



**Condensed Consolidated Financial Statements
June 30, 2014**

**VIRGIN MEDIA INC.
12300 Liberty Boulevard
Englewood, Colorado 80112**

VIRGIN MEDIA INC.
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VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	Successor	
	June 30, 2014	December 31, 2013
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	£ 117.4	£ 343.0
Trade receivables, net	407.2	405.3
Related-party receivables (note 9)	114.1	88.1
Prepaid expenses	65.6	71.7
Other current assets (note 3)	86.1	83.3
Total current assets	790.4	991.4
Property and equipment, net (note 5)	5,906.2	6,112.6
Goodwill	5,793.7	5,793.7
Intangible assets subject to amortization, net (note 5)	2,139.0	2,321.5
Deferred income taxes	1,406.6	1,407.4
Related-party notes receivable (note 9)	2,840.5	2,373.5
Other assets, net (note 3)	286.7	311.1
Total assets	£ 19,163.1	£ 19,311.2

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

VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)
(unaudited)

	Successor	
	June 30, 2014	December 31, 2013
	in millions	
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable.....	£ 296.1	£ 274.5
Deferred revenue and advanced payments from subscribers and others.....	338.1	315.7
Current portion of debt and capital lease obligations (note 6)	172.0	159.5
Derivative instruments (note 3)	135.7	136.5
Accrued interest.....	101.2	92.4
Accrued programming	86.2	65.4
Related-party payables (note 9).....	98.3	87.6
Value-added taxes (VAT) payable.....	95.3	78.1
Other current liabilities.....	334.0	326.9
Total current liabilities.....	1,656.9	1,536.6
Long-term debt and capital lease obligations (note 6)	8,049.8	8,289.3
Other long-term liabilities (note 3).....	515.8	457.1
Total liabilities.....	10,222.5	10,283.0
Commitments and contingent liabilities (notes 3, 6, 7 and 10)		
Equity:		
Common stock - \$0.01 par value; authorized 1,000 shares; issued and outstanding 111 shares.....	—	—
Additional paid-in capital	9,477.9	9,477.9
Accumulated deficit.....	(720.0)	(595.3)
Accumulated other comprehensive earnings.....	182.7	145.6
Total equity.....	8,940.6	9,028.2
Total liabilities and equity.....	£ 19,163.1	£ 19,311.2

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

VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in millions)

	Three-month period			Six-month period		
	Successor		Predecessor	Successor		Predecessor
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Revenue	£ 1,054.4	£ 259.0	£ 767.7	£ 2,098.2	£ 259.0	£ 1,810.2
Operating costs and expenses:						
Operating (other than depreciation and amortization)	453.4	112.6	355.6	917.8	112.6	845.4
Selling, general and administrative (SG&A) (including share-based compensation) (note 8).....	149.2	56.4	109.8	295.5	56.4	256.1
Depreciation and amortization.....	405.2	92.7	183.5	814.1	92.7	432.8
Impairment, restructuring and other operating items, net	7.2	5.4	44.0	12.7	5.4	51.2
	<u>1,015.0</u>	<u>267.1</u>	<u>692.9</u>	<u>2,040.1</u>	<u>267.1</u>	<u>1,585.5</u>
Operating income (loss)	<u>39.4</u>	<u>(8.1)</u>	<u>74.8</u>	<u>58.1</u>	<u>(8.1)</u>	<u>224.7</u>
Non-operating income (expense):						
Interest expense:						
Third-party.....	(115.7)	(32.1)	(67.1)	(229.9)	(32.1)	(156.7)
Related-party (note 9).....	—	(3.6)	—	—	(3.6)	—
Interest income – related-party (note 9).....	56.7	10.7	—	108.8	10.7	—
Realized and unrealized gains (losses) on derivative instruments, net (note 3).....	(70.5)	120.2	(51.8)	(146.6)	120.2	51.8
Foreign currency transaction gains (losses), net	49.6	(23.2)	0.2	69.6	(23.2)	(2.1)
Other income, net.....	0.1	1.0	0.2	0.7	1.0	0.3
	<u>(79.8)</u>	<u>73.0</u>	<u>(118.5)</u>	<u>(197.4)</u>	<u>73.0</u>	<u>(106.7)</u>
Earnings (loss) before income taxes.....	<u>(40.4)</u>	<u>64.9</u>	<u>(43.7)</u>	<u>(139.3)</u>	<u>64.9</u>	<u>118.0</u>
Income tax benefit (expense) (note 7)	<u>(0.5)</u>	<u>(6.5)</u>	<u>4.6</u>	<u>14.6</u>	<u>(6.5)</u>	<u>(18.1)</u>
Net earnings (loss)	<u>£ (40.9)</u>	<u>£ 58.4</u>	<u>£ (39.1)</u>	<u>£ (124.7)</u>	<u>£ 58.4</u>	<u>£ 99.9</u>

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

VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
(unaudited)
(in millions)

	Three-month period			Six-month period		
	Successor		Predecessor	Successor		Predecessor
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Net earnings (loss)	£ (40.9)	£ 58.4	£ (39.1)	£ (124.7)	£ 58.4	£ 99.9
Other comprehensive earnings (loss), net of taxes:						
Foreign currency translation adjustments	27.7	(68.4)	3.2	37.1	(68.4)	(9.8)
Net unrealized gains (losses) on derivative instruments	—	—	(45.0)	—	—	66.8
Reclassification of derivative losses (gains) to net income	—	—	39.9	—	—	(74.4)
Pension liability adjustment	—	—	0.2	—	—	0.6
Other comprehensive earnings (loss)	27.7	(68.4)	(1.7)	37.1	(68.4)	(16.8)
Total comprehensive earnings (loss)	<u>£ (13.2)</u>	<u>£ (10.0)</u>	<u>£ (40.8)</u>	<u>£ (87.6)</u>	<u>£ (10.0)</u>	<u>£ 83.1</u>

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

VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(unaudited)

	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings	Total equity
	in millions			
Successor:				
Balance at January 1, 2014	£ 9,477.9	£ (595.3)	£ 145.6	£ 9,028.2
Net loss	—	(124.7)	—	(124.7)
Other comprehensive earnings, net of taxes.....	—	—	37.1	37.1
Share-based compensation (note 8).....	15.7	—	—	15.7
Capital charge in connection with the exercise of share-based incentive awards (note 9).....	(15.7)	—	—	(15.7)
Balance at June 30, 2014	£ 9,477.9	£ (720.0)	£ 182.7	£ 8,940.6

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

VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

	Successor		Predecessor
	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Cash flows from operating activities:			
Net earnings (loss).....	£ (124.7)	£ 58.4	£ 99.9
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Share-based compensation expense.....	18.9	23.2	22.1
Depreciation and amortization.....	814.1	92.7	432.8
Impairment, restructuring and other operating items, net.....	12.7	5.4	51.2
Amortization of deferred financing costs and non-cash interest accretion.....	8.7	1.8	14.7
Realized and unrealized losses (gains) on derivative instruments, net.....	146.6	(120.2)	(51.8)
Foreign currency transaction losses (gains), net.....	(69.6)	23.2	2.1
Deferred income tax expense (benefit).....	(15.1)	6.4	17.2
Changes in operating assets and liabilities	6.4	(140.9)	(0.1)
Net cash provided (used) by operating activities	798.0	(50.0)	588.1
Cash flows from investing activities:			
Loans to related party	(484.3)	(2,290.6)	—
Capital expenditures	(313.9)	(38.3)	(313.4)
Other investing activities, net	(6.7)	—	4.1
Net cash used by investing activities	£ (804.9)	£ (2,328.9)	£ (309.3)

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

VIRGIN MEDIA INC.
(See note 1)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(unaudited)
(in millions)

	Successor		Predecessor
	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Cash flows from financing activities:			
Repayments and repurchases of debt and capital lease obligations	£ (1,665.9)	£ (3,945.2)	£ (46.5)
Borrowings of debt	1,535.5	1,983.4	—
Repayments of related-party notes	—	(467.5)	—
Payment of financing costs and debt premiums	(57.6)	(63.8)	(1.1)
Release of restricted cash from escrow	—	2,313.6	—
Capital contribution from parent	—	2,290.6	—
Other financing activities, net	(28.5)	(10.2)	8.7
Net cash provided (used) by financing activities	(216.5)	2,100.9	(38.9)
Effect of exchange rate changes on cash and cash equivalents	(2.2)	(3.0)	0.9
Net increase (decrease) in cash and cash equivalents	(225.6)	(281.0)	240.8
Cash and cash equivalents (a):			
Beginning of period	343.0	554.8	206.3
End of period	£ 117.4	£ 273.8	£ 447.1
Cash paid for interest	£ 222.3	£ 72.4	£ 102.9
Income taxes paid	£ 0.2	£ —	£ 0.1

- (a) The difference between the ending cash balance on June 7, 2013 and the beginning cash balance on June 8, 2013 of £107.7 million relates to cash balances of certain subsidiaries of Liberty Global that were contributed to or merged into our company immediately following the LG/VM Transaction.

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

VIRGIN MEDIA INC.
(see note 1)
Notes to Condensed Consolidated Financial Statements
June 30, 2014
(unaudited)

(1) Basis of Presentation

General

Virgin Media Inc. (Virgin Media) is a provider of digital cable, broadband internet, fixed-line telephony and mobile services in the United Kingdom (U.K.) to both residential and business-to-business (B2B) customers. Virgin Media became a wholly-owned subsidiary of Liberty Global plc (Liberty Global) as a result of a series of mergers that were completed on June 7, 2013 (the LG/VM Transaction), pursuant to which Liberty Global became the publicly-held parent company of the successors by merger of the predecessor to Virgin Media (Old Virgin Media) and Liberty Global, Inc. (LGI) (the predecessor to Liberty Global). In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Virgin Media (or Old Virgin Media) or collectively to Virgin Media (or Old Virgin Media) and its subsidiaries.

As a result of Liberty Global’s push-down of its investment basis in Virgin Media arising from the LG/VM Transaction, a new basis of accounting was created on June 7, 2013. In these condensed consolidated financial statements, the results of operations and cash flows of Old Virgin Media for the periods ended on or prior to June 7, 2013 are referred to as “Predecessor” consolidated financial information and the results of operations and cash flows of Virgin Media for periods beginning on or after June 8, 2013 and the financial position of Virgin Media as of June 7, 2013 and subsequent balance sheet dates are referred to as “Successor” consolidated financial information.

The Predecessor and Successor consolidated financial information presented herein is not comparable primarily due to the fact that the Successor consolidated financial information reflects:

- the application of acquisition accounting as of June 7, 2013 of which the most significant implications are (i) increased depreciation expense, (ii) increased amortization expense and (iii) increased share-based compensation expense;
- conforming accounting policy changes, primarily to align to Liberty Global’s accounting policy for the recognition of installation fees received on B2B contracts, as further described below; and
- additional interest expense associated with debt financing arrangements entered into in connection with the LG/VM Transaction and subsequently pushed down to our balance sheet.

On January 26, 2014, Liberty Global’s board of directors approved a share split in the form of a share dividend (the 2014 Share Dividend), which constitutes a bonus issue under Liberty Global’s articles of association and English law, of one Liberty Global Class C ordinary share on each outstanding Liberty Global Class A, Class B and Class C ordinary share as of the February 14, 2014 record date for the share dividend. The distribution date for the 2014 Share Dividend was March 3, 2014. All Liberty Global share and per share amounts presented herein have been retroactively adjusted to give effect to the 2014 Share Dividend.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 annual report.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of June 30, 2014.

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through August 21, 2014, the date of issuance.

Alignment of accounting policies

On June 8, 2013, we adopted Liberty Global's accounting policy for installation fees relating to our B2B contracts involving both installation services and the provision of ongoing services. Previously, we generally treated installation fees received from customers with B2B contracts as a separate deliverable and recognized revenue upon completion of the installation activity in an amount that was based on the relative standalone selling price methodology. Our current accounting policy is to generally defer upfront installation fees on our B2B contracts and recognize the associated revenue over the contractual term of the arrangement. In this regard, we recognized £10.2 million and £7.3 million of installation revenue during the three months ended March 31, 2013 and the period from April 1, 2013 to June 7, 2013, respectively, that would have been deferred under Liberty Global's accounting policy.

The following table provides a rollforward of our deferred revenue for installation services provided to customers with B2B contracts during the six months ended June 30, 2014 (in millions):

Balance at January 1, 2014	£	31.9
Amounts deferred for completed installation services (a)		15.7
Amortization of deferred revenue over contract life		(2.9)
Balance at March 31, 2014		<u>44.7</u>
Amounts deferred for completed installation services (a)		14.0
Amortization of deferred revenue over contract life		(3.9)
Balance at June 30, 2014	£	<u><u>54.8</u></u>

- (a) Represents amounts that would have been recognized upfront as installation revenue under Old Virgin Media's policy, but were deferred under Liberty Global's policy.

Reclassifications

Certain prior period amounts have been reclassified to conform to the presentation of Liberty Global, including reclassifications between operating costs and SG&A expenses in our condensed consolidated statements of operations for the period from June 8 to June 30, 2013, the period from April 1 to June 7, 2013 and the period from January 1 to June 7, 2013.

(2) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2017. Early application is not permitted. This new standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

VIRGIN MEDIA INC.

(See note 1)

Notes to Condensed Consolidated Financial Statements — (Continued)

June 30, 2014

(unaudited)

(3) Derivative Instruments

We have entered into various derivative instruments to manage (i) interest rate exposure, (ii) foreign currency exposure with respect to the United States (U.S.) dollar (\$) and (iii) equity exposure with respect to the dilutive effects of the VM Convertible Notes, as defined and described in note 6. Although we applied hedge accounting to certain of our derivative instruments prior to the LG/VM Transaction, we currently do not apply hedge accounting to our derivative instruments. Accordingly, during the Successor periods, changes in the fair values of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations. Prior to the LG/VM Transaction, the effective portion of the net fair value adjustments associated with these derivative instruments was reflected in other comprehensive earnings (loss).

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

	Successor					
	June 30, 2014			December 31, 2013		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term (a)	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (b).....	£ 26.5	£ 121.5	£ 148.0	£ 27.7	£ 138.0	£ 165.7
Equity-related derivative instruments (c).....	—	20.0	20.0	—	20.1	20.1
Total.....	<u>£ 26.5</u>	<u>£ 141.5</u>	<u>£ 168.0</u>	<u>£ 27.7</u>	<u>£ 158.1</u>	<u>£ 185.8</u>
Liabilities:						
Cross-currency and interest rate derivative contracts (b).....	£ 70.8	£ 329.7	£ 400.5	£ 69.2	£ 253.7	£ 322.9
Equity-related derivative instruments (c).....	64.9	—	64.9	67.3	—	67.3
Total.....	<u>£ 135.7</u>	<u>£ 329.7</u>	<u>£ 465.4</u>	<u>£ 136.5</u>	<u>£ 253.7</u>	<u>£ 390.2</u>

(a) Our current derivative assets are included in other current assets and our long-term derivative assets and liabilities are included in other assets, net, and other long-term liabilities, respectively, in our condensed consolidated balance sheets.

(b) We consider credit risk in our fair value assessments. As of June 30, 2014 and December 31, 2013, (i) the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating £1.7 million and £3.1 million, respectively, and (ii) the fair values of our cross-currency and interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating £26.2 million and £32.8 million, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market and market quotations for certain of our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of £3.8 million and £5.2 million during the three and six months ended June 30, 2014, respectively, and net gains (losses) of (£10.2 million), £9.7 million and (£6.8 million) during the period from June 8 to June 30, 2013, the period from April 1 to June 7, 2013 and the period from January 1 to June 7, 2013, respectively. For the three and six months ended June 30, 2014, the period from June 8 to June 30, 2013, the period from April 1 to June 7, 2013 and the period from January 1 to June 7, 2013 (a) gains (losses) of (£3.8 million), (£5.2 million), (£10.2 million), £3.0 million and £0.7 million, respectively, are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations and (b) gains (losses) of nil, nil, nil, £6.7 million and (£7.5 million), respectively, are

VIRGIN MEDIA INC.

(See note 1)

Notes to Condensed Consolidated Financial Statements — (Continued)

June 30, 2014

(unaudited)

included in net unrealized gains (losses) on derivative instruments in our condensed consolidated statements of comprehensive earnings (loss). For further information concerning our fair value measurements, see note 4.

- (c) The fair value of our (i) equity-related derivative assets relate to the Virgin Media Capped Calls, as defined and described below, and (ii) equity-related derivative liabilities relate to the derivative embedded in the VM Convertible Notes, as defined and described in note 6.

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

	Three-month period			Six-month period		
	Successor		Predecessor (a)	Successor		Predecessor (a)
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Cross-currency and interest rate derivative contracts	£ (69.9)	£ 77.4	£ (4.3)	£ (147.3)	£ 77.4	£ (0.3)
Equity-related derivative instruments (b).....	(3.3)	46.9	(47.3)	0.8	46.9	50.0
Foreign currency forward contracts (c).....	2.7	(4.1)	(0.2)	(0.1)	(4.1)	2.1
Total.....	<u>£ (70.5)</u>	<u>£ 120.2</u>	<u>£ (51.8)</u>	<u>£ (146.6)</u>	<u>£ 120.2</u>	<u>£ 51.8</u>

- (a) The Predecessor periods include net hedge ineffectiveness losses related to cross-currency and interest rate derivative instruments accounted for as cash flow or fair value hedges of £4.4 million and £8.5 million during the periods from April 1 to June 7, 2013 and January 1 to June 7, 2013, respectively. The effective portions of the fair value adjustments associated with these derivative instruments, which are reflected in other comprehensive earnings (loss), aggregated net losses of £4.8 million and £10.8 million, respectively, during such periods.
- (b) Represents activity related to the Virgin Media Capped Calls, as defined and described below, and, during the Successor periods, the derivative embedded in the VM Convertible Notes, as defined and described in note 6.
- (c) Included in the amount for the six months ended June 30, 2014 is a related-party derivative instrument with Liberty Global Europe Financing BV, a subsidiary of Liberty Global, that was entered into and settled during the first quarter of 2014.

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

	Successor		Predecessor
	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Operating activities	£ (23.5)	£ 0.8	£ (15.8)
Investing activities	—	—	2.1
Financing activities	(28.5)	(10.2)	—
Total	<u>£ (52.0)</u>	<u>£ (9.4)</u>	<u>£ (13.7)</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

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. We and our counterparties do not post collateral or other security, nor have we entered into master netting arrangements with any of our counterparties. At June 30, 2014, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £137.3 million.

Details of our Derivative Instruments

In the following tables, we present the details of the various categories of our subsidiaries' derivative instruments. The notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. In addition, for derivative instruments that were in effect as of June 30, 2014, we present a single date that represents the applicable final maturity date.

Cross-currency and Interest Rate Derivative Contracts

Cross-currency Swaps:

The terms of our outstanding cross-currency swap contracts at June 30, 2014, which are held by our subsidiary, Virgin Media Investment Holdings Limited (VMIH), are as follows:

Final maturity date	Notional amount		Notional amount		Interest rate due from	Interest rate due to
	due from	due to	due from	due to	counterparty	counterparty
	counterparty		counterparty			
	in millions					
February 2022	\$ 1,400.0	£ 873.6			5.01%	5.49%
June 2020	\$ 1,384.6	£ 901.4			6 mo. U.S. LIBOR + 2.75%	6 mo. LIBOR + 3.18%
October 2020	\$ 1,370.4	£ 881.6			6 mo. U.S. LIBOR + 2.75%	6 mo. LIBOR + 3.10%
January 2021	\$ 500.0	£ 308.9			5.25%	6 mo. LIBOR + 2.06%
October 2019	\$ 500.0	£ 302.3			8.38%	9.07%
January 2022	\$ 425.0	£ 255.8			5.50%	5.82%
April 2019	\$ 291.5	£ 186.2			5.38%	5.49%
November 2016 (a)	\$ 55.0	£ 27.7			6.50%	7.03%

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

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Interest Rate Swaps:

The terms of our outstanding interest rate swap contracts at June 30, 2014, which are held by VMIH, are as follows:

<u>Final maturity date</u>	<u>Notional amount</u>	<u>Interest rate due from counterparty</u>	<u>Interest rate due to counterparty</u>
	in millions		
October 2018	£ 2,155.0	6 mo. LIBOR	1.52%
January 2021	£ 650.0	5.50%	6 mo. LIBOR + 1.84%
January 2021	£ 650.0	6 mo. LIBOR + 1.84%	3.87%
December 2015	£ 600.0	6 mo. LIBOR	2.90%
April 2018	£ 300.0	6 mo. LIBOR	1.37%

Equity-related Derivative Instruments

Virgin Media Capped Calls. During 2010, we entered into conversion hedges (the Virgin Media Capped Calls) with respect to the VM Convertible Notes, as defined and described in note 6, in order to offset a portion of the dilutive effects associated with conversion of the VM Convertible Notes. We account for the Virgin Media Capped Calls at fair value using a binomial pricing model and changes in fair value are reported in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. The fair value of the Virgin Media Capped Calls as of June 30, 2014 was an asset of £20.0 million.

As further described in note 6, most of the VM Convertible Notes were exchanged for Liberty Global Class A and Class C ordinary shares and cash pursuant to the terms of the indenture for the VM Convertible Notes.

(4) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these derivative instruments as of June 30, 2014 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. We expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities in or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the six months ended June 30, 2014, no such transfers were made.

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

The recurring fair value measurement of our equity-related derivatives are based on binomial option pricing models, which require the input of observable and unobservable variables such as exchange traded equity prices, risk-free interest rates, dividend yields and forecasted volatilities of the underlying equity securities. The valuations of our equity-related derivatives are based on a combination of Level 1 inputs (exchange traded equity prices), Level 2 inputs (interest rate futures and swap rates) and Level 3 inputs (forecasted volatilities). As changes in volatilities could have a significant impact on the overall valuations, we have determined that these valuations fall under Level 3 of the fair value hierarchy. At June 30, 2014 however, the valuations of the

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Virgin Media Capped Calls and the derivative embedded in the VM Convertible Notes were not significantly impacted by forecasted volatilities.

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

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During the six months ended June 30, 2013, we performed nonrecurring valuations for the purpose of determining the acquisition accounting for the LG/VM Transaction. We used a discount rate of 9.0% for our valuation of the customer relationships acquired as a result of this acquisition. For additional information, see note 1. We did not perform significant nonrecurring fair value measurements during the six months ended June 30, 2014.

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

<u>Description</u>	Successor			
	Fair value measurements at			
	June 30, 2014 using:			
June 30,	Quoted prices	Significant	Significant	
2014	in active	other	unobservable	
	markets for	observable	inputs	
	identical assets	inputs	(Level 3)	
	(Level 1)	(Level 2)	(Level 3)	
	in millions			
Assets:				
Cross-currency and interest rate derivative contracts.....	£ 148.0	£ —	£ 148.0	£ —
Equity-related derivative instruments.....	20.0	—	—	20.0
Total assets.....	<u>£ 168.0</u>	<u>£ —</u>	<u>£ 148.0</u>	<u>£ 20.0</u>
Liabilities:				
Cross-currency and interest rate derivative contracts.....	£ 400.5	£ —	£ 400.5	£ —
Equity-related derivative instruments.....	64.9	—	—	64.9
Total liabilities.....	<u>£ 465.4</u>	<u>£ —</u>	<u>£ 400.5</u>	<u>£ 64.9</u>

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<u>Description</u>	Successor			
	Fair value measurements at December 31, 2013 using:			
	December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	in millions			
Assets:				
Cross-currency and interest rate derivative contracts	£ 165.7	£ —	£ 165.7	£ —
Equity-related derivative instruments	20.1	—	—	20.1
Total assets.....	<u>£ 185.8</u>	<u>£ —</u>	<u>£ 165.7</u>	<u>£ 20.1</u>
Liabilities:				
Cross-currency and interest rate derivative contracts	£ 322.9	£ —	£ 322.9	£ —
Equity-related derivative instruments	67.3	—	—	67.3
Total liabilities	<u>£ 390.2</u>	<u>£ —</u>	<u>£ 322.9</u>	<u>£ 67.3</u>

(5) Long-lived Assets

Property and Equipment, Net

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

	Successor	
	June 30, 2014	December 31, 2013
	in millions	
Distribution systems	£ 5,372.2	£ 5,158.2
Customer premises equipment	1,060.4	915.8
Support equipment, buildings and land	781.6	716.5
	<u>7,214.2</u>	<u>6,790.5</u>
Accumulated depreciation	(1,308.0)	(677.9)
Total property and equipment, net	<u>£ 5,906.2</u>	<u>£ 6,112.6</u>

During the six months ended June 30, 2014, the period from June 8 to June 30, 2013 and the period from January 1 to June 7, 2013, we recorded non-cash increases to our property and equipment related to assets acquired under capital leases of £27.6 million, £0.7 million and £59.6 million, respectively. In addition, during the six months ended June 30, 2014, we recorded a non-cash increase related to vendor financing arrangements of £61.4 million, which amount excludes related VAT of £6.5 million that was also financed by our vendors under these arrangements.

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Intangible Assets Subject to Amortization, Net

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

	Successor					
	June 30, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships	£ 2,527.0	£ (388.0)	£ 2,139.0	£ 2,527.0	£ (205.5)	£ 2,321.5

(6) Debt and Capital Lease Obligations

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

	Successor					
	June 30, 2014					
	Weighted average interest rate (a)	Unused borrowing capacity (b)	Estimated fair value (c)		Carrying value (d)	
			June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	in millions					
Debt:						
Parent:						
VM Convertible Notes (e).....	6.50 %	£ —	£ 95.9	£ 99.1	£ 33.4	£ 34.7
Subsidiaries:						
VM Notes	6.11 %	—	5,193.1	5,546.6	5,002.3	5,523.3
VM Credit Facility	3.78 %	660.0	2,934.6	2,649.3	2,926.0	2,627.5
Vendor financing (f).....	3.58 %	—	55.1	37.8	55.1	37.8
Total debt.....	5.23 %	£ 660.0	£ 8,278.7	£ 8,332.8	8,016.8	8,223.3
Capital lease obligations					205.0	225.5
Total debt and capital lease obligations					8,221.8	8,448.8
Current maturities					(172.0)	(159.5)
Long-term debt and capital lease obligations.....					£ 8,049.8	£ 8,289.3

(a) Represents the weighted average interest rate in effect at June 30, 2014 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 our interest rate derivative contracts, deferred financing costs, original issue premiums or discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums and discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate variable- and fixed-rate indebtedness was 5.7% at June 30, 2014. For information concerning our derivative instruments, see note 3.

(b) Unused borrowing capacity represents the maximum availability under the senior secured credit facility (the VM Credit Facility) at June 30, 2014 without regard to covenant compliance calculations or other conditions precedent to borrowing. At June 30, 2014, the full amount of unused borrowing capacity under the VM Credit Facility was available to be borrowed. The debt instruments of our subsidiaries contain restricted payment tests that limit the amount that can be loaned or distributed to other Virgin Media subsidiaries and ultimately to Virgin Media. At June 30, 2014, the availability to be loaned or distributed by VMIH was limited to £259.1 million. When the relevant June 30, 2014 compliance reporting requirements

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have been completed and assuming no changes from June 30, 2014 borrowing levels, we anticipate that £443.0 million of the borrowing capacity of VMIH will be available to be loaned or distributed.

- (c) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on the market interest rates and estimated credit spreads of the applicable entity, to the extent available, and other relevant factors. For additional information concerning fair value hierarchies, see note 4.
- (d) Amounts include the impact of premiums and discounts, where applicable.
- (e) The 6.50% convertible senior notes (the VM Convertible Notes) are exchangeable under certain conditions for (subject to further adjustment as provided in the underlying indenture and subject to Virgin Media's right to settle in cash or a combination of Liberty Global ordinary shares and cash) 13.4339 Liberty Global Class A ordinary shares, 33.4963 Liberty Global Class C ordinary shares and \$910.51 (£532.38) in cash (without interest) for each \$1,000 in principal amount of VM Convertible Notes exchanged. The amount reported in the estimated fair value column for the VM Convertible Notes represents the estimated fair value of the remaining VM Convertible Notes outstanding as of June 30, 2014, including both the debt and equity components.
- (f) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are due within one year. At June 30, 2014 and December 31, 2013, the amounts owed pursuant to these arrangements include £5.8 million and £3.0 million, respectively, of VAT that was paid on our behalf by the vendor. Repayments of vendor financing obligations are included in repayments and repurchases of debt and capital lease obligations in our condensed consolidated statements of cash flows.

VM Notes

On March 14, 2014, Virgin Media Secured Finance PLC (Virgin Media Secured Finance), a wholly-owned subsidiary of Virgin Media, issued (i) \$425.0 million (£248.5 million) principal amount of 5.5% senior secured notes due January 15, 2025 (the 2025 VM Dollar Senior Secured Notes), (ii) £430.0 million principal amount of 5.5% senior secured notes due January 15, 2025 (the 2025 VM Sterling Senior Secured Notes and, together with the 2025 VM Dollar Senior Secured Notes, the 2025 VM Senior Secured Notes) and (iii) £225.0 million principal amount of 6.25% senior secured notes due March 28, 2029 (the Original 2029 VM Senior Secured Notes). In April 2014, the net proceeds from the 2025 VM Senior Secured Notes and the Original 2029 VM Senior Secured Notes were used to redeem all of the £875.0 million principal amount of 7.0% senior secured notes due 2018. In connection with these transactions, we recognized a gain on debt modification and extinguishment of £3.1 million, which includes (i) the write-off of £36.9 million of unamortized premium, (ii) £30.6 million of redemption premiums and (iii) the write-off of £3.2 million of deferred financing costs.

In April 2014, (i) Virgin Media Secured Finance issued £175.0 million principal amount of 6.25% senior secured notes due March 28, 2029 (the Additional 2029 VM Senior Secured Notes and, together with the Original 2029 VM Senior Secured Notes, the 2029 VM Senior Secured Notes) at an issue price of 101.75% and (ii) entered into (a) a new £100.0 million term loan (VM Facility D) and (b) a new £849.4 million term loan (VM Facility E), each under the VM Credit Facility. In connection with these transactions, (1) certain lenders under the existing £600.0 million term loan (VM Facility C) under the VM Credit Facility effectively rolled £500.4 million of their drawn commitments under VM Facility C to VM Facilities D and E and (2) the remaining outstanding balance of VM Facility C was repaid with existing liquidity. VM Facilities D and E were drawn on in May 2014, and the net proceeds, together with the net proceeds from the Additional 2029 VM Senior Secured Notes, were used to fully redeem the \$1.0 billion (£584.7 million) principal amount of 6.5% senior secured notes due 2018. In connection with these transactions, we recognized a loss on debt modification and extinguishment of £3.3 million, which includes (i) the write-off of £20.1 million of unamortized premium, (ii) £19.3 million of redemption premiums and (iii) the write-off of £4.1 million of deferred financing costs.

The 2025 VM Senior Secured Notes and 2029 VM Senior Secured Notes are senior obligations of Virgin Media Secured Finance that rank equally with all of the existing and future senior debt of Virgin Media Secured Finance and are senior to all existing and future subordinated debt of Virgin Media Secured Finance. The 2025 VM Senior Secured Notes and 2029 VM Senior Secured Notes are guaranteed on a senior basis by Virgin Media and certain subsidiaries of Virgin Media (the VM Senior Secured

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Guarantors) and are secured by liens on substantially all of the assets of Virgin Media Secured Finance and the VM Senior Secured Guarantors (except for Virgin Media).

The 2025 VM Senior Secured Notes and 2029 VM Senior Secured Notes contain certain customary incurrence-based covenants. For example, the ability to raise certain additional debt and make certain distributions or loans to other subsidiaries of Liberty Global is subject to a Consolidated Leverage Ratio test, as defined in the applicable indenture. In addition, the 2025 VM Senior Secured Notes and 2029 VM Senior Secured Notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of £50.0 million or more in the aggregate of Virgin Media, Virgin Media Finance PLC (Virgin Media Finance), a wholly-owned subsidiary of Virgin Media, Virgin Media Secured Finance or VMIH (as applicable under the relevant indenture), or the Restricted Subsidiaries (as defined in the applicable indenture) is an event of default under the 2025 VM Senior Secured Notes and 2029 VM Senior Secured Notes.

Subject to the circumstances described below, the 2025 VM Senior Secured Notes are non-callable until January 15, 2019 and the 2029 VM Senior Secured Notes are non-callable until January 15, 2021. At any time prior to January 15, 2019, in the case of the 2025 VM Senior Secured Notes, or January 15, 2021, in the case of the 2029 VM Senior Secured Notes, Virgin Media Secured Finance may redeem some or all of the 2025 VM Senior Secured Notes or the 2029 VM Senior Secured Notes (as applicable) by paying a “make-whole” premium, which is the present value of all remaining scheduled interest payments to January 15, 2019 or January 15, 2021 (as applicable) using the discount rate (as specified in the applicable indenture) as of the redemption date plus 50 basis points.

Virgin Media Secured Finance may redeem some or all of the 2025 VM Senior Secured Notes or the 2029 VM Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and Additional Amounts (as defined in the applicable indenture), if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on January 15 of the years set forth below:

<u>Year</u>	<u>Redemption price</u>	
	<u>2025 VM Senior Secured Notes</u>	<u>2029 VM Senior Secured Notes</u>
2019.....	102.750%	N.A.
2020.....	101.833%	N.A.
2021.....	100.000%	103.125%
2022.....	100.000%	102.083%
2023.....	100.000%	101.042%
2024 and thereafter	100.000%	100.000%

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VM Credit Facility

The VM Credit Facility, as amended, is the senior secured credit facility of VMIH, together with certain other subsidiaries of Virgin Media. The details of our borrowings under the VM Credit Facility as of June 30, 2014 are summarized in the following table:

<u>Facility</u>	<u>Final maturity date</u>	<u>Interest rate</u>	<u>Facility amount (in borrowing currency)</u>	<u>Unused borrowing capacity</u>	<u>Carrying value (a)</u>
			in millions		
A	June 7, 2019	LIBOR + 3.25%	£ 375.0	£ —	£ 375.0
B	June 7, 2020	LIBOR + 2.75% (b)	\$ 2,755.0	—	1,603.9
D	June 30, 2022	LIBOR + 3.25% (b)	£ 100.0	—	99.8
E	June 30, 2023	LIBOR + 3.50% (b)	£ 849.4	—	847.3
Revolving facility (c)	June 7, 2019	LIBOR + 3.25%	£ 660.0	660.0	—
Total				£ 660.0	£ 2,926.0

- (a) The carrying values of VM Facilities B, D and E include the impact of discounts.
- (b) VM Facilities B, D and E each have a LIBOR floor of 0.75%.
- (c) The revolving facility has a fee on unused commitments of 1.3% per year.

Maturities of Debt and Capital Lease Obligations

The pound sterling equivalents of the maturities of our debt and capital lease obligations as of June 30, 2014 are presented below:

	<u>Debt</u>	<u>Capital lease obligations</u>	<u>Total</u>
	in millions		
Year ending December 31:			
2014 (remainder of year)	£ 41.1	£ 49.5	£ 90.6
2015	46.0	75.8	121.8
2016	—	44.3	44.3
2017	—	18.7	18.7
2018	—	4.2	4.2
2019	925.0	2.8	927.8
Thereafter	6,942.7	142.7	7,085.4
Total debt maturities	7,954.8	338.0	8,292.8
Unamortized premium, net of discount	62.0	—	62.0
Amounts representing interest	—	(133.0)	(133.0)
Total debt	£ 8,016.8	£ 205.0	£ 8,221.8
Current portion	£ 88.5	£ 83.5	£ 172.0
Noncurrent portion	£ 7,928.3	£ 121.5	£ 8,049.8

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Non-cash Refinancing Transactions

During the six months ended June 30, 2014, the period from June 8 to June 30, 2013 and the period from January 1 to June 7, 2013, our refinancing transactions included non-cash borrowings and repayments of debt of £500.4 million, £750.0 million and nil, respectively.

(7) Income Taxes

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

	Three-month period			Six-month period		
	Successor		Predecessor	Successor		Predecessor
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Computed “expected” tax benefit (expense)....	£ 14.2	£ (22.7)	£ 15.3	£ 48.8	£ (22.7)	£ (41.3)
Change in valuation allowances.....	(20.4)	(3.4)	(7.8)	(23.6)	(3.4)	(29.8)
Basis and other differences in the treatment of items associated with investments in subsidiaries.....	3.6	(4.4)	—	(14.9)	(4.4)	—
Enacted tax law and rate changes (a).....	1.9	—	—	6.0	—	—
International rate differences (b).....	3.9	7.8	10.1	4.5	7.8	22.0
Non-deductible or non-taxable interest and other expenses.....	(3.4)	16.4	(12.6)	(3.8)	16.4	31.9
Other, net.....	(0.3)	(0.2)	(0.4)	(2.4)	(0.2)	(0.9)
Total.....	<u>£ (0.5)</u>	<u>£ (6.5)</u>	<u>£ 4.6</u>	<u>£ 14.6</u>	<u>£ (6.5)</u>	<u>£ (18.1)</u>

(a) In July 2013, a law was enacted that decreased the U.K. corporate income tax rate from 23.0% to 21.0% in April 2014, with a further decline to 20.0% scheduled for April 2015. Accordingly, amounts presented for the third quarter of 2013 and subsequent periods reflect the estimated impact of these rate changes.

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

(8) Share-based Compensation

Our share-based compensation expense after the LG/VM Transaction primarily represents amounts allocated to our company by Liberty Global. The amounts allocated by Liberty Global to our company represent share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. Share-based compensation expense allocated to our company by Liberty Global is reflected as an increase to shareholder’s equity and is offset by any amounts recharged to us by Liberty Global, as further described in note 9. Share-based compensation expense prior to the LG/VM Transaction includes amounts for options, shares and performance shares related to the common stock of Old Virgin Media. Incentive awards are denominated in U.S. dollars.

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

	Three-month period				Six-month period			
	Successor		Predecessor		Successor		Predecessor	
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Period from January 1 to June 7, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Six months ended June 30, 2014	Period from January 1 to June 7, 2013
Performance-based incentive awards (a).....	£ 1.5	£ 0.2	£ 4.9	£ 10.0	£ 2.8	£ 0.2	£ 10.0	£ 10.0
Other share-based incentive awards	5.7	23.0	6.7	12.1	16.1	23.0	12.1	12.1
Total (b).....	<u>£ 7.2</u>	<u>£ 23.2</u>	<u>£ 11.6</u>	<u>£ 22.1</u>	<u>£ 18.9</u>	<u>£ 23.2</u>	<u>£ 22.1</u>	<u>£ 22.1</u>

- (a) Includes share-based compensation expense related to Liberty Global performance-based restricted share units (PSUs) and the challenge performance award plan (the Challenge Performance Awards). The Challenge Performance Awards, which were issued on June 24, 2013, include performance-based share appreciation rights (PSARs) and PSUs.
- (b) In connection with the LG/VM Transaction, Liberty Global issued Liberty Global share-based incentive awards (Virgin Media Replacement Awards) to employees and former directors of our company in exchange for corresponding Old Virgin Media awards. During the post-acquisition period ended June 30, 2013, £18.3 million of the June 7, 2013 estimated fair value of the Virgin Media Replacement Awards was charged to expense in recognition of the Virgin Media Replacement Awards that were fully vested on June 7, 2013 or for which vesting was accelerated pursuant to the terms of the Agreement and Plan of Merger agreement (the LG/VM Transaction Agreement) on or prior to June 30, 2013.

The following table provides certain information related to share-based compensation not yet recognized for share-based incentive awards held by Virgin Media employees related to Liberty Global ordinary shares as of June 30, 2014:

	Liberty Global ordinary shares (a)	Liberty Global performance-based awards (b)
Total compensation expense not yet recognized (in millions)	£ 23.5	£ 11.3
Weighted average period remaining for expense recognition (in years).....	<u>2.0</u>	<u>1.8</u>

- (a) Amounts relate to awards granted or assumed by Liberty Global under (i) the Virgin Media Inc. 2010 Stock Incentive Plan (as amended and restated effective June 7, 2013) (the VM Incentive Plan), (ii) certain other incentive plans of our company and (iii) the Liberty Global 2014 Incentive Plan and certain other incentive plans of Liberty Global. On January 30, 2014, Liberty Global's shareholders approved the Liberty Global 2014 Incentive Plan and, accordingly, awards are now only granted under the Liberty Global 2014 Incentive Plan.
- (b) Amounts relate to (i) the Challenge Performance Awards and (ii) PSUs.

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The following table summarizes certain information related to the incentive awards granted or remeasured and exercised by employees of our subsidiaries with respect to Liberty Global ordinary shares during the Successor periods and Old Virgin Media common stock during the Predecessor period:

	Successor		Predecessor
	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Assumptions used to estimate fair value of options, share appreciation rights (SARs) and PSARs granted:			
Risk-free interest rate	0.81 - 1.31%	1.0 - 1.14%	0.40 - 1.42%
Expected life (a)	3.1 -3.9 years	0.4 - 4.6 years	3.0 - 7.3 years
Expected volatility (a)	25.5 - 26.5%	23.6 - 32.6%	31.1 - 50.9%
Expected dividend yield	none	none	0.41 - 0.50%
Weighted average grant-date fair value per share awards granted:			
Options	\$ —	\$ 22.80	\$ 29.13
SARs	\$ 8.05	\$ —	\$ —
PSARs	\$ 8.15	\$ 8.32	\$ —
Restricted share units (RSUs)	\$ 39.70	\$ 37.07	\$ 39.39
PSUs	\$ 40.13	\$ 33.93	\$ 39.66
Total intrinsic value of awards exercised (in millions):			
Options	£ 20.1	£ 13.0	£ 57.0
PSARs	£ 0.1	£ —	£ —
Cash received by Liberty Global (Successor periods) and Old Virgin Media (Predecessor period) from exercise of options			
	£ 11.9	£ 6.9	£ 26.7
Income tax benefit related to share-based compensation			
	£ 3.8	£ 4.8	£ 5.9

- (a) The 2013 ranges shown for these assumptions exclude the awards for certain former employees of Virgin Media who were expected to exercise their awards immediately or soon after the LG/VM Transaction. For these awards, the assumptions used for expected life and volatility were essentially nil.

Share-Based Award Activity - Liberty Global Ordinary Shares

The following tables summarize the share-based award activity during the six months ended June 30, 2014 with respect to Liberty Global ordinary shares held by employees of our subsidiaries:

<u>Options — Class A ordinary shares</u>	Number of shares	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic value in millions
Outstanding at January 1, 2014	2,020,610	\$ 16.23		
Exercised	(338,251)	\$ 17.29		
Cancelled	(34,856)	\$ 21.51		
Transfers	(31,731)	\$ 19.16		
Outstanding at June 30, 2014 (a)	<u>1,615,772</u>	<u>\$ 15.84</u>	<u>6.5</u>	<u>\$ 45.9</u>
Exercisable at June 30, 2014	<u>844,163</u>	<u>\$ 12.92</u>	<u>5.4</u>	<u>\$ 26.4</u>

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Options — Class C ordinary shares	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
			in years	in millions
Outstanding at January 1, 2014	4,969,056	\$ 14.80		
Exercised	(856,518)	\$ 15.05		
Cancelled	(86,164)	\$ 20.16		
Transfers	(78,147)	\$ 17.51		
Outstanding at June 30, 2014 (a)	<u>3,948,227</u>	<u>\$ 14.57</u>	<u>6.5</u>	<u>\$ 109.5</u>
Exercisable at June 30, 2014	<u>2,025,490</u>	<u>\$ 11.61</u>	<u>5.4</u>	<u>\$ 62.2</u>

(a) The pound sterling equivalent amounts for the aggregate intrinsic value for outstanding Liberty Global Class A and Class C ordinary share options are £26.8 million and £64.0 million, respectively.

SARs — Class A ordinary shares	Number of shares	Weighted average base price	Weighted average remaining contractual term	Aggregate intrinsic value
			in years	in millions
Outstanding at January 1, 2014	95,831	\$ 27.95		
Granted	328,048	\$ 40.91		
Exercised	(1,765)	\$ 19.58		
Forfeited	(2,896)	\$ 40.91		
Transfers	8,258	\$ 28.62		
Outstanding at June 30, 2014 (a)	<u>427,476</u>	<u>\$ 37.86</u>	<u>6.3</u>	<u>\$ 2.7</u>
Exercisable at June 30, 2014	<u>50,750</u>	<u>\$ 22.78</u>	<u>4.0</u>	<u>\$ 1.1</u>

SARs — Class C ordinary shares	Number of shares	Weighted average base price	Weighted average remaining contractual term	Aggregate intrinsic value
			in years	in millions
Outstanding at January 1, 2014	287,493	\$ 26.83		
Granted	656,096	\$ 39.09		
Exercised	(5,295)	\$ 19.03		
Forfeited	(5,792)	\$ 39.09		
Transfers	24,774	\$ 27.38		
Outstanding at June 30, 2014 (a)	<u>957,276</u>	<u>\$ 35.22</u>	<u>6.2</u>	<u>\$ 6.8</u>
Exercisable at June 30, 2014	<u>152,250</u>	<u>\$ 21.98</u>	<u>4.0</u>	<u>\$ 3.1</u>

(a) The pound sterling equivalent amounts for the aggregate intrinsic value for outstanding Liberty Global Class A and Class C SARs are £1.6 million and £4.0 million, respectively.

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PSARs — Class A ordinary shares	Number of shares	Weighted average base price	Weighted average remaining contractual term	Aggregate intrinsic value
			in years	in millions
Outstanding at January 1, 2014	267,498	\$ 36.00		
Granted.....	10,000	\$ 43.59		
Exercised.....	(6,248)	\$ 35.03		
Transfers.....	(10,000)	\$ 35.03		
Outstanding at June 30, 2014 (a).....	<u>261,250</u>	<u>\$ 35.59</u>	<u>5.8</u>	<u>\$ 2.3</u>
Exercisable at June 30, 2014	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

PSARs — Class C ordinary shares	Number of shares	Weighted average base price	Weighted average remaining contractual term	Aggregate intrinsic value
			in years	in millions
Outstanding at January 1, 2014	802,494	\$ 34.35		
Granted.....	30,000	\$ 43.03		
Exercised.....	(18,744)	\$ 33.41		
Transfers.....	(30,000)	\$ 33.41		
Outstanding at June 30, 2014 (a).....	<u>783,750</u>	<u>\$ 34.02</u>	<u>5.8</u>	<u>\$ 7.9</u>
Exercisable at June 30, 2014	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

(a) The pound sterling equivalent amounts for the aggregate intrinsic value for outstanding Liberty Global Class A and Class C PSARs are £1.3 million and £4.6 million, respectively.

RSUs — Class A ordinary shares	Number of shares	Weighted average grant-date fair value per share	Weighted average remaining contractual term
			in years
Outstanding at January 1, 2014.....	453,087	\$ 38.85	
Granted	45,808	\$ 40.91	
Forfeited.....	(7,015)	\$ 38.80	
Released from restrictions	(158,256)	\$ 38.70	
Transfers	(20,601)	\$ 39.99	
Outstanding at June 30, 2014.....	<u>313,023</u>	<u>\$ 38.90</u>	<u>6.9</u>

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<u>RSUs — Class C ordinary shares</u>	<u>Number of shares</u>	<u>Weighted average grant-date fair value per share</u>	<u>Weighted average remaining contractual term</u>
			in years
Outstanding at January 1, 2014.....	1,134,213	\$ 36.27	
Granted	91,616	\$ 39.09	
Forfeited	(17,169)	\$ 36.27	
Released from restrictions	(388,903)	\$ 36.12	
Transfers	(50,177)	\$ 37.61	
Outstanding at June 30, 2014.....	<u>769,580</u>	<u>\$ 36.35</u>	<u>7.0</u>
<u>PSUs — Class A ordinary shares</u>	<u>Number of shares</u>	<u>Weighted average grant-date fair value per share</u>	<u>Weighted average remaining contractual term</u>
			in years
Outstanding at January 1, 2014.....	109,571	\$ 34.89	
Granted	50,680	\$ 41.16	
Performance adjustment (a).....	(4,004)	\$ 26.18	
Released from restrictions	(8,799)	\$ 31.38	
Transfers	(6,986)	\$ 35.60	
Outstanding at June 30, 2014.....	<u>140,462</u>	<u>\$ 37.59</u>	<u>1.6</u>
<u>PSUs — Class C ordinary shares</u>	<u>Number of shares</u>	<u>Weighted average grant-date fair value per share</u>	<u>Weighted average remaining contractual term</u>
			in years
Outstanding at January 1, 2014.....	301,737	\$ 32.58	
Granted	102,456	\$ 39.62	
Performance adjustment (a).....	(12,012)	\$ 24.74	
Released from restrictions	(26,397)	\$ 29.42	
Transfers	(17,984)	\$ 33.29	
Outstanding at June 30, 2014.....	<u>347,800</u>	<u>\$ 35.13</u>	<u>1.6</u>

(a) Represents the reduction in PSUs associated with the first quarter 2014 determination that 66.3% of the PSUs that were granted in 2012 (the 2012 PSUs) had been earned. Half of the earned 2012 PSUs were released from restrictions on March 31, 2014 and, subject to forfeitures, the remainder will be released from restrictions on September 30, 2014.

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(9) Related-party Transactions

Our related-party transactions during the Successor periods consist of the following:

	Three-month period		Six-month period	
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013
	in millions			
Interest income	£ 56.7	£ 10.7	£ 108.8	£ 10.7
Allocated share-based compensation expense.....	(6.0)	—	(15.7)	—
Realized loss on derivative instrument.....	—	—	(2.8)	—
Interest expense	—	(3.6)	—	(3.6)
Included in net earnings (loss)	£ 50.7	£ 7.1	£ 90.3	£ 7.1

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

Allocated share-based compensation expense. As further described in note 8, Liberty Global allocates share-based compensation expense to our company.

Realized loss on derivative instrument. As further described in note 3, this amount relates to a related-party derivative instrument with Liberty Global Europe Financing BV.

Interest expense. Amounts represent interest expense on a related-party note with LGI that we entered into in connection with the LG/VM Transaction. During the period from June 8 to June 30, 2013, repayments were made on the note aggregating £467.5 million, and the outstanding balance of the loan was repaid in full during July 2013. This loan bore interest at a rate of 7.5%.

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

	Successor	
	June 30, 2014	December 31, 2013
	in millions	
Receivables (a)	£ 114.1	£ 88.1
Long-term notes receivable (b)	2,840.5	2,373.5
Total.....	£ 2,954.6	£ 2,461.6
Other payables (c) (d)	£ 98.3	£ 87.6

- (a) Amounts represent (i) accrued interest on notes receivable from Lynx Europe 2 Limited (Lynx Europe 2), our immediate parent, including £40.7 million (equivalent) and £40.1 million (equivalent), respectively, owed to our subsidiary, Virgin Media Finco Limited, and £9.4 million (equivalent) and £0.1 million (equivalent), respectively, owed to Virgin Media, (ii) employee withholding taxes collected by Liberty Global on our behalf since the date of the LG/VM Transaction of £58.1 million (equivalent) and £43.3 million (equivalent), respectively, and (iii) certain receivables from other Liberty Global subsidiaries arising in the normal course of business. The accrued interest is payable semi-annually on April 15 and October 15 and may be cash settled or, if mutually agreed, loan settled. The withholding taxes and other receivables are settled periodically.

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- (b) Represents:
- (i) notes receivable from Lynx Europe 2 that are owed to Virgin Media Finco Limited. At each of June 30, 2014 and December 31, 2013, these notes, which mature on April 15, 2023, had an aggregate principal balance of £2,297.3 million and bear interest at a rate of 8.5%;
 - (ii) a note receivable from LGE Holdco V BV, a subsidiary of Liberty Global, that is owed to us. At June 30, 2014, this note, which matures on March 6, 2019 and originated this year, had a principal balance of €327.3 million (£262.0 million) and bears interest at a rate of 5.93%;
 - (iii) a note receivable from Liberty Global Incorporated Limited, a subsidiary of Liberty Global, that is owed to us. At June 30, 2014, this note, which matures on January 30, 2017 and originated this year, had a principal balance of \$189.5 million (£110.8 million) and bears interest at a rate of 3.73%;
 - (iv) a note receivable from Lynx Europe 2 that is owed to us. At June 30, 2014 and December 31, 2013, this note, which matures on or before April 15, 2023, had a principal balance of \$272.5 million (£159.3 million) and \$107.5 million (£62.9 million), respectively. This note bears interest at a rate of 7.875%. The net increase during the six months ended June 30, 2014 relates to cash borrowings of £98.7 million (equivalent at the transaction date) and a decrease of £4.2 million due to the cumulative translation adjustment during the period; and
 - (v) a note receivable from Liberty Global. This note, which matures on June 4, 2018, had a principal balance of \$18.8 million (£11.1 million) and \$18.6 million (£10.9 million), respectively, and bears interest at a rate of 1.74%. The increase during the six months ended June 30, 2014 relates to £0.2 million (equivalent at the transaction date) in accrued interest. This note receivable originated as a result of a non-cash transaction on the date of the LG/VM Transaction that resulted in a corresponding increase to our additional paid-in capital. This non-cash transaction involved the transfer of shares of Old Virgin Media held in a trust to a trust consolidated by Liberty Global in exchange for this note.
- (c) Amounts represent (i) £79.4 million (equivalent) and £66.0 million (equivalent), respectively, arising from capital charges from Liberty Global, as described in note (d) below, (ii) £16.2 million (equivalent) and £16.3 million (equivalent), respectively, related to deferred financing costs paid by LGI on our behalf and (iii) certain payables to other Liberty Global subsidiaries arising in the normal course of business. The payables related to the capital charges and deferred financing costs are settled periodically. None of these payables are currently interest bearing.
- (d) During the six months ended June 30, 2014 and the period from June 8 to June 30, 2013, we recorded capital charges of \$26.4 million (£15.7 million at the applicable rate) and \$32.3 million (£20.8 million at the applicable rate), respectively, in our condensed consolidated statement of equity in connection with the exercise of Liberty Global options and the vesting of Liberty Global restricted share awards held by employees of our subsidiaries. These capital charges, which we and Liberty Global have agreed will not exceed the cumulative amount of share-based compensation allocated to our company by Liberty Global following the LG/VM Transaction, are based on the fair value of the underlying Liberty Global shares on the exercise or vesting date, as applicable.

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(10) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, purchases of customer premises and other equipment, non-cancelable operating leases and other items. Our pound sterling equivalents of such commitments as of June 30, 2014 are presented below:

	Remainder of 2014	Payments due during:						Total
		Year ending December 31,						
		2015	2016	2017	2018	2019	Thereafter	
		in millions						
Programming commitments.....	£ 232.2	£ 361.4	£ 336.3	£ 297.4	£ 294.4	£ 143.1	£ 1.0	£ 1,665.8
Network and connectivity commitments.....	50.5	98.0	78.9	76.6	18.9	0.7	4.6	328.2
Purchase commitments.....	262.7	29.8	—	—	—	—	—	292.5
Operating leases	18.3	31.4	26.3	20.1	14.4	10.7	43.9	165.1
Other commitments	51.2	74.0	38.9	28.2	10.9	—	—	203.2
Total (a)	<u>£ 614.9</u>	<u>£ 594.6</u>	<u>£ 480.4</u>	<u>£ 422.3</u>	<u>£ 338.6</u>	<u>£ 154.5</u>	<u>£ 49.5</u>	<u>£ 2,654.8</u>

(a) The commitments reflected in this table do not reflect any liabilities that are included in our June 30, 2014 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain of our programming and sports rights contracts that are enforceable and legally binding on us in that we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems or (iii) whether we discontinue our premium film or sports services. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments. 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. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the six months ended June 30, 2014, the period from June 8 to June 30, 2013 and the period from January 1 to June 7, 2013, the programming costs incurred aggregated £279.1 million, £33.5 million and £232.2 million, respectively. The ultimate amount payable in excess of the contractual minimums of our content contracts is dependent upon the number of subscribers to our service.

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

Purchase commitments include unconditional purchase obligations associated with commitments to purchase customer premises and other equipment that are enforceable and legally binding on us.

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 concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the six months ended June 30, 2014, the period from June 8 to June 30, 2013 and the period from January 1 to June 7, 2013, see note 3.

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Guarantees and Other Credit Enhancements

In the ordinary course of business, we may provide indemnifications to our lenders, our vendors and certain other parties and performance and/or financial guarantees to local municipalities, our customers and vendors. 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 Matter. Our application of the VAT with respect to certain revenue generating activities has been challenged by the U.K. tax authorities. We have estimated our maximum exposure in the event of an unfavorable outcome to be £38.3 million as of June 30, 2014. No portion of this exposure has been accrued by our company as the likelihood of loss is not considered to be probable. An initial hearing on these matters took place during 2013 but was adjourned with no conclusion. The next hearing is expected to take place in September 2014.

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

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

Other. In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business including (i) legal proceedings, (ii) issues involving VAT and wage, property and other tax issues and (iii) disputes over interconnection, programming, copyright and 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.

(11) Segment Reporting

We operate in one geographical area, the U.K., within which we provide digital cable, broadband internet, fixed-line telephony and mobile services to residential and/or business customers.

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Our revenue by major category is set forth below (in millions):

	Three-month period			Six-month period		
	Successor		Predecessor	Successor		Predecessor
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013
Subscription revenue:						
Digital cable	£ 241.9	£ 62.4	£ 183.5	£ 483.2	£ 62.4	£ 423.6
Broadband internet	255.2	56.0	164.1	496.4	56.0	377.8
Fixed-line telephony.....	240.3	62.4	185.0	484.8	62.4	433.2
Cable subscription revenue (a).....	737.4	180.8	532.6	1,464.4	180.8	1,234.6
Mobile subscription revenue (b)	119.0	27.3	78.9	233.1	27.3	187.5
Total subscription revenue.....	856.4	208.1	611.5	1,697.5	208.1	1,422.1
B2B revenue (c).....	151.9	35.9	111.6	303.7	35.9	275.0
Other revenue (d).....	46.1	15.0	44.6	97.0	15.0	113.1
Total revenue.....	<u>£ 1,054.4</u>	<u>£ 259.0</u>	<u>£ 767.7</u>	<u>£ 2,098.2</u>	<u>£ 259.0</u>	<u>£ 1,810.2</u>

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, mobile services revenue and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes £20.2 million, £5.2 million and £15.0 million during the three months ended June 30, 2014, the period from June 8 to June 30, 2013 and the period from April 1 to June 7, 2013, respectively, and £40.3 million, £5.2 million and £38.9 million during the six months ended June 30, 2014, the period from June 8 to June 30, 2013 and the period from January 1 to June 7, 2013, respectively, of mobile interconnect revenue. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) B2B revenue includes revenue from business broadband internet, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.
- (d) Other revenue includes, among other items, interconnect revenue, revenue from non-cable services and revenue from late fees.

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(12) Condensed Consolidating Financial Information — Senior Notes

We present the following condensed consolidating financial information as of June 30, 2014 and December 31, 2013 and for the three months ended June 30, 2014, the Successor period from June 8 to June 30, 2013, the Predecessor period from April 1 to June 7, 2013, the six months ended June 30, 2014, the Successor period from June 8 to June 30, 2013 and the Predecessor period from January 1 to June 7, 2013, as required by the applicable underlying indentures.

As of June 30, 2014, Virgin Media Finance is the issuer of the following senior notes:

- \$507.1 million (£296.5 million) aggregate principal amount of 8.375% senior notes due October 15, 2019;
- £253.5 million aggregate principal amount of 8.875% senior notes due October 15, 2019;
- \$530.0 million (£309.9 million) aggregate principal amount of 6.375% senior notes due April 15, 2023;
- £250.0 million aggregate principal amount of 7.0% senior notes due April 15, 2023;
- \$95.0 million (£55.5 million) aggregate principal amount of 5.25% senior notes due February 15, 2022;
- \$118.7 million (£69.4 million) aggregate principal amount of 4.875% senior notes due February 15, 2022; and
- £44.1 million aggregate principal amount of 5.125% senior notes due February 15, 2022.

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

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	Successor							
	June 30, 2014							
Balance sheets	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
ASSETS								
Current assets:								
Cash and cash equivalents	£ 74.7	£ —	£ 0.1	£ 0.1	£ —	£ 42.5	£ —	£ 117.4
Related-party receivables	9.4	—	—	—	—	104.7	—	114.1
Other current assets	—	—	—	26.5	—	532.4	—	558.9
Other current assets – intercompany	—	—	—	2.7	—	—	(2.7)	—
Total current assets.....	84.1	—	0.1	29.3	—	679.6	(2.7)	790.4
Property and equipment, net.....	—	—	—	—	—	5,906.2	—	5,906.2
Goodwill.....	—	—	—	—	—	5,793.7	—	5,793.7
Intangible assets subject to amortization, net.....	—	—	—	—	—	2,139.0	—	2,139.0
Investments in, and loans to, parent and subsidiary companies.....	8,498.2	9,278.7	8,576.5	11,924.9	12,172.0	(7,095.9)	(43,354.4)	—
Deferred income taxes.....	—	—	—	—	—	1,406.6	—	1,406.6
Related-party notes receivable	543.2	—	—	—	—	2,297.3	—	2,840.5
Other assets, net.....	58.8	10.7	—	121.6	—	95.6	—	286.7
Other assets, net – intercompany.....	—	—	—	74.8	—	—	(74.8)	—
Total assets.....	<u>£ 9,184.3</u>	<u>£ 9,289.4</u>	<u>£ 8,576.6</u>	<u>£ 12,150.6</u>	<u>£ 12,172.0</u>	<u>£ 11,222.1</u>	<u>£ (43,431.9)</u>	<u>£ 19,163.1</u>
LIABILITIES AND EQUITY								
Current liabilities:								
Intercompany and related-party payables	£ 143.8	£ 3.0	£ 5.5	£ 73.8	£ —	£ 648.3	£ (776.1)	£ 98.3
Other current liabilities.....	99.9	21.0	0.1	126.5	—	1,311.1	—	1,558.6
Other current liabilities – intercompany	—	0.6	—	—	—	2.1	(2.7)	—
Total current liabilities.....	243.7	24.6	5.6	200.3	—	1,961.5	(778.8)	1,656.9
Long-term debt and capital lease obligations	—	1,328.9	—	—	—	6,720.9	—	8,049.8
Other long-term liabilities	—	—	—	329.7	—	186.1	—	515.8
Other long-term liabilities – intercompany	—	22.4	—	—	—	52.4	(74.8)	—
Total liabilities	243.7	1,375.9	5.6	530.0	—	8,920.9	(853.6)	10,222.5
Equity	8,940.6	7,913.5	8,571.0	11,620.6	12,172.0	2,301.2	(42,578.3)	8,940.6
Total liabilities and equity.....	<u>£ 9,184.3</u>	<u>£ 9,289.4</u>	<u>£ 8,576.6</u>	<u>£ 12,150.6</u>	<u>£ 12,172.0</u>	<u>£ 11,222.1</u>	<u>£ (43,431.9)</u>	<u>£ 19,163.1</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Balance sheets	Successor							
	December 31, 2013							
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
	in millions							
ASSETS								
Current assets:								
Cash and cash equivalents	£ 313.3	£ 0.1	£ 0.2	£ 0.3	£ —	£ 29.1	£ —	£ 343.0
Related-party receivables	0.2	—	—	—	—	87.9	—	88.1
Other current assets	0.1	—	—	27.7	—	532.6	(0.1)	560.3
Total current assets.....	313.6	0.1	0.2	28.0	—	649.6	(0.1)	991.4
Property and equipment, net.....	—	—	—	—	—	6,112.6	—	6,112.6
Goodwill.....	—	—	—	—	—	5,793.7	—	5,793.7
Intangible assets subject to amortization, net.....	—	—	—	—	—	2,321.5	—	2,321.5
Investments in, and loans to, parent and subsidiary companies.....	8,787.5	9,345.4	8,616.4	11,895.1	12,152.3	(7,491.0)	(43,305.7)	—
Deferred income taxes.....	—	—	—	—	—	1,407.4	—	1,407.4
Related-party notes receivable	76.2	—	—	—	—	2,297.3	—	2,373.5
Other assets, net.....	79.8	11.3	—	137.9	—	82.1	—	311.1
Other assets, net – intercompany.....	—	—	—	45.3	—	—	(45.3)	—
Total assets.....	<u>£ 9,257.1</u>	<u>£ 9,356.8</u>	<u>£ 8,616.6</u>	<u>£ 12,106.3</u>	<u>£ 12,152.3</u>	<u>£ 11,173.2</u>	<u>£ (43,351.1)</u>	<u>£ 19,311.2</u>
LIABILITIES AND EQUITY								
Current liabilities:								
Intercompany and related-party payables	£ 126.1	£ 2.7	£ 5.3	£ 67.8	£ —	£ 613.0	£ (727.3)	£ 87.6
Other current liabilities	102.8	21.4	—	107.7	—	1,217.2	(0.1)	1,449.0
Total current liabilities.....	228.9	24.1	5.3	175.5	—	1,830.2	(727.4)	1,536.6
Long-term debt and capital lease obligations	—	1,358.4	—	—	—	6,930.9	—	8,289.3
Other long-term liabilities	—	—	—	253.7	—	203.4	—	457.1
Other long-term liabilities – intercompany	—	15.7	—	—	—	29.6	(45.3)	—
Total liabilities	228.9	1,398.2	5.3	429.2	—	8,994.1	(772.7)	10,283.0
Equity	9,028.2	7,958.6	8,611.3	11,677.1	12,152.3	2,179.1	(42,578.4)	9,028.2
Total liabilities and equity.....	<u>£ 9,257.1</u>	<u>£ 9,356.8</u>	<u>£ 8,616.6</u>	<u>£ 12,106.3</u>	<u>£ 12,152.3</u>	<u>£ 11,173.2</u>	<u>£ (43,351.1)</u>	<u>£ 19,311.2</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Successor							
	Three months ended June 30, 2014							
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
in millions								
Revenue	£ —	£ —	£ —	£ —	£ —	£ 1,054.4	£ —	£ 1,054.4
Operating costs and expenses:								
Operating (other than depreciation and amortization)	—	—	—	—	—	453.4	—	453.4
SG&A (including share-based compensation)	1.0	—	—	—	—	148.2	—	149.2
Depreciation and amortization	—	—	—	—	—	405.2	—	405.2
Impairment, restructuring and other operating items, net	—	—	—	—	—	7.2	—	7.2
	1.0	—	—	—	—	1,014.0	—	1,015.0
Operating income (loss)	(1.0)	—	—	—	—	40.4	—	39.4
Non-operating income (expense):								
Interest expense:								
Third-party	(2.7)	(21.4)	—	(2.7)	—	(88.9)	—	(115.7)
Intercompany	(46.2)	(1.4)	(2.8)	(85.8)	—	(268.8)	405.0	—
Interest income – related-party and intercompany	7.9	15.4	3.5	71.8	—	363.1	(405.0)	56.7
Gain (loss) on debt modification and extinguishment, net – intercompany	—	—	—	(57.1)	—	57.1	—	—
Realized and unrealized losses on derivative instruments, net	(3.3)	—	—	(67.2)	—	—	—	(70.5)
Realized and unrealized gains (losses) on derivative instruments, net – intercompany	—	(3.7)	—	10.6	—	(6.9)	—	—
Foreign currency transaction gains (losses), net	(1.9)	7.3	(4.4)	27.4	—	1.7	19.5	49.6
Other income, net	—	—	—	—	—	0.1	—	0.1
	(46.2)	(3.8)	(3.7)	(103.0)	—	57.4	19.5	(79.8)
Earnings (loss) before income taxes	(47.2)	(3.8)	(3.7)	(103.0)	—	97.8	19.5	(40.4)
Income tax expense	—	—	(0.1)	—	—	(0.4)	—	(0.5)
Earnings (loss) after income taxes	(47.2)	(3.8)	(3.8)	(103.0)	—	97.4	19.5	(40.9)
Equity in net earnings of subsidiaries	6.4	9.3	10.1	92.8	7.9	—	(126.5)	—
Net earnings (loss)	£ (40.8)	£ 5.5	£ 6.3	£ (10.2)	£ 7.9	£ 97.4	£ (107.0)	£ (40.9)
Total comprehensive earnings (loss)	£ (13.2)	£ 0.9	£ 3.3	£ (14.8)	£ 3.3	£ 92.9	£ (85.6)	£ (13.2)

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Successor									
	Period from June 8 to June 30, 2013									
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total		
in millions										
Revenue	£ —	£ —	£ —	£ —	£ —	£ 259.0	£ —	£ 259.0		
Operating costs and expenses:										
Operating (other than depreciation and amortization)	—	—	—	—	—	112.6	—	112.6		
SG&A (including share-based compensation)	2.3	—	0.7	—	—	53.4	—	56.4		
Depreciation and amortization	—	—	—	—	—	92.7	—	92.7		
Impairment, restructuring and other operating items, net	—	—	—	—	—	5.4	—	5.4		
	2.3	—	0.7	—	—	264.1	—	267.1		
Operating loss	(2.3)	—	(0.7)	—	—	(5.1)	—	(8.1)		
Non-operating income (expense):										
Interest expense:										
Third-party	(3.3)	(7.1)	—	2.5	—	(24.2)	—	(32.1)		
Related-party and intercompany	(12.3)	(0.3)	(0.7)	(39.7)	—	(55.7)	105.1	(3.6)		
Interest income – related-party and intercompany	—	14.9	0.9	35.2	—	64.8	(105.1)	10.7		
Realized and unrealized gains on derivative instruments, net	42.9	—	—	77.3	—	—	—	120.2		
Foreign currency transaction gains (losses), net	7.6	(8.0)	0.9	(29.7)	—	12.2	(6.2)	(23.2)		
Other income (expense), net	—	(0.3)	—	—	—	1.3	—	1.0		
	34.9	(0.8)	1.1	45.6	—	(1.6)	(6.2)	73.0		
Earnings (loss) before income taxes	32.6	(0.8)	0.4	45.6	—	(6.7)	(6.2)	64.9		
Income tax expense	—	—	—	—	—	(6.5)	—	(6.5)		
Earnings (loss) after income taxes	32.6	(0.8)	0.4	45.6	—	(13.2)	(6.2)	58.4		
Equity in net earnings (loss) of subsidiaries	25.8	31.2	25.4	(8.1)	(30.5)	—	(43.8)	—		
Net earnings (loss)	£ 58.4	£ 30.4	£ 25.8	£ 37.5	£ (30.5)	£ (13.2)	£ (50.0)	£ 58.4		
Total comprehensive earnings (loss)	£ (10.0)	£ 34.6	£ 29.9	£ 41.4	£ (26.3)	£ (9.1)	£ (70.5)	£ (10.0)		

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Predecessor															
	Period from April 1, 2013 to June 7, 2013															
	Old Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total								
in millions																
Revenue	£	—	£	—	£	—	£	—	£	767.7	£	—	£	767.7		
Operating costs and expenses:																
Operating (other than depreciation and amortization)		—		—		—		—		355.6		—		355.6		
SG&A (including share-based compensation)		5.6		—		—		—		104.2		—		109.8		
Depreciation and amortization		—		—		—		—		183.5		—		183.5		
Impairment, restructuring and other operating items, net		51.3		—		—		—		(7.3)		—		44.0		
		56.9		—		—		—		636.0		—		692.9		
Operating income (loss)		(56.9)		—		—		—		131.7		—		74.8		
Non-operating income (expense):																
Interest expense – third-party		(24.2)		(23.1)		(2.1)		(54.4)		—		(158.9)		195.6	(67.1)	
Realized and unrealized losses on derivative instruments, net		(47.3)		—		—		(4.5)		—		—		—	(51.8)	
Foreign currency transaction gains (losses), net		—		(1.4)		1.3		(14.2)		—		(15.4)		29.9	0.2	
Other income, net		—		22.9		2.6		25.9		—		144.4		(195.6)	0.2	
		(71.5)		(1.6)		1.8		(47.2)		—		(29.9)		29.9	(118.5)	
Earnings (loss) before income taxes		(128.4)		(1.6)		1.8		(47.2)		—		101.8		29.9	(43.7)	
Income tax benefit (expense)		—		—		—		(0.3)		—		4.9		—	4.6	
Earnings (loss) after income taxes		(128.4)		(1.6)		1.8		(47.5)		—		106.7		29.9	(39.1)	
Equity in net earnings of subsidiaries		89.3		76.1		87.5		93.6		107.3		—		(453.8)	—	
Net earnings (loss)	£	(39.1)	£	74.5	£	89.3	£	46.1	£	107.3	£	106.7	£	(423.9)	£	(39.1)
Total comprehensive earnings (loss)	£	(40.8)	£	69.6	£	84.4	£	41.2	£	107.5	£	106.9	£	(409.6)	£	(40.8)

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Successor															
	Six months ended June 30, 2014															
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total								
in millions																
Revenue	£	—	£	—	£	—	£	—	£	—	£	2,098.2	£	—	£	2,098.2
Operating costs and expenses:																
Operating (other than depreciation and amortization).....		—		—		—		—		—		917.8		—		917.8
SG&A (including share-based compensation).....		2.0		—		—		—		—		293.5		—		295.5
Depreciation and amortization		—		—		—		—		—		814.1		—		814.1
Impairment, restructuring and other operating items, net		—		—		—		—		—		12.7		—		12.7
		2.0		—		—		—		—		2,038.1		—		2,040.1
Operating income (loss).....		(2.0)		—		—		—		—		60.1		—		58.1
Non-operating income (expense):																
Interest expense:																
Third-party		(5.9)		(42.9)		—		(5.0)		—		(176.1)		—		(229.9)
Intercompany		(90.9)		(2.5)		(5.5)		(172.3)		—		(531.8)		803.0		—
Interest income – related-party and intercompany		11.2		30.9		7.0		141.8		—		720.9		(803.0)		108.8
Gain (loss) on debt modification and extinguishment, net – intercompany		—		—		—		(57.1)		—		57.1		—		—
Realized and unrealized losses on derivative instruments, net.....		(2.0)		—		—		(144.6)		—		—		—		(146.6)
Realized and unrealized gains (losses) on derivative instruments, net – intercompany		—		(7.4)		—		29.9		—		(22.5)		—		—
Foreign currency transaction gains (losses), net.....		1.5		9.3		(5.6)		35.3		—		5.1		24.0		69.6
Other income, net		—		—		0.5		—		—		0.2		—		0.7
		(86.1)		(12.6)		(3.6)		(172.0)		—		52.9		24.0		(197.4)
Earnings (loss) before income taxes.....		(88.1)		(12.6)		(3.6)		(172.0)		—		113.0		24.0		(139.3)
Income tax benefit (expense)		—		—		(0.1)		—		—		14.7		—		14.6
Earnings (loss) after income taxes.....		(88.1)		(12.6)		(3.7)		(172.0)		—		127.7		24.0		(124.7)
Equity in net earnings (loss) of subsidiaries.....		(36.5)		(26.8)		(32.8)		121.1		25.3		—		(50.3)		—
Net earnings (loss)	£	(124.6)	£	(39.4)	£	(36.5)	£	(50.9)	£	25.3	£	127.7	£	(26.3)	£	(124.7)
Total comprehensive earnings (loss)	£	(87.6)	£	(45.1)	£	(40.2)	£	(56.6)	£	19.6	£	122.1	£	0.2	£	(87.6)

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Successor							
	Period from June 8 to June 30, 2013							
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
in millions								
Revenue	£ —	£ —	£ —	£ —	£ —	£ 259.0	£ —	£ 259.0
Operating costs and expenses:								
Operating (other than depreciation and amortization)	—	—	—	—	—	112.6	—	112.6
SG&A (including share-based compensation)	2.3	—	0.7	—	—	53.4	—	56.4
Depreciation and amortization	—	—	—	—	—	92.7	—	92.7
Impairment, restructuring and other operating items, net	—	—	—	—	—	5.4	—	5.4
	<u>2.3</u>	<u>—</u>	<u>0.7</u>	<u>—</u>	<u>—</u>	<u>264.1</u>	<u>—</u>	<u>267.1</u>
Operating loss	<u>(2.3)</u>	<u>—</u>	<u>(0.7)</u>	<u>—</u>	<u>—</u>	<u>(5.1)</u>	<u>—</u>	<u>(8.1)</u>
Non-operating income (expense):								
Interest expense:								
Third-party	(3.3)	(7.1)	—	2.5	—	(24.2)	—	(32.1)
Related-party and intercompany	(12.3)	(0.3)	(0.7)	(39.7)	—	(55.7)	105.1	(3.6)
Interest income – related-party and intercompany	—	14.9	0.9	35.2	—	64.8	(105.1)	10.7
Realized and unrealized gains on derivative instruments, net	42.9	—	—	77.3	—	—	—	120.2
Foreign currency transaction gains (losses), net	7.6	(8.0)	0.9	(29.7)	—	12.2	(6.2)	(23.2)
Other income (expense), net	—	(0.3)	—	—	—	1.3	—	1.0
	<u>34.9</u>	<u>(0.8)</u>	<u>1.1</u>	<u>45.6</u>	<u>—</u>	<u>(1.6)</u>	<u>(6.2)</u>	<u>73.0</u>
Earnings (loss) before income taxes	32.6	(0.8)	0.4	45.6	—	(6.7)	(6.2)	64.9
Income tax expense	—	—	—	—	—	(6.5)	—	(6.5)
Earnings (loss) after income taxes	32.6	(0.8)	0.4	45.6	—	(13.2)	(6.2)	58.4
Equity in net earnings (loss) of subsidiaries	25.8	31.2	25.4	(8.1)	(30.5)	—	(43.8)	—
Net earnings (loss)	<u>£ 58.4</u>	<u>£ 30.4</u>	<u>£ 25.8</u>	<u>£ 37.5</u>	<u>£ (30.5)</u>	<u>£ (13.2)</u>	<u>£ (50.0)</u>	<u>£ 58.4</u>
Total comprehensive earnings (loss)	<u>£ (10.0)</u>	<u>£ 34.6</u>	<u>£ 29.9</u>	<u>£ 41.4</u>	<u>£ (26.3)</u>	<u>£ (9.1)</u>	<u>£ (70.5)</u>	<u>£ (10.0)</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Predecessor							
	Period from January 1 to June 7, 2013							
	Old Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total
in millions								
Revenue	£ —	£ —	£ —	£ —	£ —	£ 1,810.2	£ —	£ 1,810.2
Operating costs and expenses:								
Operating (other than depreciation and amortization).....	—	—	—	—	—	845.4	—	845.4
SG&A (including share-based compensation).....	8.4	—	—	—	—	247.7	—	256.1
Depreciation and amortization	—	—	—	—	—	432.8	—	432.8
Impairment, restructuring and other operating items, net.....	53.8	—	—	—	—	(2.6)	—	51.2
	<u>62.2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,523.3</u>	<u>—</u>	<u>1,585.5</u>
Operating income (loss) ...	<u>(62.2)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>286.9</u>	<u>—</u>	<u>224.7</u>
Non-operating income (expense):								
Interest expense – third-party	(55.9)	(54.1)	(4.8)	(127.2)	—	(371.3)	456.6	(156.7)
Interest income – intercompany	—	53.6	6.0	62.7	—	334.3	(456.6)	—
Realized and unrealized gains on derivative instruments, net.....	50.0	—	—	1.8	—	—	—	51.8
Foreign currency transaction gains (losses), net	(0.1)	2.6	5.6	23.7	—	(3.9)	(30.0)	(2.1)
Other income (expense), net	(0.1)	—	—	0.2	—	0.2	—	0.3
	<u>(6.1)</u>	<u>2.1</u>	<u>6.8</u>	<u>(38.8)</u>	<u>—</u>	<u>(40.7)</u>	<u>(30.0)</u>	<u>(106.7)</u>
Earnings (loss) before income taxes	(68.3)	2.1	6.8	(38.8)	—	246.2	(30.0)	118.0
Income tax expense.....	—	—	—	(0.7)	—	(17.4)	—	(18.1)
Earnings (loss) after income taxes	(68.3)	2.1	6.8	(39.5)	—	228.8	(30.0)	99.9
Equity in net earnings of subsidiaries	168.2	140.2	161.2	209.7	222.9	—	(902.2)	—
Net earnings	<u>£ 99.9</u>	<u>£ 142.3</u>	<u>£ 168.0</u>	<u>£ 170.2</u>	<u>£ 222.9</u>	<u>£ 228.8</u>	<u>£ (932.2)</u>	<u>£ 99.9</u>
Total comprehensive earnings	<u>£ 83.1</u>	<u>£ 135.3</u>	<u>£ 161.0</u>	<u>£ 163.2</u>	<u>£ 223.5</u>	<u>£ 229.4</u>	<u>£ (912.4)</u>	<u>£ 83.1</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of cash flows	Successor						
	Six months ended June 30, 2014						
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Total
	in millions						
Cash flows from operating activities:							
Net cash provided (used) by operating activities	£ (91.8)	£ (18.4)	£ 1.8	£ (49.8)	£ —	£ 956.2	£ 798.0
Cash flows from investing activities:							
Loans to related party	(484.3)	—	—	—	—	—	(484.3)
Capital expenditures	—	—	—	—	—	(313.9)	(313.9)
Other investing activities, net	—	—	—	—	—	(6.7)	(6.7)
Net cash used by investing activities	(484.3)	—	—	—	—	(320.6)	(804.9)
Cash flows from financing activities:							
Repayments and repurchases of debt and capital lease obligations	—	—	—	(50.4)	—	(1,615.5)	(1,665.9)
Borrowings of debt	—	—	—	—	—	1,535.5	1,535.5
Contributions from (distributions to) parent and subsidiary companies	339.7	18.3	(1.9)	128.5	—	(484.6)	—
Payment of financing costs and debt premiums	—	—	—	—	—	(57.6)	(57.6)
Other financing activities, net	—	—	—	(28.5)	—	—	(28.5)
Net cash provided (used) by financing activities	339.7	18.3	(1.9)	49.6	—	(622.2)	(216.5)
Effect of exchange rates on cash and cash equivalents	(2.2)	—	—	—	—	—	(2.2)
Net increase (decrease) in cash and cash equivalents	(238.6)	(0.1)	(0.1)	(0.2)	—	13.4	(225.6)
Cash and cash equivalents:							
Beginning of period	313.3	0.1	0.2	0.3	—	29.1	343.0
End of period	£ 74.7	£ —	£ 0.1	£ 0.1	£ —	£ 42.5	£ 117.4

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
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Statements of cash flows	Successor						
	Period from June 8 to June 30, 2013						
	Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Total
	in millions						
Cash flows from operating activities:							
Net cash provided (used) by operating activities	£ (6.5)	£ (18.1)	£ —	£ (33.7)	£ —	£ 8.3	£ (50.0)
Cash flows from investing activities:							
Loans to related party	—	—	—	—	—	(2,290.6)	(2,290.6)
Capital expenditures	—	—	—	—	—	(38.3)	(38.3)
Net cash used by investing activities ...	—	—	—	—	—	(2,328.9)	(2,328.9)
Cash flows from financing activities:							
Repayments and repurchases of debt and capital lease obligations	(2,772.5)	(1,116.8)	—	—	—	(55.9)	(3,945.2)
Borrowings of debt	—	—	—	—	—	1,983.4	1,983.4
Release of restricted cash from escrow	—	586.0	—	—	—	1,727.6	2,313.6
Capital contribution from parent	2,290.6	—	—	—	—	—	2,290.6
Contributions from (distributions to) parent and subsidiary companies	978.4	566.7	—	9.0	—	(1,554.1)	—
Repayments of related-party notes	(467.5)	—	—	—	—	—	(467.5)
Payment of financing costs and debt premiums	(30.4)	(16.6)	—	(0.6)	—	(16.2)	(63.8)
Other financing activities, net	(10.2)	—	—	—	—	—	(10.2)
Net cash provided (used) by financing activities	(11.6)	19.3	—	8.4	—	2,084.8	2,100.9
Effect of exchange rates on cash and cash equivalents	(1.6)	(1.3)	0.1	0.2	—	(0.4)	(3.0)
Net increase (decrease) in cash and cash equivalents	(19.7)	(0.1)	0.1	(25.1)	—	(236.2)	(281.0)
Cash and cash equivalents:							
Beginning of period	27.4	24.3	0.1	24.2	—	478.8	554.8
End of period	£ 7.7	£ 24.2	£ 0.2	£ (0.9)	£ —	£ 242.6	£ 273.8

VIRGIN MEDIA INC.
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Notes to Condensed Consolidated Financial Statements — (Continued)
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Statements of cash flows	Predecessor								
	Period from January 1 to June 7, 2013								
	Old Virgin Media	Virgin Media Finance	Other guarantors	VMIH	VMIL	All other subsidiaries	Eliminations	Total	
	in millions								
Cash flows from operating activities:									
Net cash provided (used) by operating activities ...	£ (106.9)	£ 3.3	£ 3.8	£ (55.1)	£ —	£ 743.0	£ —	£ 588.1	
Cash flows from investing activities:									
Capital expenditures.....	—	—	—	—	—	(313.4)	—	(313.4)	
Other investing activities, net	—	—	—	—	—	4.1	—	4.1	
Net cash used by investing activities.....	—	—	—	—	—	(309.3)	—	(309.3)	
Cash flows from financing activities:									
Repayments and repurchases of debt and capital lease obligations...	(1.5)	—	—	—	—	(45.0)	—	(46.5)	
Contributions from (distributions to) parent and subsidiary companies	94.3	(3.1)	(3.8)	78.8	—	(166.2)	—	—	
Payment of financing costs and debt premiums	(0.6)	(0.2)	—	—	—	(0.3)	—	(1.1)	
Other financing activities, net	8.7	—	—	—	—	—	—	8.7	
Net cash provided (used) by financing activities ...	100.9	(3.3)	(3.8)	78.8	—	(211.5)	—	(38.9)	
Effect of exchange rates on cash and cash equivalents.....	0.9	—	—	0.4	—	(0.4)	—	0.9	
Net increase (decrease) in cash and cash equivalents.....	(5.1)	—	—	24.1	—	221.8	—	240.8	
Cash and cash equivalents:									
Beginning of period.....	10.3	1.0	0.1	0.1	—	194.8	—	206.3	
End of period.....	£ 5.2	£ 1.0	£ 0.1	£ 24.2	£ —	£ 416.6	£ —	£ 447.1	

VIRGIN MEDIA INC.
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Notes to Condensed Consolidated Financial Statements — (Continued)
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(13) Condensed Consolidating Financial Information — Senior Secured Notes

We present the following condensed consolidating financial information as of June 30, 2014 and December 31, 2013 and for the three months ended June 30, 2014, the Successor period from June 8 to June 30, 2013, the Predecessor period from April 1 to June 7, 2013, the six months ended June 30, 2014, the Successor period from June 8 to June 30, 2013 and the Predecessor period from January 1 to June 7, 2013, as required by the applicable underlying indentures.

As of June 30, 2014, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- £628.4 million aggregate principal amount of 5.50% senior secured notes due January 15, 2021;
- \$447.9 million (£261.9 million) aggregate principal amount of 5.25% senior secured notes due January 15, 2021;
- £1.1 billion aggregate principal amount of 6.0% senior secured notes due April 15, 2021;
- \$1.0 billion (£584.7 million) aggregate principal amount of 5.375% senior secured notes due April 15, 2021;
- £430.0 million aggregate principal amount of 2025 VM Sterling Senior Secured Notes;
- \$425.0 million (£248.5 million) aggregate principal amount of 2025 VM Dollar Senior Secured Notes; and
- £400.0 million aggregate principal amount of 2029 VM Senior Secured Notes.

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

VIRGIN MEDIA INC.
(See note 1)
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Balance sheets	Successor					
	June 30, 2014					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- guarantors	Eliminations	Total
	in millions					
ASSETS						
Current assets:						
Cash and cash equivalents	£ 74.7	£ 3.0	£ 31.2	£ 8.5	£ —	£ 117.4
Related-party receivables.....	9.4	—	64.0	40.7	—	114.1
Other current assets.....	—	—	558.4	0.5	—	558.9
Other current assets – intercompany.....	—	—	2.7	—	(2.7)	—
Total current assets.....	84.1	3.0	656.3	49.7	(2.7)	790.4
Property and equipment, net	—	—	4,882.1	1,024.1	—	5,906.2
Goodwill.....	—	—	5,793.7	—	—	5,793.7
Intangible assets subject to amortization, net	—	—	2,014.1	124.9	—	2,139.0
Investments in, and loans to, parent and subsidiary companies.....	8,498.2	3,888.9	(4,817.3)	7,968.1	(15,537.9)	—
Deferred income taxes	—	—	1,406.6	—	—	1,406.6
Related-party notes receivable	543.2	—	—	2,297.3	—	2,840.5
Other assets, net	58.8	35.2	192.4	0.3	—	286.7
Other assets, net – intercompany	—	—	74.8	—	(74.8)	—
Total assets	<u>£ 9,184.3</u>	<u>£ 3,927.1</u>	<u>£ 10,202.7</u>	<u>£ 11,464.4</u>	<u>£ (15,615.4)</u>	<u>£ 19,163.1</u>
LIABILITIES AND EQUITY						
Current liabilities:						
Intercompany and related-party payables.....	£ 143.8	£ 1.5	£ 190.6	£ 538.5	£ (776.1)	£ 98.3
Other current liabilities	99.9	59.4	1,396.5	2.8	—	1,558.6
Other current liabilities – intercompany ...	—	2.1	0.6	—	(2.7)	—
Total current liabilities.....	243.7	63.0	1,587.7	541.3	(778.8)	1,656.9
Long-term debt and capital lease obligations	—	3,673.4	4,376.3	0.1	—	8,049.8
Other long-term liabilities	—	—	503.8	12.0	—	515.8
Other long-term liabilities – intercompany	—	52.4	22.4	—	(74.8)	—
Total liabilities.....	243.7	3,788.8	6,490.2	553.4	(853.6)	10,222.5
Equity	8,940.6	138.3	3,712.5	10,911.0	(14,761.8)	8,940.6
Total liabilities and equity	<u>£ 9,184.3</u>	<u>£ 3,927.1</u>	<u>£ 10,202.7</u>	<u>£ 11,464.4</u>	<u>£ (15,615.4)</u>	<u>£ 19,163.1</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
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	Successor						Total
	December 31, 2013						
Balance sheets	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-guarantors	Eliminations		
	in millions						
ASSETS							
Current assets:							
Cash and cash equivalents	£ 313.3	£ 0.1	£ 21.4	£ 8.2	£ —	£ 343.0	
Related-party receivables	0.2	—	47.8	40.1	—	88.1	
Other current assets	0.1	0.1	559.7	0.5	(0.1)	560.3	
Total current assets	<u>313.6</u>	<u>0.2</u>	<u>628.9</u>	<u>48.8</u>	<u>(0.1)</u>	<u>991.4</u>	
Property and equipment, net	—	—	5,037.3	1,075.3	—	6,112.6	
Goodwill	—	—	5,793.7	—	—	5,793.7	
Intangible assets subject to amortization, net	—	—	2,185.6	135.9	—	2,321.5	
Investments in, and loans to, parent and subsidiary companies	8,787.5	4,257.8	(5,507.1)	7,937.7	(15,475.9)	—	
Deferred income taxes	—	—	1,407.4	—	—	1,407.4	
Related-party notes receivable	76.2	—	—	2,297.3	—	2,373.5	
Other assets, net	79.8	31.6	199.7	—	—	311.1	
Other assets, net – intercompany	—	—	45.3	—	(45.3)	—	
Total assets	<u>£ 9,257.1</u>	<u>£ 4,289.6</u>	<u>£ 9,790.8</u>	<u>£ 11,495.0</u>	<u>£ (15,521.3)</u>	<u>£ 19,311.2</u>	
LIABILITIES AND EQUITY							
Current liabilities:							
Intercompany and related-party payables	£ 126.1	£ 1.4	£ 158.7	£ 528.8	£ (727.4)	£ 87.6	
Other current liabilities	102.8	47.6	1,294.1	4.6	(0.1)	1,449.0	
Total current liabilities	<u>228.9</u>	<u>49.0</u>	<u>1,452.8</u>	<u>533.4</u>	<u>(727.5)</u>	<u>1,536.6</u>	
Long-term debt and capital lease obligations	—	4,164.9	4,124.4	—	—	8,289.3	
Other long-term liabilities	—	—	446.8	10.3	—	457.1	
Other long-term liabilities – intercompany	—	29.6	15.7	—	(45.3)	—	
Total liabilities	<u>228.9</u>	<u>4,243.5</u>	<u>6,039.7</u>	<u>543.7</u>	<u>(772.8)</u>	<u>10,283.0</u>	
Equity	9,028.2	46.1	3,751.1	10,951.3	(14,748.5)	9,028.2	
Total liabilities and equity	<u>£ 9,257.1</u>	<u>£ 4,289.6</u>	<u>£ 9,790.8</u>	<u>£ 11,495.0</u>	<u>£ (15,521.3)</u>	<u>£ 19,311.2</u>	

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
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Statements of operations	Successor					
	Three months ended June 30, 2014					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- guarantors	Eliminations	Total
in millions						
Revenue	£ —	£ —	£ 989.3	£ 65.1	£ —	£ 1,054.4
Operating costs and expenses:						
Operating (other than depreciation and amortization)	—	—	429.2	24.2	—	453.4
SG&A (including share-based compensation)	1.0	—	140.2	8.0	—	149.2
Depreciation and amortization	—	—	362.0	43.2	—	405.2
Impairment, restructuring and other operating items, net	—	—	6.8	0.4	—	7.2
	1.0	—	938.2	75.8	—	1,015.0
Operating income (loss)	(1.0)	—	51.1	(10.7)	—	39.4
Non-operating income (expense):						
Interest expense:						
Third-party	(2.7)	(59.1)	(53.9)	—	—	(115.7)
Intercompany	(46.2)	—	(191.4)	(192.1)	429.7	—
Interest income – related-party and intercompany	7.9	71.2	220.6	186.7	(429.7)	56.7
Gain (loss) on debt modification and extinguishment, net – intercompany	—	55.4	(55.4)	—	—	—
Realized and unrealized losses on derivative instruments, net	(3.3)	—	(67.2)	—	—	(70.5)
Realized and unrealized gains (losses) on intercompany derivative instruments, net	—	(6.8)	6.8	—	—	—
Foreign currency transaction gains (losses), net	(1.9)	19.0	16.4	(3.4)	19.5	49.6
Other income (expense), net	—	4.3	(4.3)	0.1	—	0.1
	(46.2)	84.0	(128.4)	(8.7)	19.5	(79.8)
Earnings (loss) before income taxes	(47.2)	84.0	(77.3)	(19.4)	19.5	(40.4)
Income tax expense	—	—	(0.5)	—	—	(0.5)
Earnings (loss) after income taxes ...	(47.2)	84.0	(77.8)	(19.4)	19.5	(40.9)
Equity in net earnings of subsidiaries	6.4	—	87.5	25.8	(119.7)	—
Net earnings (loss)	£ (40.8)	£ 84.0	£ 9.7	£ 6.4	£ (100.2)	£ (40.9)
Total comprehensive earnings (loss)	£ (13.2)	£ 84.0	£ 5.1	£ 3.5	£ (92.6)	£ (13.2)

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
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Statements of operations	Successor					
	Period from June 8 to June 30, 2013					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
in millions						
Revenue	£ —	£ —	£ 238.4	£ 20.6	£ —	£ 259.0
Operating costs and expenses:						
Operating (other than depreciation and amortization).....	—	—	107.4	5.2	—	112.6
SG&A (including share-based compensation).....	2.3	—	50.4	3.7	—	56.4
Depreciation and amortization	—	—	78.1	14.6	—	92.7
Impairment, restructuring and other operating items, net	—	—	5.1	0.3	—	5.4
	<u>2.3</u>	<u>—</u>	<u>241.0</u>	<u>23.8</u>	<u>—</u>	<u>267.1</u>
Operating loss.....	<u>(2.3)</u>	<u>—</u>	<u>(2.6)</u>	<u>(3.2)</u>	<u>—</u>	<u>(8.1)</u>
Non-operating income (expense):						
Interest expense:						
Third-party	(3.3)	(17.1)	(11.7)	—	—	(32.1)
Related-party and intercompany	(12.3)	—	(39.7)	(46.2)	94.6	(3.6)
Interest income – related-party and intercompany	—	20.1	44.9	40.3	(94.6)	10.7
Realized and unrealized gains on derivative instruments, net.....	42.9	—	77.3	—	—	120.2
Foreign currency transaction gains (losses), net	7.6	(0.4)	(18.0)	(6.2)	(6.2)	(23.2)
Other income, net.....	—	1.0	—	—	—	1.0
	<u>34.9</u>	<u>3.6</u>	<u>52.8</u>	<u>(12.1)</u>	<u>(6.2)</u>	<u>73.0</u>
Earnings (loss) before income taxes	32.6	3.6	50.2	(15.3)	(6.2)	64.9
Income tax expense	—	—	(6.5)	—	—	(6.5)
Earnings (loss) after income taxes ...	<u>32.6</u>	<u>3.6</u>	<u>43.7</u>	<u>(15.3)</u>	<u>(6.2)</u>	<u>58.4</u>
Equity in net earnings (loss) of subsidiaries.....	25.8	—	(12.1)	41.0	(54.7)	—
Net earnings.....	<u>£ 58.4</u>	<u>£ 3.6</u>	<u>£ 31.6</u>	<u>£ 25.7</u>	<u>£ (60.9)</u>	<u>£ 58.4</u>
Total comprehensive earnings (loss)	<u>£ (10.0)</u>	<u>£ 3.6</u>	<u>£ 35.7</u>	<u>£ 30.0</u>	<u>£ (69.3)</u>	<u>£ (10.0)</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
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Statements of operations	Predecessor					
	Period from April 1, 2013 to June 7, 2013					
	Old Virgin Media	Virgin Media Secured Finance	Guarantors	Non- guarantors	Eliminations	Total
in millions						
Revenue.....	£ —	£ —	£ 723.3	£ 44.4	£ —	£ 767.7
Operating costs and expenses:						
Operating (other than depreciation and amortization).....	—	—	339.4	16.2	—	355.6
SG&A (including share-based compensation).....	5.6	—	96.5	7.7	—	109.8
Depreciation and amortization	—	—	169.5	14.0	—	183.5
Impairment, restructuring and other operating items, net.....	51.3	—	(7.4)	0.1	—	44.0
	<u>56.9</u>	<u>—</u>	<u>598.0</u>	<u>38.0</u>	<u>—</u>	<u>692.9</u>
Operating income (loss).....	<u>(56.9)</u>	<u>—</u>	<u>125.3</u>	<u>6.4</u>	<u>—</u>	<u>74.8</u>
Non-operating income (expense):						
Interest expense – third-party	(24.2)	(30.7)	(149.3)	(62.8)	199.9	(67.1)
Realized and unrealized losses on derivative instruments, net.....	(47.3)	—	(4.5)	—	—	(51.8)
Foreign currency transaction gains (losses), net	—	—	(41.1)	11.4	29.9	0.2
Other income, net	—	29.5	99.0	71.6	(199.9)	0.2
	<u>(71.5)</u>	<u>(1.2)</u>	<u>(95.9)</u>	<u>20.2</u>	<u>29.9</u>	<u>(118.5)</u>
Earnings (loss) before income taxes.....	(128.4)	(1.2)	29.4	26.6	29.9	(43.7)
Income tax benefit.....	—	—	4.6	—	—	4.6
Earnings (loss) after income taxes.....	(128.4)	(1.2)	34.0	26.6	29.9	(39.1)
Equity in net earnings of subsidiaries ...	89.3	—	9.1	62.7	(161.1)	—
Net earnings (loss)	<u>£ (39.1)</u>	<u>£ (1.2)</u>	<u>£ 43.1</u>	<u>£ 89.3</u>	<u>£ (131.2)</u>	<u>£ (39.1)</u>
Total comprehensive earnings (loss).....	<u>£ (40.8)</u>	<u>£ (1.2)</u>	<u>£ 38.2</u>	<u>£ 84.4</u>	<u>£ (121.4)</u>	<u>£ (40.8)</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
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Statements of operations	Successor					
	Six months ended June 30, 2014					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
in millions						
Revenue	£ —	£ —	£ 1,969.0	£ 129.2	£ —	£ 2,098.2
Operating costs and expenses:						
Operating (other than depreciation and amortization)	—	—	868.9	48.9	—	917.8
SG&A (including share-based compensation)	2.0	—	278.0	15.5	—	295.5
Depreciation and amortization	—	—	725.9	88.2	—	814.1
Impairment, restructuring and other operating items, net	—	—	11.9	0.8	—	12.7
	<u>2.0</u>	<u>—</u>	<u>1,884.7</u>	<u>153.4</u>	<u>—</u>	<u>2,040.1</u>
Operating income (loss)	(2.0)	—	84.3	(24.2)	—	58.1
Non-operating income (expense):						
Interest expense:						
Third-party	(5.9)	(117.7)	(106.3)	—	—	(229.9)
Intercompany	(90.9)	—	(374.6)	(369.1)	834.6	—
Interest income – related-party and intercompany	11.2	146.4	415.2	370.6	(834.6)	108.8
Gain (loss) on debt modification and extinguishment, net - intercompany	—	55.4	(55.4)	—	—	—
Realized and unrealized losses on derivative instruments, net	(2.0)	—	(144.6)	—	—	(146.6)
Realized and unrealized gains (losses) on intercompany derivative instruments, net	—	(22.4)	22.4	—	—	—
Foreign currency transaction gains (losses), net	1.5	26.3	22.0	(4.2)	24.0	69.6
Other income (expense), net	—	4.3	(4.3)	0.7	—	0.7
	<u>(86.1)</u>	<u>92.3</u>	<u>(225.6)</u>	<u>(2.0)</u>	<u>24.0</u>	<u>(197.4)</u>
Earnings (loss) before income taxes	(88.1)	92.3	(141.3)	(26.2)	24.0	(139.3)
Income tax benefit	—	—	14.6	—	—	14.6
Earnings (loss) after income taxes	(88.1)	92.3	(126.7)	(26.2)	24.0	(124.7)
Equity in net earnings (loss) of subsidiaries	(36.5)	—	93.4	(10.3)	(46.6)	—
Net earnings (loss)	<u>£ (124.6)</u>	<u>£ 92.3</u>	<u>£ (33.3)</u>	<u>£ (36.5)</u>	<u>£ (22.6)</u>	<u>£ (124.7)</u>
Total comprehensive earnings (loss)	<u>£ (87.6)</u>	<u>£ 92.3</u>	<u>£ (39.0)</u>	<u>£ (40.1)</u>	<u>£ (13.2)</u>	<u>£ (87.6)</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Successor					
	Period from June 8 to June 30, 2013					
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
in millions						
Revenue	£ —	£ —	£ 238.4	£ 20.6	£ —	£ 259.0
Operating costs and expenses:						
Operating (other than depreciation and amortization).....	—	—	107.4	5.2	—	112.6
SG&A (including share-based compensation).....	2.3	—	50.4	3.7	—	56.4
Depreciation and amortization	—	—	78.1	14.6	—	92.7
Impairment, restructuring and other operating items, net	—	—	5.1	0.3	—	5.4
	<u>2.3</u>	<u>—</u>	<u>241.0</u>	<u>23.8</u>	<u>—</u>	<u>267.1</u>
Operating loss.....	<u>(2.3)</u>	<u>—</u>	<u>(2.6)</u>	<u>(3.2)</u>	<u>—</u>	<u>(8.1)</u>
Non-operating income (expense):						
Interest expense:						
Third-party	(3.3)	(17.1)	(11.7)	—	—	(32.1)
Related-party and intercompany	(12.3)	—	(39.7)	(46.2)	94.6	(3.6)
Interest income – related-party and intercompany	—	20.1	44.9	40.3	(94.6)	10.7
Realized and unrealized gains on derivative instruments, net.....	42.9	—	77.3	—	—	120.2
Foreign currency transaction gains (losses), net	7.6	(0.4)	(18.0)	(6.2)	(6.2)	(23.2)
Other income, net.....	—	1.0	—	—	—	1.0
	<u>34.9</u>	<u>3.6</u>	<u>52.8</u>	<u>(12.1)</u>	<u>(6.2)</u>	<u>73.0</u>
Earnings (loss) before income taxes	32.6	3.6	50.2	(15.3)	(6.2)	64.9
Income tax expense	—	—	(6.5)	—	—	(6.5)
Earnings (loss) after income taxes ...	<u>32.6</u>	<u>3.6</u>	<u>43.7</u>	<u>(15.3)</u>	<u>(6.2)</u>	<u>58.4</u>
Equity in net earnings (loss) of subsidiaries.....	25.8	—	(12.1)	41.0	(54.7)	—
Net earnings.....	<u>£ 58.4</u>	<u>£ 3.6</u>	<u>£ 31.6</u>	<u>£ 25.7</u>	<u>£ (60.9)</u>	<u>£ 58.4</u>
Total comprehensive earnings (loss)	<u>£ (10.0)</u>	<u>£ 3.6</u>	<u>£ 35.7</u>	<u>£ 30.0</u>	<u>£ (69.3)</u>	<u>£ (10.0)</u>

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of operations	Predecessor					
	Period from January 1 to June 7, 2013					
	Old Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	Total
in millions						
Revenue.....	£ —	£ —	£ 1,703.5	£ 106.7	£ —	£ 1,810.2
Operating costs and expenses:						
Operating (other than depreciation and amortization).....	—	—	807.4	38.0	—	845.4
SG&A (including share-based compensation).....	8.4	—	229.8	17.9	—	256.1
Depreciation and amortization	—	—	396.1	36.7	—	432.8
Impairment, restructuring and other operating items, net	53.8	—	(2.7)	0.1	—	51.2
	62.2	—	1,430.6	92.7	—	1,585.5
Operating income (loss).....	(62.2)	—	272.9	14.0	—	224.7
Non-operating income (expense):						
Interest expense – third-party	(55.9)	(71.6)	(341.9)	(155.6)	468.3	(156.7)
Interest income – intercompany	—	70.7	230.7	166.9	(468.3)	—
Realized and unrealized gains on derivative instruments, net.....	50.0	—	1.8	—	—	51.8
Foreign currency transaction gains (losses), net	(0.1)	—	27.5	0.5	(30.0)	(2.1)
Other income (expense), net	(0.1)	—	0.4	—	—	0.3
	(6.1)	(0.9)	(81.5)	11.8	(30.0)	(106.7)
Earnings (loss) before income taxes	(68.3)	(0.9)	191.4	25.8	(30.0)	118.0
Income tax expense	—	—	(18.1)	—	—	(18.1)
Earnings (loss) after income taxes	(68.3)	(0.9)	173.3	25.8	(30.0)	99.9
Equity in net earnings of subsidiaries	168.2	—	0.3	142.4	(310.9)	—
Net earnings (loss)	£ 99.9	£ (0.9)	£ 173.6	£ 168.2	£ (340.9)	£ 99.9
Total comprehensive earnings (loss).....	£ 83.1	£ (0.9)	£ 166.6	£ 161.2	£ (326.9)	£ 83.1

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of cash flows	Successor				
	Six months ended June 30, 2014				
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non- guarantors	Total
	in millions				
Cash flows from operating activities:					
Net cash provided (used) by operating activities ...	£ (91.8)	£ 26.6	£ 816.9	£ 46.3	£ 798.0
Cash flows from investing activities:					
Loans to related party.....	(484.3)	—	—	—	(484.3)
Capital expenditures.....	—	—	(294.6)	(19.3)	(313.9)
Other investing activities, net.....	—	—	(7.2)	0.5	(6.7)
Net cash used by investing activities.....	(484.3)	—	(301.8)	(18.8)	(804.9)
Cash flows from financing activities:					
Repayments and repurchases of debt and capital lease obligations	—	(1,467.7)	(198.2)	—	(1,665.9)
Borrowings of debt.....	—	1,088.8	446.7	—	1,535.5
Contributions from (distributions to) parent and subsidiary companies.....	339.7	410.0	(722.5)	(27.2)	—
Payment of financing costs and debt premiums.....	—	(54.8)	(2.8)	—	(57.6)
Other financing activities, net	—	—	(28.5)	—	(28.5)
Net cash provided (used) by financing activities ...	339.7	(23.7)	(505.3)	(27.2)	(216.5)
Effect of exchange rates on cash and cash equivalents	(2.2)	—	—	—	(2.2)
Net increase (decrease) in cash and cash equivalents.....	(238.6)	2.9	9.8	0.3	(225.6)
Cash and cash equivalents:					
Beginning of period	313.3	0.1	21.4	8.2	343.0
End of period.....	£ 74.7	£ 3.0	£ 31.2	£ 8.5	£ 117.4

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of cash flows	Successor				
	Period from June 8 to June 30, 2013				
	Virgin Media	Virgin Media Secured Finance	Guarantors	Non-guarantors	Total
	in millions				
Cash flows from operating activities:					
Net cash provided (used) by operating activities ...	£ (6.5)	£ (1.2)	£ (46.2)	£ 3.9	£ (50.0)
Cash flows from investing activities:					
Loans to related party.....	—	—	—	(2,290.6)	(2,290.6)
Capital expenditures.....	—	—	(34.5)	(3.8)	(38.3)
Net cash used by investing activities.....	—	—	(34.5)	(2,294.4)	(2,328.9)
Cash flows from financing activities:					
Repayments and repurchases of debt and capital lease obligations	(2,772.5)	(56.0)	(1,116.7)	—	(3,945.2)
Borrowings of debt.....	—	—	1,983.4	—	1,983.4
Release of restricted cash from escrow.....	—	1,727.6	586.0	—	2,313.6
Capital contribution from parent undertaking.....	2,290.6	—	—	—	2,290.6
Contributions from (distributions to) parent and subsidiary companies.....	978.4	(1,654.4)	(1,614.6)	2,290.6	—
Repayment of related-party notes	(467.5)	—	—	—	(467.5)
Payment of financing costs and debt premiums.....	(30.4)	(16.2)	(17.2)	—	(63.8)
Other financing activities, net	(10.2)	—	—	—	(10.2)
Net cash provided (used) by financing activities ...	(11.6)	1.0	(179.1)	2,290.6	2,100.9
Effect of exchange rates on cash and cash equivalents	(1.6)	0.1	(1.5)	—	(3.0)
Net increase (decrease) in cash and cash equivalents.....	(19.7)	(0.1)	(261.3)	0.1	(281.0)
Cash and cash equivalents:					
Beginning of period	27.4	62.2	459.7	5.5	554.8
End of period.....	£ 7.7	£ 62.1	£ 198.4	£ 5.6	£ 273.8

VIRGIN MEDIA INC.
(See note 1)
Notes to Condensed Consolidated Financial Statements — (Continued)
June 30, 2014
(unaudited)

Statements of cash flows	Predecessor					Total
	Old Virgin Media	Virgin Media Secured Finance	Guarantors	Non- Guarantors	Eliminations	
	Period from January 1 to June 7, 2013					
	in millions					
Cash flows from operating activities:						
Net cash provided (used) by operating activities.....	£ (106.9)	£ 1.5	£ 595.6	£ 97.9	£ —	£ 588.1
Cash flows from investing activities:						
Capital expenditures	—	—	(282.5)	(30.9)	—	(313.4)
Other investing activities, net	—	—	3.7	0.4	—	4.1
Net cash used by investing activities.....	—	—	(278.8)	(30.5)	—	(309.3)
Cash flows from financing activities:						
Repayments and repurchases of debt and capital lease obligations	(1.5)	—	(45.0)	—	—	(46.5)
Contributions from (distributions to) parent and subsidiary companies ...	94.3	(1.6)	(27.1)	(65.6)	—	—
Payment of financing costs and debt premiums.....	(0.6)	(0.3)	(0.2)	—	—	(1.1)
Other financing activities, net.....	8.7	—	—	—	—	8.7
Net cash provided (used) by financing activities.....	100.9	(1.9)	(72.3)	(65.6)	—	(38.9)
Effect of exchange rates on cash and cash equivalents	0.9	0.4	—	(0.4)	—	0.9
Net increase (decrease) in cash and cash equivalents	(5.1)	—	244.5	1.4	—	240.8
Cash and cash equivalents:						
Beginning of period.....	10.3	—	191.9	4.1	—	206.3
End of period.....	£ 5.2	£ —	£ 436.4	£ 5.5	£ —	£ 447.1

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2013 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and six months ended June 30, 2014 and 2013.
- *Material Changes in Financial Condition.* This section provides an analysis of our corporate and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated, and operational data (including subscriber statistics) are presented, as of June 30, 2014.

Forward-Looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product, foreign currency and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated revenue decreases or cost increases, liquidity, credit risks, foreign currency risks and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In addition to the risk factors described in our 2013 annual report, the following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the markets in which we operate;
- the competitive environment in the cable television, broadband and telecommunications industries in the U.K., including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the EU and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital cable, broadband internet, fixed-line telephony, mobile and B2B 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 digital cable, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the markets in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would open our broadband distribution networks to competitors and any adverse change in our accreditations or licenses;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the markets in which we operate;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our digital cable 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;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and realize anticipated efficiencies from the LG/VM Transaction and from businesses we may acquire;
- leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers;
- adverse changes in public perception of the “Virgin” brand, which we and others license from Virgin Group Limited, and any resulting impacts on the goodwill of customers toward us; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

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

Overview

We are a subsidiary of Liberty Global that provides digital cable, broadband internet, fixed-line telephony and mobile services in the U.K. to both residential and B2B customers. We are one of the U.K.'s largest providers of residential digital cable, broadband internet and fixed-line telephony services in terms of the number of customers. We believe our advanced, deep-fiber cable access network enables us to offer faster and higher quality broadband services than our digital subscriber line (DSL) competitors. As a result, we provide our customers with a leading next generation broadband service and one of the most advanced interactive TV services available in the U.K. market.

We completed a small acquisition during the first three months of 2014 that has an impact on the comparability of our 2014 and 2013 results of operations.

As of June 30, 2014, our network passed 12,539,700 homes and served 12,294,300 revenue generating units (RGUs), consisting of 4,415,500 broadband internet subscribers, 4,145,100 fixed-line telephony subscribers and 3,733,700 digital cable subscribers. We also served 3,041,300 mobile subscribers.

We lost 17,000 and 34,000 RGUs on an organic basis during the three months ended June 30, 2014 and 2013, respectively. The organic RGU loss during the three months ended June 30, 2014 is attributable to declines in our digital cable, fixed-line telephony and broadband internet services of 14,900, 1,800 and 300 RGUs, respectively.

Including the effect of an acquisition, we added a total of 32,600 RGUs during the six months ended June 30, 2014. Excluding the effect of this acquisition (RGUs added on the acquisition date), but including post-acquisition date RGU additions, we added 17,900 RGUs on an organic basis during the six months ended June 30, 2014, as compared to 9,500 RGUs that we lost on an organic basis during the six months ended June 30, 2013. The organic RGU growth during the six months ended June 30, 2014 is attributable to the growth of our broadband internet services and fixed-line telephony services, which added 34,500 and 3,000 RGUs, respectively. The growth of our broadband internet and fixed-line telephony services was partially offset by a decline in our digital cable services of 19,600 RGUs.

We added 42,800 mobile subscribers during the three months ended June 30, 2014, as compared to 29,800 mobile subscribers during the three months ended June 30, 2013. The organic growth during the three months ended June 30, 2014 is attributable to the net impact of growth in our postpaid mobile services, which added 62,600 subscribers, and a decline of our prepaid mobile services of 19,800 subscribers.

We added 51,100 mobile subscribers during the six months ended June 30, 2014, as compared to a loss of 10,900 mobile subscribers during the six months ended June 30, 2013. The organic growth during the six months ended June 30, 2014 is attributable to the net impact of growth in our postpaid mobile services, which added 141,200 subscribers, and a decline of our prepaid mobile services of 90,100 subscribers.

LG/VM Transaction

Virgin Media became a wholly-owned subsidiary of Liberty Global as a result of the LG/VM Transaction, pursuant to which Liberty Global became the publicly-held parent company of the successors, by merger of Old Virgin Media and LGI.

As a result of Liberty Global's push-down of its investment basis in Virgin Media arising from the LG/VM Transaction, a new basis of accounting was created on June 7, 2013. In the following discussion, the results of operations and cash flows of Old Virgin Media for the periods ended on or prior to June 7, 2013 are referred to as "Predecessor" consolidated financial information and the results of operations and cash flows of Virgin Media for periods beginning on June 8, 2013 and the financial position of Virgin Media as of June 7, 2013 and subsequent balance sheet dates are referred to as "Successor" consolidated financial information.

The Predecessor and Successor consolidated financial information presented within the condensed consolidated financial statements and accompanying notes is not comparable primarily due to the fact that the Successor consolidated financial information reflects:

- the application of acquisition accounting as of June 7, 2013 of which the most significant implications are (i) increased depreciation expense, (ii) increased amortization expense and (iii) increased share-based compensation expense;
- conforming accounting policy changes, primarily to align to Liberty Global's accounting policy for the recognition of installation fees received on B2B contracts, as further described in note 1 to our condensed consolidated financial statements; and
- additional interest expense associated with debt financing arrangements entered into in connection with the LG/VM Transaction and subsequently pushed down to our balance sheet.

Combined Results

In order to provide a more meaningful basis for comparing the results of operations for the three and six months ended June 30, 2014 to the corresponding prior year periods, we have presented financial information for the three and six months ended June 30, 2013 that reflects the combination of the results for the 2013 Predecessor and Successor periods. The combination of Predecessor and Successor periods is not permitted by U.S. GAAP and has not been prepared with a view towards complying with Article 11 of Regulation S-X (in millions):

Condensed Consolidated Statements of Operations	Three-month period					
	Successor		Predecessor	Combined	Change	
	Three months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from April 1 to June 7, 2013	Three months ended June 30, 2013	£	%
Revenue.....	£1,054.4	£ 259.0	£ 767.7	£ 1,026.7	£ 27.7	2.7
Operating costs and expenses:						
Operating (other than depreciation and amortization).....	453.4	112.6	355.6	468.2	(14.8)	(3.2)
SG&A.....	149.2	56.4	109.8	166.2	(17.0)	(10.2)
Depreciation and amortization.....	405.2	92.7	183.5	276.2	129.0	46.7
Impairment, restructuring and other operating items, net.....	7.2	5.4	44.0	49.4	(42.2)	N.M.
	<u>1,015.0</u>	<u>267.1</u>	<u>692.9</u>	<u>960.0</u>	<u>55.0</u>	<u>5.7</u>
Operating income (loss).....	39.4	(8.1)	74.8	66.7	(27.3)	(40.9)
Non-operating income (expense):						
Interest expense:						
Third-party.....	(115.7)	(32.1)	(67.1)	(99.2)	(16.5)	16.6
Related-party.....	—	(3.6)	—	(3.6)	3.6	N.M.
Interest income – related-party.....	56.7	10.7	—	10.7	46.0	N.M.
Realized and unrealized gains (losses) on derivative instruments, net.....	(70.5)	120.2	(51.8)	68.4	(138.9)	N.M.
Foreign currency transaction gains (losses), net.....	49.6	(23.2)	0.2	(23.0)	72.6	N.M.
Other income, net.....	0.1	1.0	0.2	1.2	(1.1)	N.M.
	<u>(79.8)</u>	<u>73.0</u>	<u>(118.5)</u>	<u>(45.5)</u>	<u>(34.3)</u>	<u>N.M.</u>
Earnings (loss) before income taxes.....	(40.4)	64.9	(43.7)	21.2	(61.6)	N.M.
Income tax benefit (expense).....	(0.5)	(6.5)	4.6	(1.9)	1.4	N.M.
Net earnings (loss).....	<u>£ (40.9)</u>	<u>£ 58.4</u>	<u>£ (39.1)</u>	<u>£ 19.3</u>	<u>£ (60.2)</u>	<u>N.M.</u>

N.M. — Not Meaningful.

Consolidated Statements of Operations	Six-month period					
	Successor		Predecessor	Combined	Change	
	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013	Six months ended June 30, 2013	£	%
Revenue.....	£ 2,098.2	£ 259.0	£ 1,810.2	£ 2,069.2	£ 29.0	1.4
Operating costs and expenses:						
Operating (other than depreciation and amortization).....	917.8	112.6	845.4	958.0	(40.2)	(4.2)
SG&A.....	295.5	56.4	256.1	312.5	(17.0)	(5.4)
Depreciation and amortization.....	814.1	92.7	432.8	525.5	288.6	54.9
Impairment, restructuring and other operating items, net.....	12.7	5.4	51.2	56.6	(43.9)	N.M.
	2,040.1	267.1	1,585.5	1,852.6	187.5	10.1
Operating income (loss).....	58.1	(8.1)	224.7	216.6	(158.5)	(73.2)
Non-operating income (expense):						
Interest expense:						
Third-party.....	(229.9)	(32.1)	(156.7)	(188.8)	(41.1)	21.8
Related-party.....	—	(3.6)	—	(3.6)	3.6	N.M.
Interest income – related-party.....	108.8	10.7	—	10.7	98.1	N.M.
Realized and unrealized gains (losses) on derivative instruments, net.....	(146.6)	120.2	51.8	172.0	(318.6)	N.M.
Foreign currency transaction gains (losses), net.....	69.6	(23.2)	(2.1)	(25.3)	94.9	N.M.
Other income, net.....	0.7	1.0	0.3	1.3	(0.6)	N.M.
	(197.4)	73.0	(106.7)	(33.7)	(163.7)	N.M.
Earnings (loss) before income taxes.....	(139.3)	64.9	118.0	182.9	(322.2)	N.M.
Income tax benefit (expense).....	14.6	(6.5)	(18.1)	(24.6)	39.2	N.M.
Net earnings (loss).....	£ (124.7)	£ 58.4	£ 99.9	£ 158.3	£ (283.0)	N.M.

N.M. — Not Meaningful.

Material Changes in Results of Operations

As noted under *Overview* above, the comparability of our operating results during 2014 and 2013 is affected by an acquisition. In the following discussion, we quantify the estimated impact of the acquisition on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, variances attributed to an acquired entity during the first twelve months following the acquisition date represent differences between the estimated acquisition impact and the actual results. This section provides an analysis of our results of operations for the three and six months ended June 30, 2014 and 2013.

Discussion and Analysis

Revenue

Revenue includes amounts received from residential subscribers for ongoing services as well as revenue earned from B2B services, interconnect fees and other categories of non-subscription revenue. We use the term “subscription revenue” in the following discussion to refer to amounts received from cable and mobile residential subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is

generally allocated proportionally to each service based on the standalone price for each individual service. In the following table, mobile subscription revenue excludes the related interconnect revenue.

Most of our revenue is subject to value-added 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 operating cash flow and operating cash flow margins to the extent of any such tax increases. For information regarding the impact of a recently announced change in legislation with respect to the charging of VAT on prompt payment discounts, see below.

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

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

Our revenue by major category is set forth below:

	Three months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2014	2013	£	%	%
	in millions				
Subscription revenue:					
Digital cable.....	£ 241.9	£ 245.9	£ (4.0)	(1.6)	(1.7)
Broadband internet	255.2	220.1	35.1	15.9	15.8
Fixed-line telephony	240.3	247.4	(7.1)	(2.9)	(3.0)
Cable subscription revenue (a).....	737.4	713.4	24.0	3.4	3.2
Mobile subscription revenue (b).....	119.0	106.2	12.8	12.1	12.1
Total subscription revenue.....	856.4	819.6	36.8	4.5	4.4
B2B revenue (c)	151.9	147.5	4.4	3.0	2.9
Other revenue (d)	46.1	59.6	(13.5)	(22.7)	(22.7)
Total revenue.....	<u>£1,054.4</u>	<u>£1,026.7</u>	<u>£ 27.7</u>	<u>2.7</u>	<u>2.6</u>

	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2014	2013	£	%	%
	in millions				
Subscription revenue:					
Digital cable.....	£ 483.2	£ 486.0	£ (2.8)	(0.6)	(0.7)
Broadband internet	496.4	433.8	62.6	14.4	14.4
Fixed-line telephony.....	484.8	495.6	(10.8)	(2.2)	(2.3)
Cable subscription revenue (a).....	1,464.4	1,415.4	49.0	3.5	3.4
Mobile subscription revenue (b).....	233.1	214.8	18.3	8.5	8.5
Total subscription revenue.....	1,697.5	1,630.2	67.3	4.1	4.1
B2B revenue (c).....	303.7	310.9	(7.2)	(2.3)	(2.4)
Other revenue (d).....	97.0	128.1	(31.1)	(24.3)	(24.3)
Total revenue.....	£2,098.2	£2,069.2	£ 29.0	1.4	1.3

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, mobile services revenue and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes £20.2 million during each of the three months ended June 30, 2014 and 2013 and £40.3 million and £44.1 million during the six months ended June 30, 2014 and 2013, respectively, of mobile interconnect revenue. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) B2B revenue includes revenue from business broadband internet, voice, wireless and data services offered to medium to large enterprises and, on a wholesale basis, to other operators.
- (d) Other revenue includes, among other items, interconnect revenue, revenue from non-cable services and revenue from late fees.

The details of our revenue increases during the three and six months ended June 30, 2014, as compared to the corresponding periods in 2013, are as follows:

	Three-month period		Six-month period	
	in millions			
Increase in cable subscription revenue due to change in:				
Average number of RGUs (a).....	£	2.0	£	3.3
Average monthly subscription revenue per RGU (ARPU) (b).....		21.1		44.6
Total increase in cable subscription revenue.....		23.1		47.9
Increase in mobile subscription revenue (c).....		12.8		18.3
Total increase in subscription revenue.....		35.9		66.2
Increase (decrease) in B2B revenue.....		4.3		(7.3)
Decrease in other revenue (d).....		(13.5)		(31.2)
Total organic increase.....		26.7		27.7
Impact of acquisition.....		1.0		1.3
Total.....	£	27.7	£	29.0

- (a) The increases in our cable subscription revenue related to changes in the average numbers of RGUs are attributable to increases in the average numbers of broadband internet RGUs that were only partially offset by declines in the average numbers of digital cable and fixed-line telephony RGUs.
- (b) The increases in our cable subscription revenue related to changes in ARPU are primarily due to net increases resulting from the following factors: (i) higher ARPU due to February 2014, and during the six-month period, February 2013 price increases for broadband internet, digital cable and fixed-line telephony services and an October 2013 price increase for certain broadband internet services, (ii) lower ARPU due to the impact of higher discounts, (iii) lower ARPU due to lower fixed-line telephony call volumes and (iv) higher ARPU due to increased penetration of our advanced or “TiVo” set-top boxes.
- (c) The increases in mobile subscription revenue are primarily due to the net effect of (i) increases in the numbers of customers taking postpaid mobile services, (ii) declines in the numbers of prepaid mobile customers, (iii) a July 2013 price increase, (iv) reductions in chargeable usage as subscribers moved to higher-limit and unlimited usage bundles and (v) decreases due to higher proportions of our postpaid customers taking lower-priced subscriber identification module or “SIM”-only contracts. In addition, the growth in mobile subscription revenue was negatively impacted by certain nonrecurring net adjustments of £3.9 million and £1.2 million during the first and second quarters of 2013, respectively.
- (d) The decreases in other revenue are primarily attributable to decreases in (i) interconnect revenue due to reductions in mobile termination rates in April 2013 and fixed-line termination rates in February 2014, (ii) our non-cable subscriber base and (iii) mobile handset sales.

On March 19, 2014, the U.K. government announced a change in legislation with respect to the charging of VAT in connection with prompt payment discounts such as those that we offer to our fixed-line telephony customers. The change took effect on May 1, 2014 and will have effects on us and some of our competitors. We currently believe that this legislative change will result in a reduction in revenue and operating income of approximately £28 million to £30 million from the effective date of May 1, 2014 through the end of 2014. As a result of this legislation, our revenue was £7.3 million lower during the second quarter of 2014 as compared to the corresponding prior year period.

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

	Three months ended		Increase (decrease)		Organic
	June 30,				increase
	2014	2013	£	%	(decrease)
	in millions				
Data (a).....	£ 108.4	£ 96.3	£ 12.1	12.6	12.5
Voice (b).....	32.6	37.4	(4.8)	(12.8)	(12.8)
Other (c).....	10.9	13.8	(2.9)	(21.0)	(21.0)
Total B2B revenue.....	£ 151.9	£ 147.5	£ 4.4	3.0	2.9
	in millions				
	Six months ended		Increase (decrease)		Organic
	June 30,				increase
	2014	2013	£	%	(decrease)
	in millions				
Data (a).....	£ 213.7	£ 197.5	£ 16.2	8.2	8.1
Voice (b).....	67.2	76.5	(9.3)	(12.2)	(12.2)
Other (c).....	22.8	36.9	(14.1)	(38.2)	(38.2)
Total B2B revenue.....	£ 303.7	£ 310.9	£ (7.2)	(2.3)	(2.4)

- (a) The increases in data revenue during the 2014 periods are primarily attributable to increased volumes and increases in the amortization of deferred upfront fees on B2B contracts that are primarily attributable to the application during the Successor periods of Liberty Global’s accounting policy with respect to these fees. During the Predecessor periods, we generally

treated upfront fees received from B2B customers as a separate deliverable and recognized revenue upon completion of the upfront installation activity in an amount that was based on the relative standalone selling price methodology. Our current accounting policy is generally to defer upfront and nonrecurring fees on B2B contracts where we maintain ownership of the installed equipment and recognize the associated revenue on a straight line basis over the life of the underlying service contract as a component of our data and voice B2B revenue, as applicable. Accordingly, no portion of any upfront or nonrecurring B2B fees are included in the other B2B revenue category following the adoption of Liberty Global's accounting policy. For additional information, see note 1 to our condensed consolidated financial statements.

- (b) The decreases in voice revenue are primarily attributable to the net effect of (i) lower termination rates, (ii) declines in usage and (iii) increased volume, on a wholesale basis, from other operators.
- (c) Other revenue includes (i) equipment sales and (ii) during the Predecessor periods, certain upfront, contract termination and modification fees. As discussed in (a) above, the decreases in upfront fees of £6.6 million and £16.2 million, respectively, are attributable to the application of Liberty Global's accounting policy during the Successor periods.

Operating expenses

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

Our total operating expenses decreased £14.8 million or 3.2% and £40.2 million or 4.2% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013. These decreases are net of £0.3 million and £0.8 million, respectively, attributable to the impact of an acquisition. Excluding the effect of this acquisition, operating expenses decreased £15.1 million or 3.2% and £41.0 million or 4.3%, respectively. These decreases include the following factors:

- Decreases in interconnect and access costs of £6.3 million or 6.8% and £18.8 million or 10.1%, respectively, due primarily to the net effect of (i) decreased costs due to lower call volume, (ii) lower rates, (iii) lower costs of £4.3 million during the six-month period relating to the amortization of an acquisition accounting adjustment to reflect an unfavorable capacity arrangement at fair value in connection with the LG/VM Transaction and (iv) higher costs of £2.0 million associated with the release of an accrual associated with the settlement of operational contingencies during the second quarter of 2013;
- Decreases in personnel costs of £9.0 million or 14.6% and £18.3 million or 15.0%, respectively, due primarily to the net effect of (i) decreased staffing levels, primarily as a result of integration and reorganization activities, (ii) higher incentive compensation costs, (iii) decreased costs in the 2014 periods related to functions performed on behalf of and therefore recharged to other subsidiaries of Liberty Global, (iv) annual wage increases and (v) decreased costs due to a net increase in capitalizable costs, as increases in capitalizable costs associated with the adoption of Liberty Global's accounting policies during the Successor periods more than offset decreases in the level of other capitalizable activities;
- Increases in programming and related costs of £5.8 million or 4.4% and £12.1 million or 4.5%, respectively, due primarily to the net effect of (i) increased costs for sports rights, (ii) lower costs arising from the cancellation and renegotiation of certain programming agreements, (iii) a £6.9 million nonrecurring reduction of programming costs that resulted from the favorable resolution of an operational contingency during the second quarter of 2014 and (iv) increased costs due to higher rates for certain basic and premium services;
- Decreases in outsourced labor and professional fees of £1.8 million or 7.7% and £4.9 million or 10.4%, respectively, due primarily to lower call center costs;
- An increase (decrease) in equipment costs of £1.9 million or 6.3% and (£4.7 million) or (6.4%), respectively, due primarily to the net effect of (i) decreased mobile handset costs as a result of continued growth of SIM-only contracts, (ii) increased costs associated with higher value handsets and (iii) decreased mobile handset sales to third-party retailers;
- Increases in information technology related expenses of £0.8 million and £2.9 million, respectively, due primarily to increased costs from contract renewals and additional support requirements;

- An increase (decrease) in other direct costs of £0.6 million or 1.5% and (£2.4 million) or (2.7%), respectively, due primarily to the net effect of (i) lower DSL usage as a result of a decline in our non-cable operations and (ii) net increases resulting from other individually insignificant changes;
- An increase in network-related expenses of £1.9 million or 1.9% during the six-month period, due largely to an increase in power costs. The three-month period was relatively unchanged from the prior-year period; and
- Net decreases resulting from individually insignificant changes in other operating expense categories.

SG&A expenses

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

Our total SG&A expenses (exclusive of share-based compensation) increased £10.6 million or 8.1% and £9.4 million or 3.5% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013. These increases include £0.2 million and £0.4 million, respectively, attributable to the impact of an acquisition. Excluding the effect of this acquisition, SG&A expenses increased £10.4 million or 7.9% and £9.0 million or 3.3%, respectively. These increases include the following factors:

- Increases in outsourced labor and professional fees of £1.1 million and £3.7 million, respectively, due primarily to increased legal and consulting costs;
- An increase (decrease) in staff-related costs of £1.5 million or 2.7% and (£2.5 million) or (2.3%), respectively, due primarily to the net effect of (i) higher incentive compensation costs, (ii) net decreases in defined benefit and contribution plan costs, (iii) decreases in employee severance costs that are not classified as restructuring expenses, (iv) decreased staffing levels as a result of integration and reorganization activities and (v) annual wage increases;
- An increase (decrease) in marketing and advertising costs of £3.2 million or 6.1% and (£0.2 million) or 0.2%, respectively, due primarily to the net effect of (i) higher costs associated with advertising campaigns in the second quarter, (ii) lower third-party sales commissions and (iii) lower costs from other individually insignificant changes; and
- Net increases resulting from individually insignificant changes in other SG&A expense categories.

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

Our share-based compensation expense after the LG/VM Transaction primarily represents amounts allocated to our company by Liberty Global. The amounts allocated by Liberty Global to our company represent share-based compensation associated with the Liberty Global share-based incentive awards held by certain employees of our subsidiaries. Share-based compensation expense allocated to our company by Liberty Global is reflected as an increase to shareholder's equity and is offset by any amounts recharged to us by Liberty Global, as further described in note 9 to our condensed consolidated financial statements. Share-based compensation expense prior to the LG/VM Transaction includes amounts for options, shares and performance shares related to the common stock of Old Virgin Media. A summary of the share-based compensation expense that is included in our SG&A expenses is set forth below:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	in millions			
Performance-based incentive awards (a).....	£ 1.5	£ 5.1	£ 2.8	£ 10.2
Other share-based incentive awards	5.7	29.7	16.1	35.1
Total (b)	<u>£ 7.2</u>	<u>£ 34.8</u>	<u>£ 18.9</u>	<u>£ 45.3</u>

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- (a) Includes share-based compensation expense related to Liberty Global PSUs and the Challenge Performance Awards, which were issued on June 24, 2013.
- (b) In connection with the LG/VM Transaction, Liberty Global issued Virgin Media Replacement Awards to employees and former directors of our company in exchange for corresponding Old Virgin Media awards. During the post-acquisition period ended June 30, 2013, £18.3 million of the June 7, 2013 estimated fair value of the Virgin Media Replacement Awards was charged to expense in recognition of the Virgin Media Replacement Awards that were fully vested on June 7, 2013 or for which vesting was accelerated pursuant to the terms of the LG/VM Transaction Agreement on or prior to June 30, 2013.

For additional information concerning our share-based compensation, see note 8 to our condensed consolidated financial statements.

Depreciation and amortization expense

Our depreciation and amortization expense increased £129.0 million or 46.7% and £288.6 million or 54.9% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013, due primarily to the net impacts of (i) higher cost bases of our intangible assets and property and equipment as a result of the push-down of acquisition accounting in connection with the LG/VM Transaction, (ii) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives and (iii) decreases associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of £7.2 million and £49.4 million during the three months ended June 30, 2014 and 2013, respectively, and £12.7 million and £56.6 million during the six months ended June 30, 2014 and 2013, respectively. The 2014 amounts include severance and other costs of £8.9 million and £13.2 million, respectively, substantially all of which were recorded in connection with certain organizational and staffing changes that we implemented in connection with our ongoing integration with Liberty Global. The 2013 amounts include direct acquisition costs incurred in connection with the LG/VM Transaction of £46.0 million and £53.8 million, respectively, and severance and other costs of £5.4 million and £5.8 million, respectively, substantially all of which were recorded in connection with certain organizational and staffing changes that we implemented in connection with our ongoing integration with Liberty Global. We expect to incur additional restructuring costs during the remainder of 2014 as the integration process with Liberty Global continues.

Interest expense – third-party

Our interest expense increased £16.5 million or 16.6% and £41.1 million or 21.8% during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013, due primarily to the net effect of (i) higher average outstanding debt balances and (ii) lower weighted average interest rates. The decreases in our weighted average interest rates are primarily related to the completion of certain financing transactions that resulted in extended maturities and net decreases to certain of our interest rates.

For additional information regarding our outstanding indebtedness, see note 6 to our condensed consolidated financial statements.

Interest expense – related-party

Our related-party interest expense decreased £3.6 million during each of the three and six months ended June 30, 2014, as compared to the corresponding periods in 2013, due to interest expense incurred during 2013 on a related-party note payable to LGI that we entered into in connection with the LG/VM Transaction. For additional information regarding our related-party indebtedness, see note 9 to our condensed consolidated financial statements.

Interest income – related-party

Our related-party interest income increased £46.0 million and £98.1 million during the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods in 2013, primarily due to interest income earned on related-party notes receivable from Lynx Europe 2 that we entered into following the LG/VM Transaction. For additional information, see note 9 to our condensed consolidated financial statements.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	in millions			
Cross-currency and interest rate derivative contracts (a)	£ (69.9)	£ 73.1	£ (147.3)	£ 77.1
Equity-related derivative instruments (b).....	(3.3)	(0.4)	0.8	96.9
Foreign currency forward contracts.....	2.7	(4.3)	(0.1)	(2.0)
Total.....	£ (70.5)	£ 68.4	£ (146.6)	£ 172.0

- (a) The loss during the 2014 three-month period is primarily attributable to the net effect of (i) losses associated with an increase in the value of the pound sterling relative to the U.S. dollar, (ii) gains associated with increases in market interest rates in the pound sterling market and (iii) gains associated with decreases in market interest rates in the U.S. dollar market. The loss during the 2014 six-month period is primarily attributable to the net effect of (a) losses associated with an increase in the value of the pound sterling relative to the U.S. dollar, (b) gains associated with decreases in market interest rates in the U.S. dollar market and (c) gains associated with increases in market interest rates in the pound sterling market. In addition, the losses during the three and six months ended June 30, 2014 include net losses of £3.8 million and £5.2 million, respectively, resulting from changes in our credit risk valuation adjustments. The gains during the three and six months ended June 30, 2013 is primarily attributable to the net effect of (1) gains associated with increases in market interest rates in the pound sterling market and (2) losses associated with increases in market interest rates in the U.S. dollar market. In addition, the gains during the three and six months ended June 30, 2013 include net losses of £0.5 million and £17.0 million, respectively, resulting from changes in our credit risk valuation adjustments.
- (b) These amounts represent activity related to the Virgin Media Capped Calls and, during the Successor periods, the derivative embedded in the VM Convertible Notes. The fair values of our equity-related derivative instruments are primarily impacted by the trading prices of the underlying security.

For additional information concerning our derivative instruments, see notes 3 and 4 to our condensed consolidated financial statements.

Foreign currency transaction gains (losses), net

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	in millions			
U.S. dollar denominated debt issued by our company	£ 54.8	£ (53.9)	£ 71.9	£ (54.2)
Related-party payables and receivables denominated in a currency other than the entity's functional currency.....	(4.4)	26.0	(3.0)	26.0
Cash and restricted cash denominated in a currency other than the entity's functional currency	(1.3)	5.3	0.7	6.0
Other	0.5	(0.4)	—	(3.1)
Total	<u>£ 49.6</u>	<u>£ (23.0)</u>	<u>£ 69.6</u>	<u>£ (25.3)</u>

Income tax expense

We recognized income tax expense of £0.5 million and £1.9 million during the three months ended June 30, 2014 and 2013, respectively.

The income tax expense during the three months ended June 30, 2014 differs from the expected income tax benefit of £14.2 million (based on the U.S. statutory income tax rate of 35.0%) due primarily to the negative impact of a net increase in valuation allowances.

The income tax expense during the three months ended June 30, 2013 differs from the expected income tax expense of £7.4 million (based on the U.S. federal income tax rate of 35.0%) due primarily to the positive impact of 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 this item was partially offset by the negative impact of a net increase in valuation allowances.

We recognized income tax benefit of £14.6 million and income tax expense of £24.6 million during the six months ended June 30, 2014 and 2013, respectively.

The income tax benefit during the six months ended June 30, 2014 differs from the expected income tax benefit of £48.8 million (based on the U.S. statutory income tax rate of 35.0%) due primarily to the negative impacts of (i) a net increase in valuation allowances and (ii) certain permanent differences between the financial and tax accounting treatment of items associated with investments in subsidiaries.

The income tax expense during the six months ended June 30, 2013 differs from the expected income tax expense of £64.0 million (based on the U.S. federal income tax rate of 35.0%) due primarily to the positive impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest and other items 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 impacts of these items were partially offset by the negative impact of a net increase in valuation allowances.

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

Net earnings (loss)

During the three months ended June 30, 2014 and 2013, we reported net earnings (loss) of (£40.9 million) and £19.3 million, respectively, including (i) operating income of £39.4 million and £66.7 million, respectively, (ii) non-operating expense of £79.8 million and £45.5 million, respectively, and (iii) income tax expense of £0.5 million and £1.9 million, respectively.

During the six months ended June 30, 2014 and 2013, we reported net earnings (loss) of (£124.7 million) and £158.3 million, respectively, including (i) operating income of £58.1 million and £216.6 million, respectively, (ii) non-operating expense of £197.4 million and £33.7 million, respectively, and (iii) income tax benefit (expense) of £14.6 million and (£24.6 million), respectively.

Gains or losses associated with items such as (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 reliable sources 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 from continuing operations is largely dependent on our ability to increase our aggregate operating cash flow to a level that more than offsets the aggregate amount of our (a) share-based compensation expense, (b) depreciation and amortization, (c) impairment, restructuring and other operating items, net, (d) interest expense, (e) other net non-operating expenses and (f) income tax expenses. Operating cash flow is defined as revenue less operating and SG&A expenses (excluding share-based compensation, depreciation and amortization and impairment, restructuring and other operating items).

Due largely to the fact that Liberty Global generally seeks to cause our company to maintain our debt at levels that result in a consolidated debt balance that is between four and five times our consolidated operating cash flow, as discussed under *Material Changes in Financial Condition — Capitalization* below, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information with respect to certain trends that may affect our operating results in future periods, see the discussion under *Overview* above. For information concerning the reasons for changes in specific line items in our condensed consolidated statements of operations, see the above discussion.

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

At June 30, 2014, we had cash and cash equivalents of £117.4 million, of which £42.7 million was held by our subsidiaries. The terms of the instruments governing the indebtedness of certain of these subsidiaries may restrict our ability to access the assets of these subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal considerations and other factors.

Liquidity of Virgin Media

Our sources of liquidity at the parent level include (i) our cash and cash equivalents, (ii) funding from Lynx Europe 2 (and ultimately from Liberty Global or other Liberty Global subsidiaries) in the form of loans or contributions, as applicable, and (iii) subject to the restrictions noted above, proceeds in the form of distributions or loans from our subsidiaries. For information regarding limitations imposed by our subsidiaries' debt instruments, see note 6 to our condensed consolidated financial statements.

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

Liquidity of our Subsidiaries

In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and, in the case of VMIH, any borrowing availability under the VM Credit Facility. For details of the borrowing availability of the VM Credit Facility, see note 6 to our condensed consolidated financial statements.

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

Capitalization

Liberty Global seeks to maintain its debt at levels that provide for attractive equity returns without assuming undue risk. In this regard, Liberty Global generally seeks to cause our company to maintain our debt at levels that result in a consolidated debt balance (measured using debt figures at swapped foreign currency exchange rates, consistent with the covenant calculation requirements of our debt agreements) that is between four and five times our consolidated operating cash flow, although it should be noted that the timing of financing transactions may temporarily cause this ratio to exceed the targeted range.

As further discussed in note 3 to our condensed consolidated financial statements, we use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

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

At June 30, 2014, our outstanding consolidated debt and capital lease obligations aggregated £8,221.8 million, including £172.0 million that is classified as current in our condensed consolidated balance sheet and £7,963.0 million that is not due until 2019 or thereafter.

Notwithstanding our negative working capital position at June 30, 2014, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

With the exception of the VM Convertible Notes, all of our consolidated debt and capital lease obligations at June 30, 2014 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and capital lease obligations, see note 6 to our condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 are summarized as follows (in millions):

	Successor		Predecessor	Combined		Change
	Six months ended June 30, 2014	Period from June 8 to June 30, 2013	Period from January 1 to June 7, 2013	Six months ended June 30, 2013		
Net cash provided (used) by operating activities	£ 798.0	£ (50.0)	£ 588.1	£ 538.1	£ 259.9	
Net cash used by investing activities	(804.9)	(2,328.9)	(309.3)	(2,638.2)	1,833.3	
Net cash provided (used) by financing activities	(216.5)	2,100.9	(38.9)	2,062.0	(2,278.5)	
Effect of exchange rate changes on cash	(2.2)	(3.0)	0.9	(2.1)	(0.1)	
Net increase (decrease) in cash and cash equivalents	£ (225.6)	£ (281.0)	£ 240.8	£ (40.2)	£ (185.4)	

Operating Activities. The increase in net cash provided by our operating activities is primarily attributable to an increase in the cash provided by our operating cash flow and related working capital items offset by a decrease in cash provided due to higher net cash payments for interest.

Investing Activities. The decrease in net cash used by our investing activities is primarily attributable to (i) a decrease in cash used to fund loans to subsidiaries of Liberty Global of £1,806.3 million and (ii) a decrease in cash used due to lower capital expenditures of £37.8 million.

The capital expenditures that we report in our consolidated statements of cash flows do not include amounts that are financed under vendor financing or capital lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In the following discussion, we refer to (i) our capital expenditures as reported in our consolidated statements of cash flows, which exclude amounts financed under vendor financing or capital lease arrangements, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under vendor financing or capital lease arrangements. A reconciliation of our consolidated property and equipment additions to our consolidated capital expenditures as reported in the condensed consolidated statements of cash flows is set forth below:

	Six months ended June 30,	
	2014	2013
in millions		
Property and equipment additions	£ 419.3	£ 448.4
Assets acquired under capital leases	(27.6)	(60.3)
Assets acquired under capital-related vendor financing arrangements	(61.4)	—
Changes in liabilities related to capital expenditures	(16.4)	(36.4)
Capital expenditures	£ 313.9	£ 351.7

The decrease in our property and equipment additions is primarily due to a decrease in expenditures for the purchase and installation of customer premises equipment and scalable infrastructure.

Financing Activities. The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) a decrease in cash due to the release of restricted cash in connection with the LG/VM Transaction of £2,313.6 million during the 2013 period, (ii) a decrease in cash from a capital contribution of £2,290.6 million during the 2013 period, (iii) an

increase in cash of £1,877.9 million related to lower net repayments of third-party debt and capital lease obligations and (iv) an increase in cash related to lower net repayments of related-party debt of £467.5 million.

Off Balance Sheet Arrangements

In the ordinary course of business, we may provide indemnifications to our lenders, our vendors and certain other parties and performance and/or financial guarantees to local municipalities, our customers and vendors. 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.

Contractual Commitments

The pound sterling equivalents of our contractual commitments as of June 30, 2014 are presented below:

	Remainder of 2014	Payments due during:						Total
		Year ending December 31,						
		2015	2016	2017	2018	2019	Thereafter	
		in millions						
Debt (excluding interest).....	£ 41.1	£ 46.0	£ —	£ —	£ —	£ 925.0	£ 6,942.7	£ 7,954.8
Capital leases (excluding interest).....	44.5	68.8	39.9	15.7	1.5	0.1	34.5	205.0
Programming commitments	232.2	361.4	336.3	297.4	294.4	143.1	1.0	1,665.8
Network and connectivity commitments	50.5	98.0	78.9	76.6	18.9	0.7	4.6	328.2
Purchase commitments	262.7	29.8	—	—	—	—	—	292.5
Operating leases	18.3	31.4	26.3	20.1	14.4	10.7	43.9	165.1
Other commitments.....	51.2	74.0	38.9	28.2	10.9	—	—	203.2
Total (a).....	<u>£ 700.5</u>	<u>£ 709.4</u>	<u>£ 520.3</u>	<u>£ 438.0</u>	<u>£ 340.1</u>	<u>£ 1,079.6</u>	<u>£ 7,026.7</u>	<u>£10,814.6</u>
Projected cash interest payments on debt and capital lease obligations (b)	<u>£ 182.2</u>	<u>£ 448.5</u>	<u>£ 427.3</u>	<u>£ 423.9</u>	<u>£ 423.5</u>	<u>£ 411.2</u>	<u>£ 1,015.3</u>	<u>£ 3,331.9</u>

(a) The commitments reflected in this table do not reflect any liabilities that are included in our June 30, 2014 condensed consolidated balance sheet other than debt and capital lease obligations.

(b) Amounts are based on interest rates, interest payment dates and contractual maturities in effect as of June 30, 2014. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs, discounts or premiums, all of which affect our overall cost of borrowing.

Programming commitments consist of obligations associated with certain of our programming and sports rights contracts that are enforceable and legally binding on us in that we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems or (iii) whether we discontinue our premium film or sports services. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments. 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. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the six months ended June 30, 2014 and 2013, the programming costs incurred aggregated £279.1 million and £265.7 million, respectively. The ultimate amount payable in excess of the contractual minimums of our content contracts is dependent upon the number of subscribers to our service.

Network and connectivity commitments include, among other items, only the fixed minimum commitments associated with our MVNO agreement. As such, the commitments shown in the above table may be significantly less than the actual amounts we ultimately pay in these periods.

Purchase commitments include unconditional purchase obligations associated with commitments to purchase customer premises and other equipment that are enforceable and legally binding on us.

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 concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the six months ended June 30, 2014 and 2013, see note 3 to our condensed consolidated financial statements.