36.0</u>	<u>—</u>	<u>(47.3)</u>
Income tax benefit (expense) .....	<u>(11.3)</u>	<u>—</u>	<u>9.5</u>	<u>—</u>	<u>—</u>	<u>(1.8)</u>
Earnings (loss) after income taxes .....	<u>(17.5)</u>	<u>75.7</u>	<u>(143.3)</u>	<u>36.0</u>	<u>—</u>	<u>(49.1)</u>
Equity in net earnings (loss) of subsidiaries ...	<u>(32.6)</u>	<u>—</u>	<u>107.6</u>	<u>(70.5)</u>	<u>(4.5)</u>	<u>—</u>
Net earnings (loss) .....	<u>(50.1)</u>	<u>75.7</u>	<u>(35.7)</u>	<u>(34.5)</u>	<u>(4.5)</u>	<u>(49.1)</u>
Net earnings attributable to noncontrolling interest .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1.0)</u>	<u>—</u>	<u>(1.0)</u>
Net earnings (loss) attributable to parent .....	<u>£ (50.1)</u>	<u>£ 75.7</u>	<u>£ (35.7)</u>	<u>£ (35.5)</u>	<u>£ (4.5)</u>	<u>£ (50.1)</u>
Total comprehensive earnings (loss) .....	<u>£ (38.6)</u>	<u>£ 75.7</u>	<u>£ (32.7)</u>	<u>£ (31.5)</u>	<u>£ (10.5)</u>	<u>£ (37.6)</u>
Comprehensive earnings attributable to noncontrolling interest .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1.0)</u>	<u>—</u>	<u>(1.0)</u>
Comprehensive earnings (loss) attributable to parent .....	<u>£ (38.6)</u>	<u>£ 75.7</u>	<u>£ (32.7)</u>	<u>£ (32.5)</u>	<u>£ (10.5)</u>	<u>£ (38.6)</u>

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

Statement of operations	Nine months ended September 30, 2019					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
	in millions					
Revenue .....	£ —	£ —	£ 3,368.8	£ 467.7	£ —	£ 3,836.5
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):						
Programming and other direct costs of services .....	—	—	1,028.1	169.6	—	1,197.7
Other operating .....	—	—	466.4	47.3	—	513.7
SG&A .....	0.9	—	453.5	70.5	—	524.9
Related-party fees and allocations, net .....	—	—	139.6	42.4	—	182.0
Depreciation and amortization .....	—	—	1,223.6	96.5	—	1,320.1
Impairment, restructuring and other operating items, net .....	—	—	40.4	6.2	—	46.6
	0.9	—	3,351.6	432.5	—	3,785.0
Operating income (loss) .....	(0.9)	—	17.2	35.2	—	51.5
Non-operating income (expense):						
Interest expense:						
Third-party .....	—	(211.4)	(268.3)	(6.3)	—	(486.0)
Intercompany and related-party .....	—	—	(887.7)	(443.6)	1,329.8	(1.5)
Interest income – related-party and intercompany .....	0.4	204.3	687.1	651.2	(1,329.8)	213.2
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party .....	—	—	323.8	(3.9)	—	319.9
Related-party .....	—	109.7	(112.6)	2.0	—	(0.9)
Foreign currency transaction gains (losses), net .....	(5.7)	27.3	(241.8)	(18.0)	—	(238.2)
Realized and unrealized losses due to changes in fair values of certain debt, net ...	—	—	(19.7)	—	—	(19.7)
Losses on debt modification and extinguishment, net .....	—	(43.5)	(17.7)	—	—	(61.2)
Other income, net .....	—	—	3.7	—	—	3.7
	(5.3)	86.4	(533.2)	181.4	—	(270.7)
Earnings (loss) before income taxes .....	(6.2)	86.4	(516.0)	216.6	—	(219.2)
Income tax benefit (expense) .....	(25.3)	—	30.4	—	—	5.1
Earnings (loss) after income taxes .....	(31.5)	86.4	(485.6)	216.6	—	(214.1)
Equity in net earnings (loss) of subsidiaries .....	(185.6)	—	295.3	(403.3)	293.6	—
Net earnings (loss) .....	(217.1)	86.4	(190.3)	(186.7)	293.6	(214.1)
Net earnings attributable to noncontrolling interest .....	—	—	—	(3.0)	—	(3.0)
Net earnings (loss) attributable to parent .....	£ (217.1)	£ 86.4	£ (190.3)	£ (189.7)	£ 293.6	£ (217.1)
Total comprehensive earnings (loss) .....	£ (203.1)	£ 86.4	£ (186.0)	£ (182.4)	£ 285.0	£ (200.1)
Comprehensive earnings attributable to noncontrolling interest .....	—	—	—	(3.0)	—	(3.0)
Comprehensive earnings (loss) attributable to parent .....	£ (203.1)	£ 86.4	£ (186.0)	£ (185.4)	£ 285.0	£ (203.1)

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

Statement of cash flows	Nine months ended September 30, 2019				
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Total
	in millions				
Cash flows from operating activities:					
Net cash provided (used) by operating activities .....	£ (18.3)	£ (118.2)	£ 769.7	£ 622.9	£ 1,256.1
Cash flows from investing activities:					
Capital expenditures, net .....	—	—	(295.9)	(29.6)	(325.5)
Advances to related parties, net .....	—	—	—	(35.8)	(35.8)
Other investing activities, net .....	—	—	1.0	—	1.0
Net cash used by investing activities .....	—	—	(294.9)	(65.4)	(360.3)
Cash flows from financing activities:					
Repayments and repurchases of third-party debt and finance lease obligations .....	—	(1,170.6)	(2,316.5)	(34.8)	(3,521.9)
Borrowings of third-party debt .....	—	1,474.0	1,246.4	19.4	2,739.8
Payment of financing costs and debt premiums .....	—	(49.9)	(16.3)	(1.7)	(67.9)
Net repayments of related party debt .....	—	—	—	(11.9)	(11.9)
Net cash paid related to derivative instruments .....	—	(5.1)	(2.2)	—	(7.3)
Contributions (distributions) .....	18.0	(130.2)	644.5	(532.3)	—
Other financing activities, net .....	—	—	(4.6)	5.1	0.5
Net cash provided (used) by financing activities ...	18.0	118.2	(448.7)	(556.2)	(868.7)
Effect of exchange rate changes on cash and cash equivalents and restricted cash .....					
Net increase (decrease) in cash and cash equivalents and restricted cash .....	0.2	—	—	—	0.2
Cash and cash equivalents and restricted cash:					
Beginning of period .....	0.1	—	10.3	14.0	24.4
End of period .....	£ —	£ —	£ 36.4	£ 15.3	£ 51.7
Details of end of period cash and cash equivalents and restricted cash:					
Cash and cash equivalents .....	£ —	£ —	£ 22.1	£ 12.5	£ 34.6
Restricted cash included in other current assets .....	—	—	14.3	2.8	17.1
Total cash and cash equivalents and restricted cash .....	£ —	£ —	£ 36.4	£ 15.3	£ 51.7

**VIRGIN MEDIA INC.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**September 30, 2019**  
**(unaudited)**

**(15) Subsequent Events**

In October 2019, we (i) entered into a \$3,300.0 million (£2,685.1 million) U.S. dollar-denominated term loan facility (**VM Facility N**) and a €750.0 million (£665.4 million) euro-denominated term loan facility (**VM Facility O**), which were both issued at 99.75% of par, and (ii) issued £400.0 million principal amount of 4.250% sterling-denominated senior secured notes (the **2030 VM Senior Secured Notes**) at par. The net proceeds from these transactions, together with certain other funds, were used to (a) prepay in full the \$3,400.0 million (£2,766.5 million) outstanding principal amount on VM Facility K under the VM Credit Facilities and (b) redeem in full (1) \$1,000.0 million (£813.7 million) outstanding principal amount of the 2026 VM 5.25% Dollar Senior Secured Notes and (2) £300.0 million outstanding principal amount of the 2025 VM 5.125% Sterling Senior Secured Notes.

VM Facility N matures on January 31, 2028, bears interest at a rate of LIBOR plus 2.50% per annum and is subject to a LIBOR floor of 0.0%. VM Facility O matures on January 31, 2029, bears interest at a rate of EURIBOR plus 2.50% per annum and is subject to a EURIBOR floor of 0.0%.

Subject to certain exceptions as specified in the indenture, the 2030 VM Senior Secured Notes are non-callable prior to October 15, 2024. At any time prior to October 15, 2024, we may redeem some or all of the 2030 VM Senior Secured Notes by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments through October 15, 2024 using the discount rate (as specified in the indenture) as of the redemption date plus 50 basis points.

On or after October 15, 2024, we may redeem some or all of the 2030 VM Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the indenture), if any, to but excluding the redemption date, as set forth below:

	<b>2030 VM Senior Secured Notes</b>
12-month period commencing October 15:	
2024 .....	102.125%
2025 .....	101.063%
2026 .....	100.531%
2027 and thereafter .....	100.000%

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2018 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, 2019 and 2018.
- *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, 2019.

### 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, interest rate risks, target leverage levels, debt covenants, 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 2018 annual report, as well as the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we operate;
- the competitive environment in the cable television, broadband and telecommunications industries in the U.K. and Ireland, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the E.U. and related fiscal reforms;
- the pending exit of the U.K. from the E.U.;
- 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 market participants. 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, 2019, our network passed 15,694,900 homes and served 14,668,500 revenue generating units (**RGUs**), consisting of 5,648,300 broadband internet subscribers, 4,978,300 fixed-line telephony subscribers and 4,041,900 video subscribers. In addition, at September 30, 2019, we served 3,235,000 mobile subscribers.

During the first nine months of 2019, pursuant to the Network Extension, we connected approximately 351,000 additional residential and commercial premises (excluding upgrades) to our two-way networks in the U.K. and Ireland. Depending on a variety of factors, including the financial and operational results of this program, 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. The significant competition we are experiencing, together with macroeconomic and regulatory 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**.” Following the failure to reach a separation deal by previous deadlines of March 29, 2019 and October 31, 2019, the E.U. granted the U.K. an additional extension until January 31, 2020. Uncertainty remains as to what kind of separation agreement, if any, may be approved by the U.K. Parliament. It is possible that the U.K. will again fail to reach a separation agreement with the E.U. by the new deadline which, absent another extension, would require the U.K. to leave the E.U. under a so-called “hard Brexit” or “no-deal Brexit” without agreements on trade, finance and other key elements. The foregoing has caused considerable uncertainty as to Brexit’s impact on the free movement of goods, services, people, data and capital between the U.K. and the E.U., customer behavior, economic conditions, interest rates, currency exchange rates and availability of capital. The effects of Brexit could adversely affect our business, results of operations, financial condition and liquidity.



The U.K. Office of Communications (**Ofcom**) is the key regulatory authority for the communications sector in which we operate in the U.K. Ofcom has recently issued new regulatory requirements that, effective in February 2020, will obligate us to (i) alert customers who are approaching the end of a minimum contract term to the fact that their contract period is coming to an end and to set out the best new price that we can offer them and (ii) once a year, alert customers who are out of contract to that fact and again confirm the best new price we can offer them. In both cases, we must also set out the price available to new customers for an equivalent service offering. These requirements could limit our ability to maintain or increase our revenue in future periods.

## **Material Changes in Results of Operations**

### **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.

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)
	2019	2018	£	%	%
<b>in millions, except percentages</b>					
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Video .....	£ 266.8	£ 262.9	£ 3.9	1.5	1.4
Broadband internet.....	418.6	395.0	23.6	6.0	5.9
Fixed-line telephony .....	211.0	229.2	(18.2)	(7.9)	(8.0)
Total subscription revenue.....	896.4	887.1	9.3	1.0	1.0
Non-subscription revenue .....	13.9	17.8	(3.9)	(21.9)	(22.2)
Total residential cable revenue.....	910.3	904.9	5.4	0.6	0.5
Residential mobile revenue (c):					
Subscription revenue (b) .....	92.6	96.3	(3.7)	(3.8)	(3.9)
Non-subscription revenue .....	72.5	72.9	(0.4)	(0.5)	(0.6)
Total residential mobile revenue .....	165.1	169.2	(4.1)	(2.4)	(2.5)
Total residential revenue.....	1,075.4	1,074.1	1.3	0.1	0.1
B2B revenue (d):					
Subscription revenue .....	22.6	19.5	3.1	15.9	14.0
Non-subscription revenue.....	167.9	171.6	(3.7)	(2.2)	(2.0)
Total B2B revenue.....	190.5	191.1	(0.6)	(0.3)	(0.4)
Other revenue (e) .....					
Total.....	£ 1,281.7	£ 1,279.7	£ 2.0	0.2	0.1

	Nine months ended September 30,		Increase (decrease)		Organic increase (decrease)
	2019	2018	£	%	%
in millions, except percentages					
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Video .....	£ 797.1	£ 779.9	£ 17.2	2.2	2.2
Broadband internet.....	1,249.9	1,196.1	53.8	4.5	4.5
Fixed-line telephony .....	644.9	689.9	(45.0)	(6.5)	(6.5)
Total subscription revenue.....	2,691.9	2,665.9	26.0	1.0	1.0
Non-subscription revenue.....	43.3	52.7	(9.4)	(17.8)	(17.9)
Total residential cable revenue.....	2,735.2	2,718.6	16.6	0.6	0.6
Residential mobile revenue (c):					
Subscription revenue (b).....	269.3	270.9	(1.6)	(0.6)	(0.6)
Non-subscription revenue.....	209.4	220.8	(11.4)	(5.2)	(5.2)
Total residential mobile revenue .....	478.7	491.7	(13.0)	(2.6)	(2.6)
Total residential revenue .....	3,213.9	3,210.3	3.6	0.1	0.1
B2B revenue (d):					
Subscription revenue.....	66.0	56.0	10.0	17.9	17.1
Non-subscription revenue .....	507.8	518.5	(10.7)	(2.1)	(2.0)
Total B2B revenue .....	573.8	574.5	(0.7)	(0.1)	(0.1)
Other revenue (e).....					
Total.....	£ 3,836.5	£ 3,832.4	£ 4.1	0.1	0.1

- (a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services and the recognition of deferred installation revenue over the associated contract period. Residential cable non-subscription revenue includes, among other items, channel carriage fees, 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 £15.5 million and £14.8 million during the three months ended September 30, 2019 and 2018, respectively, and £46.8 million and £42.8 million during the nine months ended September 30, 2019 and 2018, 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 increase 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 increases in our revenue during the three and nine months ended September 30, 2019, as compared to the corresponding periods in 2018, 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 (decrease) in residential cable subscription revenue due to change in:						
Average number of RGUs (a).....	£ 5.0	£ —	£ 5.0	£ 35.2	£ —	£ 35.2
ARPU (b).....	3.7	—	3.7	(9.1)	—	(9.1)
Decrease in residential cable non-subscription revenue (c).....	—	(4.0)	(4.0)	—	(9.4)	(9.4)
Total increase (decrease) in residential cable revenue.....	8.7	(4.0)	4.7	26.1	(9.4)	16.7
Decrease in residential mobile revenue (d).....	(3.6)	(0.4)	(4.0)	(1.5)	(11.6)	(13.1)
Increase (decrease) in B2B revenue (e)....	3.0	(4.1)	(1.1)	10.0	(10.6)	(0.6)
Increase in other revenue.....	—	1.4	1.4	—	1.5	1.5
Total organic increase (decrease) .....	8.1	(7.1)	1.0	34.6	(30.1)	4.5
Impact of foreign currency translation effects (FX).....	0.6	0.4	1.0	(0.3)	(0.1)	(0.4)
Total.....	£ 8.7	£ (6.7)	£ 2.0	£ 34.3	£ (30.2)	£ 4.1

- (a) The increases in residential cable subscription revenue related to changes in the average number of RGUs are attributable to the net effect of (i) increases in the average number of broadband internet and fixed-line telephony RGUs and (ii) decreases in the average number of video RGUs.
- (b) The changes in cable subscription revenue related to changes in ARPU are attributable to the net effect of (i) a net increase for the three-month comparison and a net decrease for the nine-month comparison due to (a) lower ARPU from fixed-line telephony services and (b) higher ARPU from broadband internet and video services and (ii) adverse changes in RGU mix.
- (c) The decreases in residential cable non-subscription revenue are primarily attributable to our operations in the U.K., including decreases in (i) revenue from late fees, (ii) installation revenue and (iii) channel carriage fees.
- (d) The decreases in residential mobile subscription revenue are primarily due to lower ARPU, partially offset by increases in the average number of mobile subscribers. The decreases in residential mobile subscription revenue also include the unfavorable impact of £2.9 million of revenue recognized during the third quarter of 2018 related to the expected recovery of certain prior-period VAT payments. The decreases in residential mobile non-subscription revenue are primarily attributable to our operations in the U.K., including the net effect of (i) decreases in revenue from mobile handset sales, which typically generate relatively low margins, and (ii) for the nine-month comparison, £4.1 million of revenue recognized during the second quarter of 2019 in connection with the sale of rights to future commission payments on customer handset insurance arrangements.
- (e) 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 decreases in B2B non-subscription revenue are primarily attributable to our operations in the U.K., including the net effect of (i) lower revenue from data services, (ii) lower installation revenue, (iii) increases in revenue associated with long-term leases of a portion of our network in the U.K. and (iv) higher revenue related to business network services.

### ***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 £15.8 million or 4.0% and £32.7 million or 2.8% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. On an organic basis, our programming and other direct costs of services increased £15.5 million or 4.0% and £33.1 million or 2.8%, respectively. These increases include the following factors:

- Increases in programming and copyright costs of £9.7 million or 4.4% and £34.4 million or 5.3%, respectively, primarily due to higher costs for certain premium and/or basic content;
- An increase (decrease) in mobile handset and other device costs of £0.6 million or 1.2% and (£17.0 million) or (11.8%), respectively, primarily due to the net effect of (i) higher sales volumes for the three-month comparison and lower sales volumes for the nine-month comparison and (ii) a lower average cost per handset sold; and
- Increases in interconnect and access costs of £4.1 million or 4.1% and £14.5 million or 5.1%, respectively, primarily due to (i) increases in interconnect and roaming costs and (ii) for the nine-month comparison, higher costs of £3.9 million due to the impact of a credit recorded during the second quarter of 2018 in connection with a telecommunications operator's agreement to compensate communications providers, including our company, for certain contractual breaches related to network charges.

### ***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 £4.4 million or 2.6% and £13.4 million or 2.7% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. On an organic basis, our other operating expenses increased £4.1 million or 2.5% and £13.3 million or 2.7%, respectively. These increases include the following factors:

- Increases in network infrastructure charges of £8.8 million and £22.1 million, respectively, following an increase in the rateable value of certain of our assets. For additional information, see "Other Regulatory Issues" in note 11 to our condensed consolidated financial statements; and
- Decreases in personnel costs of £5.6 million or 11.0% and £9.7 million or 6.2%, respectively, primarily due to the net effect of (i) lower staffing levels, (ii) lower capitalizable labor activities, (iii) higher average costs per employee and (iv) decreases in temporary personnel costs.

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

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

Our SG&A expenses increased £9.7 million or 6.1% and £19.8 million or 3.9% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. Our SG&A expenses include share-based compensation expense, which increased £5.1 million and £20.9 million during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. On an organic basis, and excluding share-based compensation, our SG&A expenses increased (decreased) £4.5 million or 2.9% and (£1.0 million) or (0.2%), respectively. These changes include the following factors:

- An increase (decrease) in external sales and marketing costs of £4.4 million or 10.2% and (£5.8 million) or (4.0%), respectively, primarily due to the net effect of (i) higher costs for the three-month comparison and lower costs for the nine-month comparison associated with advertising campaigns and (ii) higher costs associated with third-party sales commissions;
- Decreases in business service and certain other costs of £1.1 million or 8.4% and £5.3 million or 12.0%, respectively. The decrease for the nine-month comparison is primarily due to lower costs of £5.0 million due to the impact of a reassessment of an accrual in the second quarter of 2018; and
- An increase (decrease) in personnel costs of (£4.0 million) or (6.1%) and £3.2 million or 1.7%, respectively, primarily due to the net effect of (i) higher average costs per employee and (ii) lower staffing levels. A portion of the higher average costs per employee for the nine-month comparison is attributable to higher severance costs of £4.9 million associated with revisions to our operating model and decreases in senior management personnel.

### ***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 £78.8 million and £182.0 million during the three and nine months ended September 30, 2019, respectively, as compared to £43.4 million and £106.1 million during the three and nine months ended September 30, 2018, 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 10 to our condensed consolidated financial statements.

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

Our depreciation and amortization expense decreased £19.7 million or 4.4% and £23.1 million or 1.7% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. Excluding the effects of FX, depreciation and amortization expense decreased £19.8 million or 4.4% and £22.9 million or 1.7%, respectively, as compared to the corresponding periods in 2018. These decreases are primarily due to the net effect of (i) decreases associated with certain assets becoming fully depreciated, (ii) 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 (iii) decreases due to accelerated amortization during the 2018 periods.

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

We recognized impairment, restructuring and other operating items, net, of £5.4 million and £46.6 million during the three and nine months ended September 30, 2019, respectively, as compared to £65.7 million and £77.2 million during the three and nine months ended September 30, 2018, respectively. The 2019 amounts primarily include (i) restructuring charges of £6.0 million and £27.0 million, respectively, primarily due to certain reorganization activities that resulted in employee severance and termination costs and costs related to property closures, and (ii) for the nine-month period, impairment charges of £17.1 million related to the write-off of certain network assets during the three months ended March 31, 2019. The 2018 amounts primarily include (a) 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 (b) restructuring charges of £5.0 million and £13.6 million, respectively, predominantly related to employee severance and termination

costs for certain reorganization activities. For additional information regarding the aforementioned VAT matter, see note 11 to our condensed consolidated financial statements.

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

Our third-party interest expense decreased £4.4 million or 2.6% and £3.0 million or 0.6% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018. These decreases are due to the net effect (i) lower average outstanding third-party debt balances and (ii) for the nine-month comparison, higher weighted average interest rates. For additional information regarding our outstanding third-party indebtedness, see note 7 to our condensed consolidated financial statements.

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

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 we 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, 2019 as compared to the corresponding periods in 2018. For additional information regarding our related-party indebtedness, see note 10 to our condensed consolidated financial statements.

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

Our related-party interest income decreased £6.4 million or 8.2% and £26.6 million or 11.1% during the three and nine months ended September 30, 2019, respectively, as compared to the corresponding periods in 2018, primarily due to lower average outstanding balances on intercompany notes receivable due from LG Europe 2. For additional information, see note 10 to our condensed consolidated financial statements.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	in millions			
Cross-currency and interest rate derivative contracts (a).....	£ 257.6	£ 69.3	£ 318.3	£ 242.5
Foreign currency forward and option contracts:				
Third-party.....	0.6	—	1.6	—
Related-party .....	—	0.4	(0.9)	(0.2)
Total.....	<u>£ 258.2</u>	<u>£ 69.7</u>	<u>£ 319.0</u>	<u>£ 242.3</u>

- (a) The results for the 2019 periods are primarily attributable to (i) net gains associated with changes in the relative value of certain currencies and (ii) for the nine-month period, net gains associated with changes in certain market interest rates. In addition, the results for the 2019 periods include net losses of £15.1 million and £17.3 million, respectively, resulting from changes in our credit risk valuation adjustments. The results for the 2018 periods are primarily attributable to the net effect of (a) net gains associated with changes in the relative value of certain currencies and (b) for the nine-month period, net losses associated with changes in certain market interest rates. In addition, the results from the 2018 periods include net losses of £13.0 million and £22.5 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 losses, net**

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	in millions			
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a).....	£ (101.7)	£ (28.4)	£ (117.3)	£ (110.7)
U.S. dollar-denominated debt issued by our company .....	(100.8)	(53.9)	(112.5)	(116.2)
Euro-denominated debt issued by our company .....	(3.5)	13.2	(5.2)	(0.7)
Other .....	(1.7)	(0.1)	(3.2)	(0.8)
Total.....	<u>£ (207.7)</u>	<u>£ (69.2)</u>	<u>£ (238.2)</u>	<u>£ (228.4)</u>

- (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 (£2.2 million) and (£19.7 million) during the three and nine months ended September 30, 2019, respectively, as compared to (£0.9 million) and £4.6 million during the three and nine months ended September 30, 2018, 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 losses on debt modification and extinguishment of £23.3 million and £17.4 million during the three and nine months ended September 30, 2019 and 2018, respectively, and £61.2 million and £17.4 million during the nine months ended September 30, 2019 and 2018, respectively. The loss during the nine months ended September 30, 2019 is primarily attributable to the payment of £60.1 million of redemption premiums (including £25.7 million during the third quarter). The losses during the 2018 periods are primarily attributable to the payment of £13.5 million of redemption premiums during the third quarter. For additional information concerning our losses on debt modification and extinguishment, net, see note 7 to our condensed consolidated financial statements.

### ***Income tax benefit (expense)***

We recognized income tax benefit (expense) of (£1.8 million) and £12.8 million during the three months ended September 30, 2019 and 2018, respectively.

The income tax expense during the three months ended September 30, 2019 differs from the expected income tax benefit of £9.9 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, (ii) statutory tax rates in certain jurisdictions in which we operate that are lower than the U.S. federal income tax rate and (iii) an increase in valuation allowances. The net negative impact of these items was partially offset by the net positive impact of an increase in deferred tax assets in the U.K. due to enacted tax law rate changes.

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

We recognized income tax benefit of £5.1 million and £25.4 million during the nine months ended September 30, 2019 and 2018, respectively.

The income tax benefit during the nine months ended September 30, 2019 differs from the expected income tax benefit of £46.0 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, (ii) statutory tax rates in certain jurisdictions in which we operate that are lower than the U.S. federal income tax rate, (iii) a decrease in deferred tax assets in the U.K. due to enacted tax law rate changes and (iv) an increase in valuation allowances.

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.

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

## *Net loss*

During the three months ended September 30, 2019 and 2018, we reported net losses of £49.1 million and £90.9 million, respectively, including (i) operating income of £19.2 million and £2.5 million, respectively, (ii) net non-operating expense of £66.5 million and £106.2 million, respectively, and (iii) income tax benefit (expense) of (£1.8 million) and £12.8 million, respectively.

During the nine months ended September 30, 2019 and 2018, we reported net losses of £214.1 million and £82.8 million, respectively, including (i) operating income of £51.5 million and £135.5 million, respectively, (ii) net non-operating expense of £270.7 million and £243.7 million, respectively, and (iii) income tax benefit of £5.1 million and £25.4 million, respectively.

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

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

## **Material Changes in Financial Condition**

### *Sources and Uses of Cash*

#### *Cash and cash equivalents*

At September 30, 2019, we had cash and cash equivalents of £34.6 million, all of which was held by our subsidiaries. The terms of the instruments governing the indebtedness of certain of these subsidiaries may restrict our ability to access the liquidity of these subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal considerations and other factors.

#### *Liquidity of Virgin Media*

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

The ongoing cash needs of Virgin Media include corporate general and administrative expenses. 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, 2019, the outstanding principal amount of our consolidated third-party debt, together with our finance lease obligations, aggregated £12,711.4 million, including £1,879.8 million that is classified as current on our condensed consolidated balance sheet and £9,231.3 million that is not due until 2025 or thereafter. For additional information regarding our debt and finance lease maturities, see notes 7 and 8, respectively, 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, 2019, we believe we have sufficient resources to repay or refinance the current portion of our debt and finance 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 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. Our ability to access debt financing on favorable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties, which 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. 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 third-party debt and finance lease obligations at September 30, 2019 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and finance lease obligations, see notes 7 and 8, respectively, 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, 2019 and 2018 are summarized as follows:

	Nine months ended September 30,		Change
	2019	2018	
	in millions		
Net cash provided by operating activities .....	£ 1,256.1	£ 1,450.6	£ (194.5)
Net cash used by investing activities .....	(360.3)	(108.5)	(251.8)
Net cash used by financing activities .....	(868.7)	(1,332.6)	463.9
Effect of exchange rate changes on cash and cash equivalents and restricted cash .....	0.2	0.1	0.1
Net increase in cash and cash equivalents and restricted cash .....	<u>£ 27.3</u>	<u>£ 9.6</u>	<u>£ 17.7</u>

*Operating Activities.* The decrease in net cash provided by our operating activities is primarily attributable to decreases in cash provided (i) by our Segment OCF and related working capital items, (ii) due to higher cash payments related to derivative instruments and (iii) due to lower receipts of related-party interest income.

*Investing Activities.* The increase in net cash used by our investing activities is primarily attributable to the net effect of (i) an increase in cash used of £256.5 million related to higher net advances to related parties and (ii) a decrease in cash used of £2.2 million due to lower capital expenditures.

The capital expenditures we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or finance lease arrangements. Instead, these amounts are reflected as non-cash additions to our property 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 finance 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 finance 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 net capital expenditures as reported in our condensed consolidated statements of cash flows is set forth below:

	Nine months ended September 30,	
	2019	2018
	in millions	
Property and equipment additions .....	£ 886.0	£ 1,104.7
Assets acquired under capital-related vendor financing arrangements .....	(625.7)	(810.0)
Assets acquired under finance leases .....	(5.4)	(4.7)
Changes in current liabilities related to net capital expenditures, net (including related-party amounts)....	70.6	37.7
Capital expenditures, net .....	<u>£ 325.5</u>	<u>£ 327.7</u>

The decrease in our property and equipment additions during the nine months ended September 30, 2019, as compared to the corresponding period in 2018, is primarily due to decreases in (i) expenditures for the purchase and installation of customer premises equipment, (ii) baseline expenditures, including network improvements and expenditures for property and facilities and information technology systems, and (iii) expenditures for new build and upgrade projects, including the Network Extension. For additional information regarding the Network Extension, see *Overview* above.

*Financing Activities.* The decrease in net cash used by our financing activities is primarily attributable to the net effect of (i) a decrease in cash used of £535.6 million related to lower net repayments of third-party debt and finance lease obligations and (ii) an increase in cash used of £48.8 million due to higher payments of financing costs and debt premiums.

### **Contractual Commitments**

The pound sterling equivalents of our commitments as of September 30, 2019 are presented below:

	Payments due during:							Total
	Remainder of 2019	2020	2021	2022	2023	2024	Thereafter	
	in millions							
Debt (excluding interest):								
Third-party.....	£ 650.9	£ 1,227.2	£ 582.4	£ 250.2	£ 155.1	£ 593.6	£ 9,197.7	£12,657.1
Related-party .....	—	—	45.7	—	—	—	—	45.7
Finance leases (excluding interest).....	1.9	4.3	4.1	6.2	3.9	0.3	33.6	54.3
Operating leases.....	9.4	33.9	29.4	24.9	21.6	17.4	53.1	189.7
Programming commitments (a).....	183.2	735.2	590.2	235.7	11.0	10.9	23.7	1,789.9
Network and connectivity commitments .....	202.3	279.4	174.7	26.5	3.1	2.1	7.4	695.5
Purchase commitments .....	134.5	127.0	51.7	11.0	1.0	0.1	0.1	325.4
Other commitments.....	8.2	9.8	1.5	0.8	—	—	—	20.3
Total (b).....	<u>£ 1,190.4</u>	<u>£ 2,416.8</u>	<u>£ 1,479.7</u>	<u>£ 555.3</u>	<u>£ 195.7</u>	<u>£ 624.4</u>	<u>£ 9,315.6</u>	<u>£15,777.9</u>
Projected cash interest payments on third-party debt and finance lease obligations (c).....	<u>£ 91.7</u>	<u>£ 650.5</u>	<u>£ 595.0</u>	<u>£ 573.1</u>	<u>£ 561.5</u>	<u>£ 528.9</u>	<u>£ 1,170.2</u>	<u>£ 4,170.9</u>

- (a) Includes £2.7 million, £4.0 million and £0.8 million of related-party programming obligations due during the remainder of 2019, 2020 and 2021, respectively.
- (b) The commitments included in this table do not reflect any liabilities that are included on our September 30, 2019 condensed consolidated balance sheet other than debt and finance and operating lease obligations.
- (c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of September 30, 2019. 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 obligations, finance and operating lease obligations and commitments, see notes 7, 8 and 11, respectively, 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, 2019 and 2018, 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 rate projections and exchange rates as of September 30, 2019. 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.

	<b>Payments (receipts) due during:</b>							<b>Total</b>
	<b>Remainder of 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>	
	<b>in millions</b>							
Projected derivative cash payments (receipts), net:								
Interest-related (a) .....	£ (213.6)	£ (8.8)	£ (24.5)	£ (10.6)	£ (10.0)	£ (16.9)	£ 40.1	£ (244.3)
Principal-related (b).....	4.5	—	(75.4)	(129.5)	(189.3)	(83.2)	(541.1)	(1,014.0)
Other (c) .....	(0.5)	(0.2)	—	—	—	—	—	(0.7)
<b>Total.....</b>	<b>£ (209.6)</b>	<b>£ (9.0)</b>	<b>£ (99.9)</b>	<b>£ (140.1)</b>	<b>£ (199.3)</b>	<b>£ (100.1)</b>	<b>£ (501.0)</b>	<b>£ (1,259.0)</b>

- (a) Includes the principal-related cash flows of our cross-currency swap contracts.
- (b) 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.
- (c) Includes amounts related to our foreign currency forward contracts.