Condensed Combined Financial Statements
March 31, 2021

THE VIRGIN MEDIA GROUP
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United States

THE VIRGIN MEDIA GROUP

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THE VIRGIN MEDIA GROUP
CONDENSED COMBINED BALANCE SHEETS
(unaudited)

	March 31, 2021	December 31, 2020
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	£ 6.3	£ 22.0
Trade receivables, net	469.9	488.7
Related-party receivables (note 10)	1,137.2	694.5
Prepaid expenses	102.3	61.2
Other current assets (notes 3, 4, 5 and 10)	195.6	217.0
Total current assets	1,911.3	1,483.4
Property and equipment, net (notes 6 and 8)	5,817.8	5,944.8
Goodwill (note 6)	5,955.9	6,017.7
Deferred income taxes (note 9)	1,705.0	1,743.2
Related-party notes receivable (note 10)	5,447.7	4,807.8
Other assets, net (notes 3, 4, 5, 6 and 8)	832.2	723.3
Total assets	£ 21,669.9	£ 20,720.2

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED BALANCE SHEETS — (Continued)
(unaudited)

	March 31, 2021	December 31, 2020
	in millions	
LIABILITIES AND COMBINED EQUITY		
Current liabilities:		
Accounts payable (note 10)	£ 324.1	£ 370.2
Deferred revenue (notes 3 and 10)	340.6	340.8
Current portion of debt and finance lease obligations (notes 7, 8 and 10)	2,178.6	2,040.3
Other current liabilities (notes 3, 4, 5, 8 and 10)	939.8	1,160.3
Total current liabilities	3,783.1	3,911.6
Long-term debt and finance lease obligations (notes 7, 8 and 10)	10,305.8	9,887.6
Other long-term liabilities (notes 3, 4, 5, 8 and 10)	776.8	818.2
Total liabilities	14,865.7	14,617.4
Commitments and contingencies (notes 4, 5, 7, 8 and 11)		
Combined equity:		
Parent entities:		
Common stock	10.7	—
Additional paid-in capital	8,312.8	7,727.6
Accumulated deficit	(1,602.5)	(1,679.0)
Accumulated other comprehensive earnings, net of taxes	70.0	64.5
Total combined equity attributable to parent entities	6,791.0	6,113.1
Noncontrolling interest	13.2	(10.3)
Total combined equity	6,804.2	6,102.8
Total liabilities and combined equity	£ 21,669.9	£ 20,720.2

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31,	
	2021	**2020**
	in millions	
Revenue (notes 3 and 12)	£ 1,268.8	£ 1,266.3
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):		
Programming and other direct costs of services (note 10)	400.5	403.6
Other operating (note 10)	192.1	188.8
Selling, general and administrative (**SG&A**) (note 10)	177.8	170.8
Related-party fees and allocations, net (note 10)	78.9	74.2
Depreciation and amortization	320.9	339.3
Impairment, restructuring and other operating items, net	—	4.8
	1,170.2	1,181.5
Operating income	98.6	84.8
Non-operating income (expense):		
Interest expense (note 10)	(132.5)	(149.1)
Interest income — related party (note 10)	71.6	64.3
Foreign currency transaction gains (losses), net	114.1	(375.7)
Realized and unrealized gains on derivative instruments, net (notes 4, 5 and 10)	44.0	484.8
Realized and unrealized losses due to changes in fair values of certain debt, net (notes 5 and 7)	—	(1.4)
Other income, net	1.3	1.1
	98.5	24.0
Earnings before income taxes	197.1	108.8
Income tax expense (note 9)	(30.6)	(25.7)
Net earnings	166.5	83.1
Net earnings attributable to noncontrolling interest	(2.4)	(1.4)
Net earnings attributable to parent entities	£ 164.1	£ 81.7

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED STATEMENTS OF COMPREHENSIVE EARNINGS
(unaudited)

	Three months ended March 31,	
	2021	**2020**
	in millions	
Net earnings	£ 166.5	£ 83.1
Other comprehensive earnings — foreign currency translation adjustments and other, net of taxes	5.5	6.7
Comprehensive earnings	172.0	89.8
Comprehensive earnings attributable to noncontrolling interest	(2.4)	(1.4)
Comprehensive earnings attributable to parent entities	£ 169.6	£ 88.4

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED STATEMENTS OF EQUITY
(unaudited)

	Parent entities					
	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings, net of taxes	Total combined equity attributable to parent entities	Non-controlling interest	Total combined equity
			in millions			
Balance at January 1, 2020	£ 7,873.4	£ (1,711.2)	£ 83.2	£ 6,245.4	£ (17.4)	£ 6,228.0
Net earnings	—	81.7	—	81.7	1.4	83.1
Other comprehensive earnings, net of taxes	—	—	6.7	6.7	—	6.7
Tax losses surrendered to Liberty Global subsidiaries (notes 9 and 10)	(46.2)	—	—	(46.2)	—	(46.2)
Share-based compensation (note 10)	7.9	—	—	7.9	—	7.9
Deemed contribution of technology-related services (note 10)	5.9	—	—	5.9	—	5.9
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10)	(1.6)	—	—	(1.6)	—	(1.6)
Other	2.4	—	—	2.4	—	2.4
Balance at March 31, 2020	£ 7,841.8	£ (1,629.5)	£ 89.9	£ 6,302.2	£ (16.0)	£ 6,286.2

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED STATEMENTS OF EQUITY — (Continued)
(unaudited)

	Parent entities						
	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings, net of taxes	Total combined equity attributable to parent entities	Non-controlling interest	Total combined equity
				in millions			
Balance at January 1, 2021	£ —	£ 7,727.6	£ (1,679.0)	£ 64.5	£ 6,113.1	£ (10.3)	£ 6,102.8
Net earnings	—	—	164.1	—	164.1	2.4	166.5
Other comprehensive earnings, net of taxes	—	—	—	5.5	5.5	—	5.5
Excess consideration received in connection with the Reorganization Transactions (notes 1 and 10)	10.7	611.1	(87.6)	—	534.2	—	534.2
Capital charge in connection with the exercise or vesting of share-based incentive awards (note 10)	—	(8.8)	—	—	(8.8)	—	(8.8)
Share-based compensation (note 10)	—	7.1	—	—	7.1	—	7.1
Tax losses surrendered to Liberty Global subsidiaries (notes 9 and 10)	—	(4.2)	—	—	(4.2)	—	(4.2)
Capital charge for technology-related services (note 10)	—	(3.2)	—	—	(3.2)	—	(3.2)
Other	—	(16.8)	—	—	(16.8)	21.1	4.3
Balance at March 31, 2021	£ 10.7	£ 8,312.8	£ (1,602.5)	£ 70.0	£ 6,791.0	£ 13.2	£ 6,804.2

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31,	
	2021	2020
	in millions	
Cash flows from operating activities:		
Net earnings	£ 166.5	£ 83.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Share-based compensation expense	8.9	9.2
Related-party fees and allocations, net	78.9	74.2
Depreciation and amortization	320.9	339.3
Impairment, restructuring and other operating items, net	—	4.8
Amortization of deferred financing costs and non-cash interest	2.2	3.9
Realized and unrealized gains on derivative instruments, net	(44.0)	(484.8)
Foreign currency transaction losses (gains), net	(114.1)	375.7
Realized and unrealized losses due to changes in fair values of certain debt, net	—	1.4
Deferred income tax expense	33.8	20.1
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions	(279.7)	(239.1)
Net cash provided by operating activities	173.4	187.8
Cash flows from investing activities:		
Capital expenditures, net	(123.2)	(115.7)
Repayments from related parties, net	19.6	137.5
Net cash provided (used) by investing activities	£ (103.6)	£ 21.8

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

THE VIRGIN MEDIA GROUP
CONDENSED COMBINED STATEMENTS OF CASH FLOWS — (Continued)
(unaudited)

	Three months ended March 31,	
	2021	2020
	in millions	
Cash flows from financing activities:		
Repayments and repurchases of third-party debt and finance lease obligations	£ (676.7)	£ (715.2)
Borrowings of third-party debt	613.2	498.7
Net cash paid related to derivative instruments	(16.2)	—
Net borrowings of related-party debt	10.8	—
Payment of financing costs and debt premiums	(0.2)	(1.9)
Other financing activities, net	(14.9)	(2.7)
Net cash used by financing activities	(84.0)	(221.1)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(0.4)	1.5
Net decrease in cash and cash equivalents and restricted cash	(14.6)	(10.0)
Cash and cash equivalents and restricted cash:		
Beginning of period	61.9	58.7
End of period	£ 47.3	£ 48.7
Cash paid for interest	£ 152.4	£ 149.4
Details of end of period cash and cash equivalents and restricted cash:		
Cash and cash equivalents	£ 6.3	£ 21.2
Restricted cash included in other current assets and other assets, net	41.0	27.5
Total cash and cash equivalents and restricted cash	£ 47.3	£ 48.7

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

(1) Basis of Presentation

Virgin Media Inc. (**Virgin Media**) and UPC Broadband Ireland Ltd are indirect wholly-owned subsidiaries of Liberty Global plc (**Liberty Global**). These condensed combined financial statements include the historical financial information of (i) Virgin Media and its subsidiaries and (ii) UPC Broadband Ireland Ltd and its subsidiaries (collectively, **VM Ireland**), which we collectively refer to as the **"Virgin Media Group"**. In these condensed combined financial statements, Virgin Media and UPC Broadband Ireland Ltd are each parent entities of the Virgin Media Group. Prior to the fourth quarter of 2020, VM Ireland was wholly-owned by Virgin Media. During the fourth quarter of 2020 and the first quarter of 2021, Liberty Global completed certain internal reorganization transactions (the **Reorganization Transactions**) in advance of the pending transaction contemplated by the Contribution Agreement (as defined below). For additional information regarding the Reorganization Transactions, see note 10. Following the Reorganization Transactions, VM Ireland is now held by another subsidiary of Liberty Global that is outside of the Virgin Media Group, but remains subject to the "restricted subsidiary" provisions of the facilities agreement and bond indentures governing the debt of the Virgin Media Group. Accordingly, these financial statements have been prepared on a combined basis.

The Virgin Media Group provides broadband internet, video, 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" refer to the Virgin Media Group.

On May 7, 2020, Liberty Global entered into a Contribution Agreement (the **Contribution Agreement**) with, among others, Telefonica, SA (**Telefonica**). Pursuant to the Contribution Agreement, Liberty Global and Telefonica agreed to form a 50:50 joint venture (the **U.K. JV**), which will combine our operations in the U.K. along with certain other Liberty Global subsidiaries created as a result of the pending U.K. JV (together, the **U.K. JV Entities**) with Telefonica's mobile business in the U.K. to create a nationwide integrated communications provider. The consummation of the transaction contemplated by the Contribution Agreement is subject to certain conditions, including competition clearance by the applicable regulatory authorities, which was received on May 20, 2021. The Contribution Agreement also includes customary termination rights, including a right of the parties to terminate the agreement if the transaction has not closed within 24 months following the date of the Contribution Agreement, which may be extended by six months under certain circumstances. We currently expect the U.K. JV to close by June 1, 2021.

Our unaudited condensed combined 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 combined financial statements should be read in conjunction with the combined financial statements and notes thereto included in our 2020 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.

Unless otherwise indicated, convenience translations into pound sterling are calculated as of March 31, 2021.

These unaudited condensed combined financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 21, 2021, the date of issuance.

(2) Accounting Changes

ASU 2019-12

In December 2019, the Financial Accounting Standards Board (**FASB)** issued Accounting Standards Update (**ASU**) No. 2019-12, *Simplifying the Accounting for Income Taxes (***ASU 2019-12**), which is intended to improve consistency and simplify several areas of existing guidance. ASU 2019-12 removes certain exceptions to the general principles related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. We adopted ASU 2019-12 on January 1, 2021, and such adoption did not have a significant impact on our combined financial statements.

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. ASU 2018-15 requires deferred implementation costs to 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 are generally expensed as incurred. We adopted ASU 2018-15 on January 1, 2020 on a prospective basis. As a result of the adoption of ASU 2018-15, (i) certain implementation costs that were previously expensed as incurred are now deferred as prepaid expenses and amortized over the term of the cloud computing arrangement and (ii) certain costs associated with developing interfaces between a cloud computing arrangement and internal-use software that were previously capitalized as property and equipment are now deferred as prepaid expenses and amortized over the term of the cloud computing arrangement. The adoption of ASU 2018-15 did not have a significant impact on our combined 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 £25.8 million and £28.4 million at March 31, 2021 and December 31, 2020, 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 £2.8 million and £3.1 million as of March 31, 2021 and December 31, 2020, 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 combined 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 £357.8 million and £359.6 million as of March 31, 2021 and December 31, 2020, respectively. The decrease in deferred revenue for the three months ended March 31, 2021 is primarily due to the net effect of (a) the recognition of £293.9 million of revenue that was included in our deferred revenue balance at December 31, 2020 and (b) advanced billings recorded during the period. The long-term portions of our deferred revenue balances are included within other long-term liabilities on our condensed combined balance sheets.

Contract Costs

Our aggregate assets associated with incremental costs to obtain and fulfill our contracts were £84.4 million and £74.5 million at March 31, 2021 and December 31, 2020, 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 combined balance sheets. We amortized £30.9 million and £22.2 million during the three months ended March 31, 2021 and 2020, respectively, to operating costs and expenses associated with our assets related to contract costs.

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 business-to-business (**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. Generally, 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 combined statements of operations.

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

	March 31, 2021			December 31, 2020		
	Current	Long-term	Total	Current	Long-term	Total
	in millions					
Assets (a):						
Cross-currency and interest rate derivative contracts (b)	£ 50.5	£ 350.8	£ 401.3	£ 66.3	£ 279.7	£ 346.0
Foreign currency forward contracts — related-party	0.2	—	0.2	—	—	—
Foreign currency forward and option contracts	0.1	—	0.1	0.4	—	0.4
Total	£ 50.8	£ 350.8	£ 401.6	£ 66.7	£ 279.7	£ 346.4
Liabilities (a):						
Cross-currency and interest rate derivative contracts (b)	£ 134.4	£ 499.4	£ 633.8	£ 146.2	£ 607.7	£ 753.9
Foreign currency forward and option contracts	2.9	—	2.9	1.9	—	1.9
Foreign currency forward contracts — related-party	—	—	—	0.1	—	0.1
Total	£ 137.3	£ 499.4	£ 636.7	£ 148.2	£ 607.7	£ 755.9

(a) Our current derivative assets, current derivative liabilities, long-term derivative assets and long-term derivative liabilities are included in other current assets, other current liabilities, other assets, net, and other long-term liabilities, respectively, on our condensed combined 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 £2.6 million and £23.9 million during the three months ended March 31, 2021 and 2020, respectively. These amounts are included in realized and unrealized gains on derivative instruments, net, in our condensed combined statements of operations. For further information regarding our fair value measurements, see note 5.

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

	Three months ended March 31,	
	2021	2020
	in millions	
Cross-currency and interest rate derivative contracts	£ 46.0	£ 484.3
Foreign currency forward and option contracts:		
Third-party	(2.2)	0.5
Related-party	0.2	—
Total	£ 44.0	£ 484.8

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our condensed combined 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 outflows of our derivative instruments:

	Three months ended March 31,	
	2021	2020
	in millions	
Operating activities	£ (111.2)	£ (159.2)
Financing activities	(16.2)	—
Total	£ (127.4)	£ (159.2)

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At March 31, 2021, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £63.5 million.

Details of our Derivative Instruments

Cross-currency Derivative Contracts

We generally match the denomination of our borrowings with the functional currency of the supporting operations, or when it is more cost effective, we provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At March 31, 2021, 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 March 31, 2021:

Notional amount due from counterparty		Notional amount due to counterparty			Weighted average remaining life
in millions					in years
$	11,324.0	£	8,557.8	(a)	5.4
£	1,005.5	$	1,445.0	(b)	3.8
€	500.0	£	445.6		7.3
£	394.2	$	500.0		4.3
$	166.6	€	150.0		7.3

(a) Includes certain derivative instruments that are "forward-starting," such that the initial exchange occurs at a date subsequent to March 31, 2021. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

(b) These derivative instruments do not involve the exchange of notional amounts at the inception and maturity of the instruments. Accordingly, the only cash flows associated with these derivative instruments are coupon-related payments and receipts.

Interest Rate Swap Contracts

The following table sets forth the total pound sterling equivalents of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts at March 31, 2021:

Pay fixed rate (a)			Receive fixed rate		
Notional amount		Weighted average remaining life	Notional amount		Weighted average remaining life
in millions		in years	in millions		in years
£	11,489.3	4.5	£	3,530.8	4.3

(a) Includes forward-starting derivative instruments.

Interest Rate Swap Options

From time to time we enter into 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. Such contracts typically have 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 March 31, 2021:

Notional amount		Underlying swap currency	Weighted average option expiration period (a)	Weighted average strike rate (b)
in millions			in years	
£	1,116.5	£	0.6	2.41%

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(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 March 31, 2021, the total pound sterling equivalent of the notional amount due from the counterparty, including forward-starting derivative instruments, was £3,291.2 million, all of which was subject to a 0.0% floor, and the related weighted average remaining contractual life of our basis swap contracts was 0.3 years.

Interest Rate Caps and Floors

From time to time, we enter into interest rate cap and floor agreements. Purchased interest rate caps lock in a maximum interest rate if variable rates rise, but also allow our company to benefit from declines in market rates. Purchased interest rate floors protect us from interest rates falling below a certain level, generally to match a floating rate floor on a debt instrument. At March 31, 2021, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1,502.1 million and £3,291.2 million, respectively.

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 an increase of 107 basis points to our borrowing costs as of March 31, 2021.

Foreign Currency Forwards and Options

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of March 31, 2021, the total of the notional amount of our foreign currency forward and option contracts was £72.9 million.

(5) Fair Value Measurements

We use the fair value method to account for (i) our derivative instruments and (ii) certain instruments that we classify as debt. The reported fair values of these instruments as of March 31, 2021 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, respectively.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with acquisition accounting and impairment assessments. The nonrecurring valuations associated with acquisition accounting primarily include the valuation of reporting units, customer relationship and other intangible assets and property and equipment. Unless a reporting unit has a readily determinable fair value, the valuation of reporting units is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer relationship, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. Most of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During the three months ended March 31, 2021 and 2020, we did not perform any significant nonrecurring fair value measurements.

For additional information concerning our fair value measurements, see note 6 to the combined financial statements included in our 2020 annual report.

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

Description	March 31, 2021	Fair value measurements at March 31, 2021 using: Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		in millions	
Assets:			
Cross-currency and interest rate derivative contracts	£ 401.3	£ 401.3	£ —
Foreign currency forward contracts — related-party	0.2	0.2	—
Foreign currency forward and option contracts	0.1	0.1	—
Total assets	£ 401.6	£ 401.6	£ —
Liabilities:			
Cross-currency and interest rate derivative contracts	£ 633.8	£ 629.2	£ 4.6
Foreign currency forward and option contracts	2.9	2.9	—
Total liabilities	£ 636.7	£ 632.1	£ 4.6

Description	December 31, 2020	Fair value measurements at December 31, 2020 using: Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		in millions	
Assets:			
Cross-currency and interest rate derivative contracts	£ 346.0	£ 346.0	£ —
Foreign currency forward and option contracts	0.4	0.4	—
Total assets	£ 346.4	£ 346.4	£ —
Liabilities:			
Cross-currency and interest rate derivative contracts	£ 753.9	£ 736.6	£ 17.3
Foreign currency forward and option contracts	1.9	1.9	—
Foreign currency forward contracts — related-party	0.1	0.1	—
Total liabilities	£ 755.9	£ 738.6	£ 17.3

(6) Long-lived Assets

Property and Equipment, Net

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

	March 31, 2021	December 31, 2020
	in millions	
Distribution systems	£ 9,298.6	£ 9,316.0
Customer premises equipment	2,137.2	2,101.3
Support equipment, buildings and land	1,669.5	1,753.3
Total property and equipment, gross	13,105.3	13,170.6
Accumulated depreciation	(7,287.5)	(7,225.8)
Total property and equipment, net (a)	£ 5,817.8	£ 5,944.8

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

During the three months ended March 31, 2021 and 2020, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of £150.2 million and £193.8 million, respectively, which exclude related value-added-taxes (**VAT**) of £27.4 million and £34.4 million, respectively, that were also financed under these arrangements.

Goodwill

Changes in the carrying amount of our goodwill during the three months ended March 31, 2021 are set forth below (in millions):

January 1, 2021	£ 6,017.7
Impact of certain disposals associated with the Reorganization Transactions	(53.7)
Foreign currency translation adjustments	(8.1)
March 31, 2021	£ 5,955.9

If, among other factors, (i) our enterprise value or Liberty Global's equity value 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 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 combined balance sheets, are set forth below:

	March 31, 2021	December 31, 2020
	in millions	
Gross carrying amount	£ 617.6	£ 617.8
Accumulated amortization	(607.3)	(587.8)
Net carrying amount	£ 10.3	£ 30.0

(7) Debt

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

	March 31, 2021		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	March 31, 2021	December 31, 2020
			in millions	
VM Senior Secured Notes	4.92 %	£ —	£ 4,369.1	£ 4,393.6
VM Credit Facilities (c)	2.76 %	1,000.0	3,943.8	4,006.0
VM Senior Notes	4.51 %	—	1,096.0	1,125.4
Vendor financing (d)	4.23 %	—	2,185.6	2,090.5
Other (e)	1.39 %	—	225.0	280.5
Total third-party debt before deferred financing costs, discounts and premiums (f)	3.97 %	£ 1,000.0	£ 11,819.5	£ 11,896.0

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:

	March 31, 2021	December 31, 2020
	in millions	
Total third-party debt before deferred financing costs, discounts and premiums	£ 11,819.5	£ 11,896.0
Deferred financing costs, discounts and premiums, net	(41.0)	(44.1)
Total carrying amount of third-party debt	11,778.5	11,851.9
Finance lease obligations (note 8)	47.5	48.4
Total third-party debt and finance lease obligations	11,826.0	11,900.3
Related-party debt (note 10)	658.4	27.6
Total debt and finance lease obligations	12,484.4	11,927.9
Current maturities of debt and finance lease obligations	(2,178.6)	(2,040.3)
Long-term debt and finance lease obligations	£ 10,305.8	£ 9,887.6

(a) Represents the weighted average interest rate in effect at March 31, 2021 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 4.60% at March 31, 2021. For information regarding our derivative instruments, see note 4.

(b) The VM Credit Facilities include the VM Revolving Facility, a multi-currency revolving facility with maximum borrowing capacity equivalent to £1.0 billion, which was undrawn at March 31, 2021. Unused borrowing capacity represents the maximum availability under the VM Credit Facilities at March 31, 2021 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2021, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the equivalent of £751.9 million of unused borrowing capacity was available to be borrowed and there were no additional restrictions on our ability to make loans or distributions from this availability to other entities within the Virgin Media Group. Upon completion of the relevant March 31, 2021 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect the equivalent of £402.6 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 March 31, 2021, or the impact of additional amounts that may be available to borrow, loan or distribute under certain defined baskets within the VM Credit Facilities.

(c) Principal amounts include £10.0 million and £12.9 million at March 31, 2021 and December 31, 2020, respectively, of borrowings pursuant to excess cash facilities under the VM Credit Facilities. These borrowings are owed to certain special purpose financing entities outside of the Virgin Media Group that have issued notes to finance the purchase of receivables due from our company to certain other third parties for amounts that we 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 under our senior credit facilities.

(d) Represents amounts owed to various creditors pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and operating expenses. These arrangements extend our repayment terms beyond a vendor's original due dates (e.g. extension beyond a vendor's customary payment terms, which are generally 90 days or less) and as such are classified outside of accounts payable on our condensed combined balance sheets. These obligations are generally due within one year and include VAT that was also financed under these arrangements. Repayments of vendor financing obligations are included in repayments and repurchases of third-party debt and finance lease obligations in our condensed combined statements of cash flows.

(e) Principal amounts include £225.0 million and £204.0 million at March 31, 2021 and December 31, 2020, respectively, related to the 2020 Receivables Notes.

(f) As of March 31, 2021 and December 31, 2020, our third-party debt had an estimated fair value of £11.9 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). For additional information regarding fair value hierarchies, see note 5.

Maturities of Debt

The pound sterling equivalents of the maturities of our debt as of March 31, 2021 are presented below:

	Third-party debt	Related-party debt	Total
		in millions	
Year ending December 31:			
2021 (remainder of year)	£ 1,823.0	£ 72.2	£ 1,895.2
2022	304.2	—	304.2
2023	254.8	—	254.8
2024	29.2	—	29.2
2025	7.2	—	7.2
2026	543.5	—	543.5
Thereafter	8,857.6	586.2	9,443.8
Total debt maturities (a)	11,819.5	658.4	12,477.9
Deferred financing costs, discounts and premiums, net	(41.0)	—	(41.0)
Total	£ 11,778.5	£ 658.4	£ 12,436.9
Current portion	£ 2,101.7	£ 72.2	£ 2,173.9
Noncurrent portion	£ 9,676.8	£ 586.2	£ 10,263.0

(a) Amounts include vendor financing obligations of £2,185.6 million, as set forth below (in millions):

Year ending December 31:		
2021 (remainder of year)	£	1,819.3
2022		304.2
2023		28.4
2024		26.5
2025		7.2
Total vendor financing maturities (1)	£	2,185.6
Current portion	£	2,097.9
Noncurrent portion	£	87.7

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(1) The 2020 VM Financing Companies have issued an aggregate £1,262.3 million equivalent in notes maturing in July 2028. The net proceeds from these notes are used by the 2020 VM Financing Companies to purchase from various third parties certain vendor financed receivables owed by our company. To the extent that the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund excess cash facilities under our senior credit facilities. The 2020 VM Financing Companies can request the excess cash facilities be repaid by our company as additional vendor financed receivables become available for purchase.

(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.

Lease Balances

A summary of our right-of-use (**ROU**) assets and lease liabilities is set forth below:

	March 31, 2021		December 31, 2020	
	in millions			
ROU assets:				
Operating leases (a)	£	130.6	£	138.9
Finance leases (b)		41.4		43.4
Total ROU assets	£	172.0	£	182.3
Lease liabilities:				
Operating leases (c)	£	140.5	£	152.0
Finance leases (d)		47.5		48.4
Total lease liabilities	£	188.0	£	200.4

(a) Our operating lease ROU assets are included in other assets, net, on our condensed combined balance sheets. At March 31, 2021, the weighted average remaining lease term for operating leases was 8.8 years and the weighted average discount rate was 4.4%. During the three months ended March 31, 2021 and 2020, we recorded non-cash additions to our operating lease ROU assets of £2.4 million and £12.3 million, respectively.

(b) Our finance lease ROU assets are included in property and equipment, net, on our condensed combined balance sheets. At March 31, 2021, the weighted average remaining lease term for finance leases was 29.3 years and the weighted average discount rate was 6.8%. During both the three months ended March 31, 2021 and 2020, we did not record any non-cash additions to our finance lease ROU assets.

(c) 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 combined balance sheets.

(d) The current and long-term portions of our finance lease liabilities are included within current portion of debt and finance lease obligations and long-term debt and finance lease obligations, respectively, on our condensed combined balance sheets.

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

	Three months ended March 31,	
	2021	2020
	in millions	
Total lease expense:		
Finance lease expense:		
Depreciation and amortization	£ 1.5	£ 1.9
Interest expense	0.9	1.0
Total finance lease expense	2.4	2.9
Operating lease expense (a)	8.8	9.3
Total lease expense	£ 11.2	£ 12.2

(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 combined statements of operations.

A summary of our cash outflows from operating and finance leases is set forth below:

	Three months ended March 31,	
	2021	2020
	in millions	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	£ 8.8	£ 11.5
Operating cash outflows from finance leases	0.9	1.5
Financing cash outflows from finance leases	0.9	1.0
Total cash outflows from operating and finance leases	£ 10.6	£ 14.0

Maturities of our operating and finance lease liabilities as of March 31, 2021 are presented below. Amounts represent the pound sterling equivalents based on March 31, 2021 exchange rates:

	Operating leases	Finance leases
	in millions	
Year ending December 31:		
2021 (remainder of year)	£ 24.5	£ 6.2
2022	28.7	9.7
2023	24.9	7.3
2024	20.6	3.5
2025	11.1	3.5
2026	9.3	3.5
Thereafter	43.8	128.4
Total payments	162.9	162.1
Less: present value discount	(22.4)	(114.6)
Present value of lease payments	£ 140.5	£ 47.5
Current portion	£ 28.1	£ 4.7
Noncurrent portion	£ 112.4	£ 42.8

(9) Income Taxes

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

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 £4.2 million and £46.2 million during the three months ended March 31, 2021 and 2020, respectively, were surrendered to Liberty Global and its U.K. subsidiaries outside of the Virgin Media Group by our U.K. entities. These surrendered tax assets are reflected as decreases to additional paid-in capital in our condensed combined statements of equity.

Income tax expense attributable to our earnings before income taxes differs from the amounts computed using the U.S. federal income tax rate of 21.0% for the three months ended March 31, 2021 and 2020 as a result of the following factors:

	Three months ended March 31,	
	2021	2020
	in millions	
Computed "expected" tax expense	£ (41.4)	£ (22.8)
Recognition of previously unrecognized tax benefits	14.8	—
Basis and other differences in the treatment of items associated with investments in subsidiaries (a)	(11.4)	(5.4)
International rate differences (b)	4.4	3.1
Enacted tax law and rate change	—	3.1
Non-deductible or non-taxable foreign currency exchange results	0.5	(2.6)
Other, net	2.5	(1.1)
Total income tax expense	£ (30.6)	£ (25.7)

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(a) These amounts reflect the net impact of differences in the treatment of income and loss items between financial reporting and tax accounting related to investments in subsidiaries and affiliates, including the effects of foreign earnings.

(b) These amounts reflect statutory rates in the U.K. and Ireland, which are lower than the U.S. federal income tax rate. In March 2021, legislation was introduced to increase the U.K. corporate tax rate from 19.0% to 25.0% from April 1, 2023. This U.K. rate change has yet to be enacted and the impact on our deferred tax balances will not be recorded until the quarter of enactment.

(10) Related-party Transactions

Our related-party transactions consist of the following:

	Three months ended March 31, 2021	Three months ended March 31, 2020
	in millions	
Charges included in:		
Revenue	£ (0.1)	£ —
Programming and other direct costs of services	(2.3)	(0.7)
Other operating	(1.4)	(5.2)
SG&A	(3.1)	(1.0)
Allocated share-based compensation expense	(8.1)	(9.0)
Fees and allocations, net:		
Operating and SG&A (exclusive of depreciation and share-based compensation)	(4.8)	(4.3)
Depreciation	(33.2)	(27.7)
Share-based compensation	(23.6)	(18.3)
Management fee	(17.3)	(23.9)
Total fees and allocations, net	(78.9)	(74.2)
Included in operating income	(93.9)	(90.1)
Interest expense	(6.1)	(0.6)
Interest income	71.6	64.3
Realized and unrealized gains on derivative instruments, net	0.2	—
Included in net earnings	£ (28.2)	£ (26.4)
Property and equipment transfers in, net	£ 0.9	£ 0.6

General. The Virgin Media Group charges fees and allocates costs and expenses to certain other Liberty Global subsidiaries and certain Liberty Global subsidiaries outside of the Virgin Media Group charge fees and allocate costs and expenses to the Virgin Media Group. 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 combined statements of operations are reflective of the costs that we would incur on a standalone basis. Our related-party transactions are generally cash settled unless otherwise noted below.

Programming and other direct costs of services. Amounts primarily consist of interconnect, roaming, lease and access fees and other services provided to our company by other Liberty Global subsidiaries.

Other operating expenses. Amounts consist of the net effect of (i) charges of £1.5 million and £6.4 million during the three months ended March 31, 2021 and 2020, respectively, for network and technology services provided to our company by other

Liberty Global subsidiaries and (ii) recharges of £0.1 million and £1.2 million during the three months ended March 31, 2021 and 2020, respectively, for network and technology services provided by our company to other Liberty Global subsidiaries.

SG&A expenses. Amounts consist of the net effect of (i) charges of £4.4 million and £5.1 million during the three months ended March 31, 2021 and 2020, respectively, for services provided to our company by other Liberty Global subsidiaries and (ii) recharges of £1.3 million and £4.1 million during the three months ended March 31, 2021 and 2020, respectively, primarily related to support function staffing and other services provided by our company to other Liberty Global subsidiaries.

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 of our employees. Share-based compensation expense is included in SG&A expense in our condensed combined 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 entities comprising the Virgin Media Group and various Liberty Global subsidiaries that are outside of Virgin Media. These charges generally relate to management, finance, legal 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 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. Prior to July 1, 2020, such charges were calculated using a royalty-based method (the **Royalty-based Method**). To the extent that our proportional share of the technology-based costs was more than the actual amounts charged under the Royalty-based Method, such excess amounts were reflected as deemed contributions of technology-related services in our condensed combined statements of equity. Under the Royalty-based Method, any excess amounts we were charged that exceeded our proportional share of the technology-based costs were classified as management fees and were added back to arrive at Covenant EBITDA. During the three months ended March 31, 2020, our proportional share of the technology-based costs was £5.9 million more than the actual amount charged under the Royalty-based Method.

Effective July 1, 2020, the Royalty-based Method was terminated and replaced with a new method whereby the technology-based costs charged by Liberty Global to our company are now based on our estimated share of the underlying costs plus a mark-up (the **Cost Plus Method**). The portion of the charge representing the mark-up is recorded as an equity transaction and reflected as a capital charge for technology-related services in our condensed combined statement of equity (£3.2 million for the three months ended March 31, 2021).

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.

Realized and unrealized gains 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.

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 the Virgin Media Group.

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

	March 31, 2021	December 31, 2020
	in millions	
Current receivables (a)	£ 1,137.2	£ 694.5
Derivative instruments	0.2	—
Long-term notes receivable (b)	5,447.7	4,807.8
Total related-party assets	£ 6,585.1	£ 5,502.3
Accounts payable	£ 9.9	£ 10.1
Current portion of related-party debt	72.2	27.6
Accrued capital expenditures (c)	1.1	2.6
Other current liabilities (d)	22.6	165.3
Long-term related-party debt (e)	586.2	—
Total related-party liabilities	£ 692.0	£ 205.6

(a) Amounts represent (i) a note receivable owed from LG Europe 2 to Virgin Media Finco (**Virgin Media Finco**) of £1,103.2 million and £685.8 million, respectively, (ii) accrued interest on long-term notes receivable from LG Europe 2, including £18.6 million and nil, respectively, owed to Virgin Media Finco 2 Limited (**Virgin Media 2 Finco**), a subsidiary of Virgin Media, and (iii) certain receivables from other Liberty Global subsidiaries arising in the normal course of business. The note receivable owed from LG Europe 2 to Virgin Media Finco matures on December 1, 2021 and bears interest at a rate of 2.560%. The increase during the three months ended March 31, 2021 relates to (i) £788.1 million of cash borrowings, (ii) £294.0 million of cash repayments and (iii) £76.7 million of non-cash settlements.

(b) Amounts primarily include:

(i) certain notes receivable with outstanding principal amounts of £4,146.0 million and £4,758.1 million at March 31, 2021 and December 31, 2020, respectively. The amount as of March 31, 2021 relates to a note receivable entered into during the three months ended March 31, 2021 due from VMED O2 UK Limited (**VMED O2**), a subsidiary of Liberty Global that is outside of the Virgin Media Group, and owed to Virgin Media 2 Finco. The maturity date is July 16, 2023, however, Virgin Media 2 Finco may agree to advance additional amounts to VMED O2 at any time and VMED O2 may, with agreement from Virgin Media 2 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 4.779% as of March 31, 2021, and accrued interest 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. The amount as of December 31, 2020 related to a note receivable from LG Europe 2 that was owed to Virgin Media Finco. As of March 31, 2021, the amount owed under this note is now included in the note due from VMED O2; and

(ii) £1,105.1 million and nil, respectively, related to a note receivable from VMED O2 that is owed to General Cable Limited, a subsidiary of Virgin Media. This note matures on November 30, 2029 and bears interest at a rate of 4.590%. The increase during the three months ended March 31, 2021 relates to the Reorganization Transactions, as further described below. Accrued interest may be, as agreed to by each party, (i) transferred to the loan balance annually on January 1 or (ii) repaid on the last day of each month and on the date of principal repayments.

(c) Amounts represent accrued capital expenditures for property and equipment transferred to our company from other Liberty Global subsidiaries.

(d) 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. The December 31, 2020 amount also includes a one-time transfer pricing transition fee of £143.6 million related to the change in Liberty Global's methodology for charging technology-based fees to our company.

(e) Amount for the 2021 period represents a note payable from VM Ireland to another Liberty Global subsidiary outside of the Virgin Media Group that was entered into during the three months ended March 31, 2021. This note matures on May 1, 2027 and bears interest at a rate of 3.740%. Accrued interest may be, as agreed to by each party, (i) transferred to the loan balance annually on January 1 or (ii) repaid on the last day of each month and on the date of principal repayments.

During the three months ended March 31, 2021 and 2020, we recorded capital charges of $12.3 million (£8.8 million at the applicable rate) and $2.1 million (£1.6 million at the applicable rate), respectively, in our condensed combined statements of 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 our employees. We and Liberty Global have agreed that these capital charges will be based on the fair value of the underlying Liberty Global ordinary shares associated with share-based incentive awards that vest or are exercised during the period, subject to any reduction that is necessary to ensure that the cumulative capital charge does not exceed the cumulative amount of share-based compensation expense recorded by our company with respect to Liberty Global share-based incentive awards.

During the three months ended March 31, 2021 and 2020 tax losses with an aggregate tax effect of £4.2 million and £46.2 million, respectively, were surrendered to Liberty Global and its U.K. subsidiaries outside of the Virgin Media Group by our U.K. entities. For additional information, see note 9.

Virgin Media and certain other 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.

Reorganization Transactions. During the fourth quarter of 2020 and the first quarter of 2021, Liberty Global completed the Reorganization Transactions, which resulted in the transfer of VM Ireland and certain other less significant subsidiaries of Virgin Media to certain other subsidiaries of Liberty Global that are outside of the Virgin Media Group. In connection with the Reorganization Transactions, we recorded an aggregate increase to our total combined equity attributable to parent entities of £534.2 million, representing the excess consideration received associated with the transferred entities.

(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 March 31, 2021. The commitments included in this table do not reflect any liabilities that are included on our March 31, 2021 condensed combined balance sheet.

	Payments due during:							
	Remainder of 2021	2022	2023	2024	2025	2026	Thereafter	Total
	in millions							
Programming commitments	£ 437.3	£ 235.2	£ 0.7	£ 0.4	£ —	£ —	£ —	£ 673.6
Network and connectivity commitments	349.6	65.1	10.8	3.9	3.3	2.8	11.8	447.3
Purchase commitments	252.7	145.3	31.6	—	—	—	—	429.6
Other commitments	10.5	5.1	—	—	—	—	—	15.6
Total	£ 1,050.1	£ 450.7	£ 43.1	£ 4.3	£ 3.3	£ 2.8	£ 11.8	£ 1,566.1

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 this will continue to be the case in future periods. In this regard, our total programming and copyright costs aggregated £224.6 million and £237.2 million during the three months ended March 31, 2021 and 2020, respectively.

Programming costs primarily relate to agreements to distribute channels to our customers. Our channel distribution agreements are generally multi-year contracts for which we are charged either (i) variable rates based upon the number of subscribers or (ii) on a flat fee basis. Certain of our variable rate contracts require minimum guarantees. Programming costs under such arrangements are recorded in operating costs and expenses in our condensed combined statements of operations when the programming is available for viewing.

Network and connectivity commitments include (i) service commitments associated with the network extension program in the U.K. and Ireland (the **Network Extension**) and (ii) commitments associated with our mobile virtual network operator (**MVNO**) agreements. 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. In November 2019, we entered into a new five-year variable-cost MVNO agreement that will replace our existing MVNO agreement in late 2021.

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 three months ended March 31, 2021 and 2020, see note 4.

Guarantees and Other Credit Enhancements

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

Legal and Regulatory Proceedings and Other Contingencies

VAT Matters. Our application of VAT with respect to certain revenue generating activities has been challenged by the U.K. tax authorities (**HMRC**). HMRC claimed that amounts charged to certain customers for payment handling services are subject to VAT, while we took the position that such charges were exempt from VAT under existing law. At the time of HMRC's initial challenge in 2009, we remitted all related VAT amounts claimed by HMRC, and continued to make such VAT payments pending a ruling on our appeal to the First Tier Tribunal. As the likelihood of loss was not considered probable and we believed that the amounts paid would be recoverable, such amounts were recorded as a receivable on our combined balance sheet. In January 2020, the First Tier Tribunal rejected our appeal and ruled in favor of HMRC. Accordingly, during the fourth quarter of 2019, we recorded a net provision for litigation of £41.3 million. We have been granted permission to appeal the case to the Upper Tribunal, with the appeal being stayed pending the outcome of a related case. The timing of the final outcome of the litigation remains uncertain, although any further hearing on this matter is unlikely to occur before the third quarter of 2021.

Other Regulatory Matters. 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 also 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 significantly increased our network infrastructure charges and 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 2019, the U.K. Office of Communications regulatory authority issued new regulatory requirements originating from the European Electronic Communications Code, that, effective from February 2020, obligate providers 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 the provider 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 the provider can offer them. In both cases, we must also set out the price available to new customers for an equivalent service offering. These new requirements adversely impacted our revenue in the U.K. during the first quarter of 2021 and we expect additional and potentially more significant adverse impacts on our operating results in the U.K. in future periods. For additional information, see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Discussion and Analysis of our Results of Operations.*

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 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 broadband internet, video, 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 March 31, 2021	Three months ended March 31, 2020
	in millions	
Residential revenue:		
Residential cable revenue (a):		
Subscription revenue (b):		
Broadband internet	£ 425.9	£ 426.0
Video	277.7	277.7
Fixed-line telephony	178.9	200.4
Total subscription revenue	882.5	904.1
Non-subscription revenue	18.3	14.9
Total residential cable revenue	900.8	919.0
Residential mobile revenue (c):		
Subscription revenue (b)	89.3	89.9
Non-subscription revenue	75.3	56.4
Total residential mobile revenue	164.6	146.3
Total residential revenue	1,065.4	1,065.3
B2B revenue (d):		
Subscription revenue	28.1	24.0
Non-subscription revenue	175.1	160.9
Total B2B revenue	203.2	184.9
Other revenue (e)	0.2	16.1
Total	£ 1,268.8	£ 1,266.3

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(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 subscribers pay a premium price to receive expanded service levels along with broadband internet, video, 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 (i) 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 and (ii) revenue from long-term leases of portions of our network.

(e) Other revenue for the 2020 period primarily includes broadcasting revenue in Ireland. As a result of the Reorganization Transactions, the associated entities are no longer included in the Virgin Media Group.

Geographic Segments

The revenue of our geographic segments is set forth below:

	Three months ended March 31, 2021	Three months ended March 31, 2020
	in millions	
U.K.	£ 1,185.6	£ 1,169.2
Ireland	83.2	97.1
Total	£ 1,268.8	£ 1,266.3

(13) Condensed Combined Financial Information — Senior Notes

We present the following condensed combined financial information as of and for the three months ended March 31, 2021, as required by the applicable underlying indentures. For the condensed combined financial information as of December 31, 2020 and for the three months ended March 31, 2020, see our 2020 annual report and the March 31, 2020 quarterly report, respectively.

As of March 31, 2021, Virgin Media Finance is the issuer of the following senior notes:

- $925.0 million (£670.3 million) principal amount of 2030 VM Dollar Senior Notes; and

- €500.0 million (£425.7 million) principal amount of 2030 VM Euro 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 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.

	March 31, 2021							
Balance sheet	**Virgin Media**	**Virgin Media Finance**	**Other guarantors**	**VMIH**	**VMIL**	**All other subsidiaries**	**Eliminations**	**Total**
	in millions							
ASSETS								
Current assets:								
Cash and cash equivalents	£ —	£ —	£ —	£ —	£ —	£ 6.3	£ —	£ 6.3
Related-party receivables	0.4	—	—	3.6	—	1,133.2	—	1,137.2
Other current assets:								
Third-party	—	—	—	58.8	—	708.8	—	767.6
Intercompany and related-party	—	10.3	—	41.7	—	13.6	(65.4)	0.2
Total current assets	0.4	10.3	—	104.1	—	1,861.9	(65.4)	1,911.3
Property and equipment, net	—	—	—	—	—	5,817.8	—	5,817.8
Goodwill	—	—	—	—	—	5,955.9	—	5,955.9
Investments in, and loans to, parent and subsidiary companies	6,820.2	8,479.3	6,854.4	16,989.4	15,671.6	(3,668.3)	(51,146.6)	—
Deferred income taxes	—	—	—	—	—	1,705.0	—	1,705.0
Related-party notes receivable	10.2	—	—	—	—	5,437.5	—	5,447.7
Other assets, net:								
Third-party	0.8	—	—	372.6	—	458.8	—	832.2
Intercompany	—	42.0	—	134.3	—	103.1	(279.4)	—
Total assets	£6,831.6	£8,531.6	£ 6,854.4	£ 17,600.4	£15,671.6	£ 17,671.7	£ (51,491.4)	£ 21,669.9
LIABILITIES AND COMBINED EQUITY								
Current liabilities:								
Intercompany payables	£ —	£ 75.7	£ —	£ 59.2	£ —	£ 133.7	£ (268.6)	£ —
Other current liabilities:								
Third-party	0.9	10.0	—	2,232.8	—	1,433.6	—	3,677.3
Intercompany and related-party	8.3	37.9	—	23.8	—	101.2	(65.4)	105.8
Total current liabilities	9.2	123.6	—	2,315.8	—	1,668.5	(334.0)	3,783.1
Long-term debt and finance lease obligations:								
Third-party	—	1,090.4	—	96.2	—	8,533.0	—	9,719.6
Related-party	—	—	—	—	—	586.2	—	586.2
Other long-term liabilities:								
Third-party	31.4	—	—	499.5	—	245.9	—	776.8
Intercompany	—	31.1	—	145.1	—	103.2	(279.4)	—
Total liabilities	40.6	1,245.1	—	3,056.6	—	11,136.8	(613.4)	14,865.7
Total combined equity attributable to parent entities	6,791.0	7,286.5	6,854.4	14,543.8	15,671.6	6,521.7	(50,878.0)	6,791.0
Noncontrolling interest	—	—	—	—	—	13.2	—	13.2
Total combined equity	6,791.0	7,286.5	6,854.4	14,543.8	15,671.6	6,534.9	(50,878.0)	6,804.2
Total liabilities and combined equity	£6,831.6	£8,531.6	£ 6,854.4	£ 17,600.4	£15,671.6	£ 17,671.7	£ (51,491.4)	£ 21,669.9

	Three months ended March 31, 2021							
Statement of operations	**Virgin Media**	**Virgin Media Finance**	**Other guarantors**	**VMIH**	**VMIL**	**All other subsidiaries**	**Eliminations**	**Total**
	in millions							
Revenue	£ —	£ —	£ —	£ —	£ —	£ 1,268.8	£ —	£ 1,268.8
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):								
Programming and other direct costs of services	—	—	—	—	—	400.5	—	400.5
Other operating	—	—	—	—	—	192.1	—	192.1
SG&A	0.3	—	—	—	—	177.5	—	177.8
Related-party fees and allocations, net	—	—	—	—	—	78.9	—	78.9
Depreciation and amortization	—	—	—	—	—	320.9	—	320.9
	0.3	—	—	—	—	1,169.9	—	1,170.2
Operating income (loss)	(0.3)	—	—	—	—	98.9	—	98.6
Non-operating income (expense):								
Interest expense:								
Third-party	—	(12.6)	—	(25.3)	—	(88.5)	—	(126.4)
Intercompany and related-party	—	(89.1)	—	(59.3)	—	(158.1)	300.4	(6.1)
Interest income – related-party and intercompany	0.3	22.9	—	57.8	—	291.0	(300.4)	71.6
Foreign currency transaction gains, net	2.1	56.8	—	7.6	—	47.6	—	114.1
Realized and unrealized gains (losses) on derivative instruments, net:								
Third-party	—	—	—	43.2	—	0.8	—	44.0
Intercompany	—	53.1	—	(16.6)	—	(36.5)	—	—
Other income (expense), net	—	(0.1)	—	(0.1)	—	1.5	—	1.3
	2.4	31.0	—	7.3	—	57.8	—	98.5
Earnings before income taxes	2.1	31.0	—	7.3	—	156.7	—	197.1
Income tax benefit (expense)	3.4	—	—	—	—	(34.0)	—	(30.6)
Earnings after income taxes	5.5	31.0	—	7.3	—	122.7	—	166.5
Equity in net earnings of subsidiaries	158.6	125.2	156.5	117.7	(114.6)	—	(443.4)	—
Net earnings (loss)	164.1	156.2	156.5	125.0	(114.6)	122.7	(443.4)	166.5
Net earnings attributable to noncontrolling interest	—	—	—	—	—	(2.4)	—	(2.4)
Net earnings (loss) attributable to parent entities	£ 164.1	£ 156.2	£ 156.5	£ 125.0	£(114.6)	£ 120.3	£ (443.4)	£ 164.1
Total comprehensive earnings (loss)	£ 169.6	£ 164.2	£ 164.6	£ 133.2	£(106.4)	£ 130.9	£ (484.1)	£ 172.0
Comprehensive earnings attributable to noncontrolling interest	—	—	—	—	—	(2.4)	—	(2.4)
Comprehensive earnings (loss) attributable to parent entities	£ 169.6	£ 164.2	£ 164.6	£ 133.2	£(106.4)	£ 128.5	£ (484.1)	£ 169.6

Statement of cash flows	**Virgin Media**	**Virgin Media Finance**	**VMIH**	**All other subsidiaries**	**Total**
	Three months ended March 31, 2021				
			in millions		
Cash flows from operating activities:					
Net cash provided (used) by operating activities	£ 32.1	£ (232.9)	£ (149.4)	£ 523.6	£ 173.4
Cash flows from investing activities:					
Capital expenditures, net	—	—	—	(123.2)	(123.2)
Repayments from related parties, net	—	—	—	19.6	19.6
Net cash used by investing activities	—	—	—	(103.6)	(103.6)
Cash flows from financing activities:					
Repayments and repurchases of third-party debt and finance lease obligations	—	—	(664.1)	(12.6)	(676.7)
Borrowings of third-party debt	—	—	589.8	23.4	613.2
Net cash paid related to derivative instruments	—	—	(14.7)	(1.5)	(16.2)
Borrowings of related-party debt	—	—	—	10.8	10.8
Payment of financing costs and debt premiums	—	—	—	(0.2)	(0.2)
Contributions (distributions)	(31.7)	232.2	238.4	(438.9)	—
Other financing activities, net	—	—	—	(14.9)	(14.9)
Net cash provided (used) by financing activities	(31.7)	232.2	149.4	(433.9)	(84.0)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(0.4)	—	—	—	(0.4)
Net decrease in cash and cash equivalents and restricted cash	—	(0.7)	—	(13.9)	(14.6)
Cash and cash equivalents and restricted cash:					
Beginning of period	—	0.7	—	61.2	61.9
End of period	£ —	£ —	£ —	£ 47.3	£ 47.3
Details of end of period cash and cash equivalents and restricted cash:					
Cash and cash equivalents	£ —	£ —	£ —	£ 6.3	£ 6.3
Restricted cash included in other current assets and other assets, net	—	—	—	41.0	41.0
Total cash and cash equivalents and restricted cash	£ —	£ —	£ —	£ 47.3	£ 47.3

(14) Condensed Combined Financial Information — Senior Secured Notes

We present the following condensed combined financial information as of and for the three months ended March 31, 2021, as required by the applicable underlying indentures. For the condensed combined financial information as of December 31, 2020 and for the three months ended March 31, 2020, see our 2020 annual report and the March 31, 2020 quarterly report, respectively.

As of March 31, 2021, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- $750.0 million (£543.5 million) principal amount of 2026 VM Dollar Senior Secured Notes;
- £675.0 million principal amount of 2027 VM Sterling Senior Secured Notes;
- $1,425.0 million (£1,032.6 million) principal amount of 2029 VM Dollar Senior Secured Notes;
- £340.0 million principal amount of 2029 VM Sterling Senior Secured Notes;
- $915.0 million (£663.0 million) principal amount of 2030 VM Dollar Senior Secured Notes;
- £480.0 million principal amount of 2030 VM 4.125% Sterling Senior Secured Notes; and
- £635.0 million principal amount of 2030 VM 4.25% 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, VMIH and VMIL. They also rank pari passu with and, subject to certain exceptions, share in the same guarantees and security which have been granted in favor of our VM Credit Facilities.

Balance sheet	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Eliminations	Total
	March 31, 2021					
	in millions					
ASSETS						
Current assets:						
Cash and cash equivalents	£ —	£ —	£ 5.7	£ 0.6	£ —	£ 6.3
Related-party receivables	0.4	—	14.3	1,122.5	—	1,137.2
Other current assets:						
Third-party	—	—	718.5	49.1	—	767.6
Intercompany and related-party	—	13.4	52.2	—	(65.4)	0.2
Total current assets	0.4	13.4	790.7	1,172.2	(65.4)	1,911.3
Property and equipment, net	—	—	5,670.5	147.3	—	5,817.8
Goodwill	—	—	5,955.9	—	—	5,955.9
Investments in, and loans to, parent and subsidiary companies	6,820.2	4,411.3	(2,771.2)	4,043.1	(12,503.4)	—
Deferred income taxes	—	—	1,705.0	—	—	1,705.0
Related-party notes receivable	10.2	—	1,250.1	4,187.4	—	5,447.7
Other assets, net:						
Third-party	0.8	—	725.4	106.0	—	832.2
Intercompany	—	103.0	176.4	—	(279.4)	—
Total assets	£ 6,831.6	£ 4,527.7	£ 13,502.8	£ 9,656.0	£ (12,848.2)	£ 21,669.9
LIABILITIES AND COMBINED EQUITY						
Current liabilities:						
Intercompany payables	£ —	£ —	£ 154.8	£ 113.8	£ (268.6)	£ —
Other current liabilities:						
Third-party	0.9	66.1	3,605.2	5.1	—	3,677.3
Intercompany and related-party	8.3	3.9	86.6	72.4	(65.4)	105.8
Total current liabilities	9.2	70.0	3,846.6	191.3	(334.0)	3,783.1
Long-term debt and finance lease obligations:						
Third-party	—	4,357.3	5,138.6	223.7	—	9,719.6
Related-party	—	—	586.2	—	—	586.2
Other long-term liabilities:						
Third-party	31.4	—	667.4	78.0	—	776.8
Intercompany	—	103.2	176.2	—	(279.4)	—
Total liabilities	40.6	4,530.5	10,415.0	493.0	(613.4)	14,865.7
Total combined equity attributable to parent entities	6,791.0	(2.8)	3,087.8	9,149.8	(12,234.8)	6,791.0
Noncontrolling interest	—	—	—	13.2	—	13.2
Total combined equity	6,791.0	(2.8)	3,087.8	9,163.0	(12,234.8)	6,804.2
Total liabilities and combined equity	£ 6,831.6	£ 4,527.7	£ 13,502.8	£ 9,656.0	£ (12,848.2)	£ 21,669.9

Statement of operations	Three months ended March 31, 2021					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Eliminations	Total
	in millions					
Revenue	£ —	£ —	£ 1,235.2	£ 33.6	£ —	£ 1,268.8
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):						
Programming and other direct costs of services	—	—	389.7	10.8	—	400.5
Other operating	—	—	191.4	0.7	—	192.1
SG&A	0.3	—	175.2	2.3	—	177.8
Depreciation and amortization	—	—	310.9	10.0	—	320.9
Related party fees and allocations, net	—	—	76.7	2.2	—	78.9
	0.3	—	1,143.9	26.0	—	1,170.2
Operating income (loss)	(0.3)	—	91.3	7.6	—	98.6
Non-operating income (expense):						
Interest expense:						
Third-party	—	(54.2)	(71.4)	(0.8)	—	(126.4)
Intercompany and related-party	—	—	(192.6)	(113.9)	300.4	(6.1)
Interest income – related-party and intercompany	0.3	58.5	204.3	108.9	(300.4)	71.6
Foreign currency transaction gains, net	2.1	18.1	93.7	0.2	—	114.1
Realized and unrealized gains (losses) on derivative instruments, net:						
Third-party	—	—	43.4	0.6	—	44.0
Intercompany	—	(36.5)	36.5	—	—	—
Other income (loss), net	—	—	1.8	(0.5)	—	1.3
	2.4	(14.1)	115.7	(5.5)	—	98.5
Earnings (loss) before income taxes	2.1	(14.1)	207.0	2.1	—	197.1
Income tax benefit (expense)	3.4	—	(34.0)	—	—	(30.6)
Earnings (loss) after income taxes	5.5	(14.1)	173.0	2.1	—	166.5
Equity in net earnings (loss) of subsidiaries	158.6	—	(16.8)	156.8	(298.6)	—
Net earnings (loss)	164.1	(14.1)	156.2	158.9	(298.6)	166.5
Net earnings attributable to noncontrolling interest	—	—	—	(2.4)	—	(2.4)
Net earnings (loss) attributable to parent entities	£ 164.1	£ (14.1)	£ 156.2	£ 156.5	£ (298.6)	£ 164.1
Total comprehensive earnings (loss)	£ 169.6	£ (14.1)	£ 163.7	£ 166.9	£ (314.1)	£ 172.0
Comprehensive earnings attributable to noncontrolling interest	—	—	—	(2.4)	—	(2.4)
Comprehensive earnings (loss) attributable to parent entities	£ 169.6	£ (14.1)	£ 163.7	£ 164.5	£ (314.1)	£ 169.6

Statement of cash flows	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Total
	Three months ended March 31, 2021				
			in millions		
Cash flows from operating activities:					
Net cash provided (used) by operating activities	£ 32.1	£ 10.8	£ (1.7)	£ 132.2	£ 173.4
Cash flows from investing activities:					
Capital expenditures, net	—	—	(121.9)	(1.3)	(123.2)
Repayments from related parties, net	—	—	—	19.6	19.6
Net cash provided (used) by investing activities	—	—	(121.9)	18.3	(103.6)
Cash flows from financing activities:					
Repayments and repurchases of third-party debt and finance lease obligations	—	—	(676.6)	(0.1)	(676.7)
Borrowings of third-party debt	—	—	592.1	21.1	613.2
Net cash received related to derivative instruments	—	—	(14.7)	(1.5)	(16.2)
Net borrowings (repayments) of related party debt	—	—	(14.2)	25.0	10.8
Payment of financing costs and debt premiums	—	—	(0.2)	—	(0.2)
Contributions (distributions)	(31.7)	(11.2)	240.7	(197.8)	—
Other financing activities, net	—	—	(6.1)	(8.8)	(14.9)
Net cash provided (used) by financing activities	(31.7)	(11.2)	121.0	(162.1)	(84.0)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(0.4)	—	—	—	(0.4)
Net decrease in cash and cash equivalents and restricted cash	—	(0.4)	(2.6)	(11.6)	(14.6)
Cash and cash equivalents and restricted cash:					
Beginning of period	—	0.4	49.3	12.2	61.9
End of period	£ —	£ —	£ 46.7	£ 0.6	£ 47.3
Details of end of period cash and cash equivalents and restricted cash:					
Cash and cash equivalents	£ —	£ —	£ 5.7	£ 0.6	£ 6.3
Restricted cash included in other current assets and other assets, net	—	—	41.0	—	41.0
Total cash and cash equivalents and restricted cash	£ —	£ —	£ 46.7	£ 0.6	£ 47.3

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 combined financial statements and the discussion and analysis included in our 2020 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2021 and 2020.
- *Material Changes in Financial Condition.* This section provides an analysis of our corporate and subsidiary liquidity, condensed combined statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our condensed combined financial statements. In the following text, the terms "we," "our," "our company" and "us" refer to the Virgin Media Group.

Unless otherwise indicated, convenience translations into pound sterling are calculated as of March 31, 2021.

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, future network extensions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the potential impact of the outbreak of a novel strain of the coronavirus (**COVID-19**) on our company, 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 2020 annual report and this quarterly 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 U.K. and Ireland;
- the competitive environment in the broadband internet, cable television and telecommunications industries in the U.K. and Ireland, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the E.U. and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing and broadband internet usage preferences and habits;

- consumer acceptance of our existing service offerings, including our broadband internet, cable television, 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 broadband internet, cable television, 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 U.K. and Ireland 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 U.K. and Ireland;

- 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, epidemics, pandemics (such as COVID-19) 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

Our company comprises certain subsidiaries of Liberty Global that provide broadband internet, video, fixed-line telephony and mobile services in the U.K. and Ireland, and we are one of the largest providers of residential communications services in those markets 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 internet services than other digital subscriber line market participants. As a result, we provide our customers with a leading next generation broadband internet service and one of the most advanced interactive television services available in the U.K. and Irish markets.

Operations

At March 31, 2021, our network passed 16,334,600 homes and served 6,092,900 fixed-line customers and 3,530,100 mobile subscribers.

During the first three months of 2021, pursuant to the Network Extension, we connected approximately 80,000 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 the program, the Network Extension may be continued, modified or cancelled at our discretion.

Competition and Other External Factors

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

The global COVID-19 pandemic continues to adversely impact the economies of the countries in which we operate. However, during the first quarter of 2021, the adverse impact on our company continued to be relatively minimal as demand for our products and services remained strong. It is not currently possible to estimate the duration and severity of the COVID-19 pandemic or the adverse economic impact resulting from the preventative measures taken to contain or mitigate its outbreak, therefore no assurance can be given that an extended period of global economic disruption would not have a material adverse impact on our business, financial condition and results of operations in future periods. For further information regarding the COVID-19 pandemic, see the discussion under *Management’s Discussion and Analysis of Financial Condition and Results of Operations - Overview* included in our 2020 annual report. For additional information regarding the impact of COVID-19 on our results of operations for the three months ended March 31, 2021, see *Discussion and Analysis of our Results of Operations* below.

Discussion and Analysis of our Results of Operations

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 Adjusted EBITDA and Segment Adjusted EBITDA margin (Segment Adjusted EBITDA divided by revenue) to the extent of any such tax increases. As we use the term, "**Segment Adjusted EBITDA**" is defined as earnings (loss) before net income tax benefit (expense), other non-operating income or expenses, net gains (losses) on extinguishment of debt, net realized and unrealized gains (losses) due to changes in fair value of certain debt, net foreign currency gains (losses), net realized and unrealized gains (losses) on derivative instruments, net interest expense, net interest income, depreciation and amortization, share-based compensation, 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. Segment Adjusted EBITDA is a non-GAAP measure, which we believe is a meaningful measure because it represents a transparent view of our recurring operating performance that is unaffected by our capital structure and allows management to (a) readily view operating trends and (b) identify strategies to improve operating performance in the U.K. and Ireland. Investors should view Segment Adjusted EBITDA as a supplement to, and not a substitute for, GAAP measures of performance included in our condensed combined statements of operations.

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 and, in very limited cases, we could experience retroactive changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our Segment Adjusted EBITDA 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.

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our networks where appropriate. As we use the term, organic growth excludes foreign currency translation effects (**FX**) and the estimated impact of acquisitions and dispositions.

Revenue

General. We derive our revenue primarily from residential and B2B communications services, including broadband internet, video, 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 our fixed-line customers 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.

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase (decrease)		Organic increase (decrease)
	2021	2020	£	%	%
	in millions, except percentages				
Residential revenue:					
Residential cable revenue (a):					
Subscription revenue (b):					
Broadband internet	£ 425.9	£ 426.0	£ (0.1)	—	(0.1)
Video	277.7	277.7	—	—	(0.1)
Fixed-line telephony	178.9	200.4	(21.5)	(10.7)	(10.8)
Total subscription revenue	882.5	904.1	(21.6)	(2.4)	(2.5)
Non-subscription revenue	18.3	14.9	3.4	22.8	23.2
Total residential cable revenue	900.8	919.0	(18.2)	(2.0)	(2.1)
Residential mobile revenue (c):					
Subscription revenue (b)	89.3	89.9	(0.6)	(0.7)	(0.7)
Non-subscription revenue	75.3	56.4	18.9	33.5	33.4
Total residential mobile revenue	164.6	146.3	18.3	12.5	12.5
Total residential revenue	1,065.4	1,065.3	0.1	—	(0.1)
B2B revenue (d):					
Subscription revenue	28.1	24.0	4.1	17.1	16.8
Non-subscription revenue	175.1	160.9	14.2	8.8	8.8
Total B2B revenue	203.2	184.9	18.3	9.9	9.8
Other revenue (e)	0.2	16.1	(15.9)	(98.8)	(39.0)
Total	£ 1,268.8	£ 1,266.3	£ 2.5	0.2	1.4

(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. Residential mobile interconnect revenue was £14.6 million and £15.5 million during the three months ended March 31, 2021 and 2020, respectively.

(d) B2B subscription revenue represents revenue from SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with broadband internet, video, 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 (i) 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 and (ii) revenue from long-term leases of portions of our network.

(e) Other revenue for the 2020 period primarily includes broadcasting revenue in Ireland. As a result of the Reorganization Transactions, the associated entities are no longer included in the Virgin Media Group.

The details of the increase in our revenue during the three months ended March 31, 2021, as compared to the corresponding period in 2020, are set forth below:

	Subscription revenue	Non-subscription revenue	Total
		in millions	
Increase (decrease) in residential cable subscription revenue due to change in (a):			
Average number of customers	£ 14.7	£ —	£ 14.7
ARPU	(37.1)	—	(37.1)
Increase in residential cable non-subscription revenue (b)	—	3.5	3.5
Total increase (decrease) in residential cable revenue	(22.4)	3.5	(18.9)
Increase (decrease) in residential mobile revenue (c)	(0.7)	18.8	18.1
Increase in B2B revenue (d)	4.1	14.1	18.2
Decrease in other revenue	—	(0.2)	(0.2)
Total organic increase (decrease)	(19.0)	36.2	17.2
Impact of certain disposals associated with the Reorganization Transactions	—	(15.9)	(15.9)
Impact of FX	1.0	0.2	1.2
Total	£ (18.0)	£ 20.5	£ 2.5

(a) Amount includes the adverse impact of regulated contract notifications, as further described under *Legal and Regulatory Proceedings and Other Contingencies - Other Regulatory Matters* in note 11 to our condensed combined financial statements.

(b) The increase in residential cable non-subscription revenue is primarily attributable to an increase in installation revenue in the U.K.

(c) The increase in residential mobile non-subscription revenue is primarily attributable to an increase in revenue from mobile handset sales in the U.K.

(d) The increase in B2B subscription revenue is primarily due to an increase in the average number of SOHO customers in the U.K. The increase in B2B non-subscription revenue is primarily attributable to our operations in the U.K., including the net effect of (i) an increase in revenue associated with long-term leases of a portion of our network and (ii) lower revenue from data 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 represent a significant portion of our operating costs and are subject to rise in future periods due to various factors, including (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (ii) rate increases.

Our programming and other direct costs of services decreased £3.1 million or 0.8% during the three months ended March 31, 2021, as compared to the corresponding period in 2020. This decrease includes a decrease of £15.4 million attributable to the impact of certain disposals associated with the Reorganization Transactions. On an organic basis, our programming and other direct costs of services increased £12.0 million or 3.1%. This increase includes the following factors:

- An increase in mobile handset and other device costs of £14.7 million or 42.3%, primarily due to (i) a higher average cost per handset sold and (ii) higher sales volumes;

- A decrease in interconnect and access costs of £11.0 million or 10.5%, primarily due to a decrease in interconnect and mobile roaming costs. Interconnect and mobile roaming costs have been impacted by changes in usage per subscriber associated with factors such as lower travel and the use of WiFi alternatives during the COVID-19 pandemic; and

- An increase in programming and copyright costs of £4.8 million or 2.2%, primarily due to higher costs for certain premium and/or basic content.

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 £3.3 million or 1.7% during the three months ended March 31, 2021, as compared to the corresponding period in 2020. This increase includes a decrease of £2.0 million attributable to the impact of certain disposals associated with the Reorganization Transactions. On an organic basis, our other operating expenses increased £5.7 million or 3.0%. This increase includes the following factors:

- An increase in personnel costs of £8.2 million or 16.1%, primarily due to the net effect of (i) higher staffing levels, (ii) lower costs due to higher capitalizable activities and (iii) higher average costs per employee;

- An increase in core network and information technology-related costs of £2.7 million or 12.7%, primarily due to higher information technology-related expenses;

- A decrease in outsourced labor costs of £1.6 million or 21.5%, primarily associated with customer-facing activities;

- A decrease in business service costs of £1.0 million or 4.0%, primarily due to a decrease in travel and entertainment expenses as a result of the COVID-19 pandemic; and

- A decrease in customer service costs of £1.0 million or 2.9%, primarily due to lower call center costs, including the impact of lockdowns associated with the COVID-19 pandemic, which prevented certain outsourced contract services from being performed.

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 £7.0 million or 4.1% during the three months ended March 31, 2021, as compared to the corresponding period in 2020. This increase includes a decrease of £3.4 million attributable to the impact of certain disposals associated with the Reorganization Transactions. Our SG&A expenses include share-based compensation expense, which decreased £0.3 million during the three months ended March 31, 2021, as compared to the corresponding period in 2020. On an organic basis, and excluding share-based compensation, our SG&A expenses increased £9.9 million or 6.2%. This increase includes the following factors:

- An increase in core network and information technology-related costs of £8.9 million or 59.0%, primarily due to higher information technology-related expenses;

- An increase in personnel costs of £5.6 million or 8.4%, primarily due to the net effect of (i) higher average costs per employee, (ii) an increase in temporary personnel costs and (iii) lower staffing levels;

- An increase in external sales and marketing costs of £3.5 million or 8.4%, primarily due to the net effect of (i) higher costs associated with advertising campaigns and (ii) lower costs associated with third-party sales commissions; and

- A decrease in business services costs of £3.0 million or 19.7%, primarily due to a decrease in travel and entertainment expenses as a result of the COVID-19 pandemic.

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 £78.9 million and £74.2 million during the three months ended March 31, 2021 and 2020, respectively. These charges generally relate to management, finance, legal and other corporate and administrative services provided to or by our company. For additional information, see note 10 to our condensed combined financial statements.

Depreciation and amortization expense

Our depreciation and amortization expense decreased £18.4 million or 5.4% during the three months ended March 31, 2021, as compared to the corresponding period in 2020. Excluding the effects of FX, depreciation and amortization expense decreased £16.7 million or 4.9%, as compared to the corresponding period in 2020. This decrease is primarily due to the net effect of (i) a decrease associated with certain assets becoming fully depreciated and (ii) an increase associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of nil and £4.8 million during the three months ended March 31, 2021 and 2020, respectively. The amount for the 2020 period includes restructuring charges of £3.3 million, primarily due to certain reorganization activities that resulted in employee severance and termination costs and costs related to property closures.

If, among other factors, (i) our enterprise value or Liberty Global's equity value 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 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.

Interest expense – third-party

Our third-party interest expense decreased £22.1 million or 14.9% during the three months ended March 31, 2021, as compared to the corresponding period in 2020. This decrease is primarily attributable to the net effect of (i) a lower weighted average interest rate and (ii) a higher average outstanding third-party debt balance. For additional information regarding our outstanding third-party indebtedness, see note 7 to our condensed combined 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 combined 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. Additionally, the European Money Markets Institute (the authority that administers EURIBOR) has announced that measures will need to be undertaken by the end of 2021 to reform EURIBOR to ensure compliance with E.U. Benchmarks Regulation. In November 2020, ICE Benchmark administration (the entity that administers LIBOR) announced its intention to continue publishing USD LIBOR rates until June 30, 2023, with the exception of the one-week and two-month rates which, along with all GBP LIBOR rates, it intends to cease publishing after December 31, 2021. While this extension allows additional runway on existing contracts using USD LIBOR rates, companies are still encouraged to transition away from using USD LIBOR as soon as practicable and should not enter into new contracts that use USD LIBOR after 2021. The methodology for EURIBOR has been reformed and EURIBOR has been granted regulatory approval to continue to be used. 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.

In October 2020, the International Swaps and Derivatives Association (the **ISDA**) launched a new supplement (the Fallback Supplement), which effective January 25, 2021, amends the standard definitions for interest rate derivatives to incorporate fallbacks for derivatives linked to certain key interbank offered rates (**IBORs**). The ISDA also launched a new protocol (the Fallback Protocol), also effective January 25, 2021, that enables market participants to incorporate these revisions into their legacy non-cleared derivatives with other counterparties that choose to adhere to the protocol. The fallbacks for a particular currency will apply following a permanent cessation of the IBOR in that currency and will be adjusted versions of the risk-free rates identified in each currency. Our loan documents contain provisions that contemplate alternative calculations of the base rate applicable to our LIBOR-indexed and EURIBOR-indexed debt to the extent LIBOR or EURIBOR (as applicable) are not available, which alternative calculations we do not anticipate will be materially different from what would have been calculated under LIBOR or EURIBOR (as applicable). Additionally, no mandatory prepayment or redemption provisions would be triggered under our loan documents in the event that either the LIBOR rate or the EURIBOR rate is not available. It is possible, however, that any new reference rate that applies to our LIBOR-indexed or EURIBOR-indexed debt could be different than any new reference rate that applies to our LIBOR-indexed or EURIBOR-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 the company may incur significant associated costs.

Interest expense – related-party

Our related-party interest expense increased £5.5 million or 916.7% during the three months ended March 31, 2021, as compared to the corresponding period in 2020, primarily attributable to the outstanding note payable owed from VM Ireland to another Liberty Global subsidiary outside of the Virgin Media Group. For additional information regarding our related-party indebtedness, see note 10 to our condensed combined financial statements.

Interest income – related-party

Our related-party interest income increased £7.3 million or 11.4% during the three months ended March 31, 2021, as compared to the corresponding period in 2020, primarily attributable to higher outstanding balances on intercompany notes receivable. For additional information, see note 10 to our condensed combined financial statements.

Foreign currency transaction gains (losses), net

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

	Three months ended March 31,	
	2021	**2020**
	in millions	
Euro-denominated debt issued by our company	£ 55.1	£ (46.3)
U.S. dollar-denominated debt issued by our company	32.2	(169.4)
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a)	25.2	(158.4)
Other	1.6	(1.6)
Total	£ 114.1	£ (375.7)

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

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 March 31,	
	2021	**2020**
	in millions	
Cross-currency and interest rate derivative contracts (a)	£ 46.0	£ 484.3
Foreign currency forward and option contracts:		
Third-party	(2.2)	0.5
Related-party	0.2	—
Total	£ 44.0	£ 484.8

(a) The gain during the 2021 period is primarily attributable to the net effect of (i) a net gain associated with changes in certain market interest rates and (ii) a net loss associated with changes in the relative value of certain currencies. In addition, the gain for the 2021 period includes a net loss of £2.6 million resulting from changes in our credit risk valuation adjustments. The gain during the 2020 period is primarily attributable to (i) a net gain associated with changes in the relative value of certain currencies and (ii) a net loss associated with changes in certain market interest rates. In addition, the gain for the 2020 period includes a net loss of £23.9 million, resulting from changes in our credit risk valuation adjustments.

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

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

Our realized and unrealized gains or losses due to changes in fair values of certain debt include unrealized gains or losses associated with changes in fair values that are non-cash in nature until such time as these gains or losses are realized through cash transactions. We recognized realized and unrealized losses due to changes in fair values of certain debt, net, of nil and £1.4 million during the three months ended March 31, 2021 and 2020, respectively. For additional information regarding our fair value measurements, see note 5 to our condensed combined financial statements.

Income tax expense

We recognized income tax expense of £30.6 million and £25.7 million during the three months ended March 31, 2021 and 2020, respectively.

The income tax expense during the three months ended March 31, 2021 differs from the expected income tax expense of £41.4 million (based on the U.S. federal income tax rate of 21.0%) primarily due to the positive impacts of (i) the recognition of previously unrecognized tax benefits and (ii) statutory tax rates in certain jurisdictions in which we operate that are lower than the U.S. federal income tax rate. The positive impact of these items was partially offset by the negative impact of certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries.

The income tax expense during the three months ended March 31, 2020 differs from the expected income tax expense of £22.8 million (based on the U.S. federal income tax rate of 21.0%) primarily due to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries and (ii) non-deductible or non-taxable foreign currency exchange results. The negative impact of these items was partially offset by the positive impacts of (a) statutory tax rates in certain jurisdictions in which we operate that are lower than the U.S. federal income tax rate and (b) an increase in net deferred tax assets in the U.K. due to enacted tax rate changes.

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

Net earnings

During the three months ended March 31, 2021 and 2020, we reported net earnings of £166.5 million and £83.1 million, respectively, including (i) operating income of £98.6 million and £84.8 million, respectively, (ii) net non-operating expense of £98.5 million and £24.0 million, respectively, and (iii) income tax expense of £30.6 million and £25.7 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 operating income to a level that more than offsets the aggregate amount of our (a) interest expense, (b) other non-operating expenses and (c) income tax expense.

Subject to the limitations included in our various debt instruments and the pending formation of the U.K. JV, 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 combined statements of operations, see the above discussion.

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

At March 31, 2021, we had cash and cash equivalents of £6.3 million, all of which was held by our operating entities. The terms of the instruments governing the indebtedness of certain of these entities may restrict our parent entities' ability to access the liquidity of these entities. In addition, our parent entities' ability to access the liquidity of our operating entities may be limited by tax and legal considerations and other factors.

Liquidity of the Virgin Media Group

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 operating entities. For information regarding limitations imposed by our debt instruments, see note 7 to our condensed combined financial statements.

The ongoing cash needs of the Virgin Media Group include corporate general and administrative expenses, and from time to time, cash requirements 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 operating entities or external sources would be available on favorable terms, or at all.

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 operating entities

In addition to cash and cash equivalents, the primary sources of liquidity of our operating entities 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 combined financial statements.

The liquidity of our operating entities generally is used to fund (i) property and equipment additions, (ii) debt service requirements and (iii) other liquidity requirements that may arise from time to time, as well as to settle certain obligations that are not included on our March 31, 2021 condensed combined balance sheet. In this regard, we have significant commitments related to (a) programming studio output and sports rights contracts, (b) certain operating costs associated with our networks and (c) purchase obligations associated with customer premises equipment and certain service-related commitments. These obligations are expected to represent a significant liquidity requirement of our company, the majority of which is due over the next 12 to 24 months. For additional information regarding our commitments, see note 11 to our condensed combined financial statements.

For additional information regarding our combined cash flows, see the discussion under *Condensed Combined Statements of Cash Flows* below. Our operating entities 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 other entities within the Virgin Media Group, Liberty Global or other Liberty Global subsidiaries. No assurance can be given that any external funding would be available to our operating entities on favorable terms, or at all.

Capitalization

At March 31, 2021, the outstanding principal amount of our combined third-party debt, together with our finance lease obligations, aggregated £11,867.0 million, including £2,106.4 million that is classified as current on our condensed combined balance sheet and £8,890.8 million that is not due until 2027 or thereafter. For additional information regarding our debt and finance lease maturities, see notes 7 and 8, respectively, to our condensed combined financial statements.

As further discussed in note 4 to our condensed combined 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 our various debt instruments. In this regard, if our Covenant EBITDA were to decline, our ability to obtain additional debt could be limited. We do not anticipate any instances of non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at March 31, 2021, we believe that 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 (including with respect to the COVID-19 pandemic), 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 combined third-party debt and finance lease obligations at March 31, 2021 have been borrowed or incurred by entities within the Virgin Media Group. For additional information concerning our debt and finance lease obligations, see notes 7 and 8, respectively, to our condensed combined financial statements.

Condensed Combined Statements of Cash Flows

Summary. Our condensed combined statements of cash flows for the three months ended March 31, 2021 and 2020 are summarized as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020	Change
		in millions	
Net cash provided by operating activities	£ 173.4	£ 187.8	£ (14.4)
Net cash provided (used) by investing activities	(103.6)	21.8	(125.4)
Net cash used by financing activities	(84.0)	(221.1)	137.1
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(0.4)	1.5	(1.9)
Net decrease in cash and cash equivalents and restricted cash	£ (14.6)	£ (10.0)	£ (4.6)

Operating Activities. The decrease in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase in cash provided due to lower cash payments related to derivative instruments, (ii) a decrease in cash provided by our Segment Adjusted EBITDA and related working capital items and (iii) a decrease in cash provided due to lower receipts of related-party interest income. Segment Adjusted EBITDA is a non-GAAP measure, which investors should view as a supplement to, and not a substitute for, GAAP measures of performance included in our condensed combined statements of operations.

Investing Activities. The increase in net cash used by our investing activities is primarily attributable to an increase in cash used of £117.9 million related to lower net repayments from related parties.

The capital expenditures we report in our condensed combined 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 combined 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.

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

	Three months ended March 31,	
	2021	2020
	in millions	
Property and equipment additions	£ 254.7	£ 271.1
Assets acquired under capital-related vendor financing arrangements	(150.2)	(193.8)
Changes in current liabilities related to capital expenditures, net (including related-party amounts)	18.7	38.4
Capital expenditures, net	£ 123.2	£ 115.7

The decrease in our property and equipment additions during the three months ended March 31, 2021, as compared to the corresponding period in 2020, is primarily due to a decrease in expenditures for new build and upgrade projects, including the Network Extension.

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 £153.0 million related to lower net repayments of third-party debt and finance lease obligations and (ii) an increase in cash used of £16.2 million due to higher cash payments related to derivative instruments.

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 March 31, 2021. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts required in future periods. For additional information regarding our derivative instruments, see note 4 to our condensed combined financial statements.

	Payments (receipts) due during:							
	Remainder of 2021	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
				in millions				
Projected derivative cash payments (receipts), net:								
Interest-related (a)	£ (29.5)	£ 65.2	£ 49.6	£ 21.7	£ 49.6	£ (5.3)	£ (18.9)	£ 132.4
Principal-related (b)	—	—	0.9	(16.4)	(361.3)	—	458.1	81.3
Other (c)	—	—	2.8	—	—	—	—	2.8
Total	£ (29.5)	£ 65.2	£ 53.3	£ 5.3	£(311.7)	£ (5.3)	£ 439.2	£ 216.5

(a) Includes (i) the cash flows of our interest rate cap, floor, swaption and swap contracts and (ii) the interest-related cash flows of our cross-currency and interest rate swap contracts.

(b) Includes the principal-related cash flows of our cross-currency swap contracts.

(c) Includes amounts related to our foreign currency forward contracts.