Virgin Media O2 Reports Preliminary Q2 2021 Results

- Supercharging convergence growth with the launch of Virgin Media O2
- Strong Q2 adds and pro forma transaction adjusted EBITDA +6% YoY
- Merger synergies have been validated and the integration is underway
- Solid capital structure supported by our first ever Green Bond issue

VMED O2 UK Limited **(Virgin Media O2)** is an integrated communications provider in the U.K., delivering connectivity and entertainment services to 5.7 million fixed-line customers and to 41.0 million retail and wholesale mobile connections as of 30 June 2021. In addition, it provides business communication products and services to small, medium and large enterprise and public sector customers as well as wholesale services to other operators and partners. Formed on 1 June 2021, Virgin Media O2 is a 50:50 joint venture between Liberty Global plc (**Liberty Global**) and Telefónica, SA (**Telefónica**). This release includes the actual IFRS results for Virgin Media O2 from launch, as well as pro forma[1] results for the company as though the joint venture was created on 1 January 2020. The commentary in this release is based on a discussion of pro forma results.

Lutz Schüler, CEO of Virgin Media O2, commented:
"Virgin Media O2 is off to a flying start. We've maintained the strong momentum of recent quarters and are one of the largest and fastest growing converged providers. Our mission is to upgrade the UK, and we are doing exactly that. Today we've announced a major new fibre upgrade programme which will see us begin the next evolution of our network, building on the investment, firepower and leadership we already have and ensuring we're fibre fit for the future. In 60 days, we have achieved a lot, but this is just the beginning. With strong foundations for growth in place, we will boost connectivity, provide greater choice and be a challenger the country can count on."

Operating and financial highlights:

Launched Virgin Media O2, the leading converged challenger in the UK market

- Over 40% of the company's broadband customers take contract mobile today
- The combination of market-leading brands and a strong commitment to customer loyalty, puts the new business in a great position

Reimagining connectivity with a fibre upgrade of existing network to bolster long-term network strategy and maintain its speed leadership position

- Starting this year, Virgin Media O2 has announced its intention to upgrade its fixed network to full fibre to the premises (FTTP) with completion in 2028. The upgrade plan will cover the vast majority of the operator's network, taking into account its existing 1.2 million FTTP homes
- This will be one of the UK's most efficient fibre rollouts, costing ~£100 per premises passed by utilising the company's fully ducted network. This compares to approximately £60 per premise for upgrade to a full DOCSIS 4 cable network
    - Customer installation costs will be in addition to this, with installs operated on an on-demand basis as rollout and revenue enhancement opportunities commence.
- Total upgrade costs over the estimated 7-year life of the project will represent a modest annual increase to Virgin Media O2's current capital expenditure budget of approximately £2 billion per year. While an incremental rise in network costs during the upgrade is expected, these will fall once

completed due to FTTP networks being more economical in terms of energy use, capacity requirements and maintenance

- The value accretive decision, backed by Virgin Media O2's shareholders, has been taken following recent deployment trials, a thorough analysis of alternative network scenarios and the potential opportunity to enter the fixed wholesale market. The investment will also fuel future connectivity innovation for consumers and businesses
- In the meantime, the company remains on-track to complete its gigabit upgrade by the end of 2021 and will continue to maintain and develop its DOCSIS 3.1 cable network and utilise the network's multigigabit capability to deliver speeds above 2Gbps in the future
- Virgin Media O2 will also continue to expand its fibre footprint through Project Lightning and continues to explore further expansion opportunities

Strong Q2 operating momentum with rising demand for fast, reliable connectivity

- In mobile, Virgin Media O2 delivered contract mobile net adds of 64,800 and market-leading customer loyalty with monthly contract churn at 0.9%
  - Total mobile connections of 984,200 were added in Q2 reversing the prior year declines due to strong growth in IoT and prepaid connections as lockdown restrictions eased
- In fixed, Virgin Media O2 continued to deliver strong results in both consumer and B2B
  - The company delivered a 22,200 fixed-line customer gain, broadly stable YoY, with a fifth consecutive quarter of growth
  - Q2 broadband net adds were 8% higher YoY at 35,700, up from 33,200 in Q2 2020, reflecting the continued demand for faster broadband speeds
    - The average speed across the UK broadband base was 195 Mbps at the end of Q2, more than 2.5x the national average
  - Our small office and home office (SoHo) customer base increased 32% YoY in Q2

Solid financial foundations with increased profitability and margin growth

- Pro forma total transaction adjusted revenue was broadly stable YoY and increased 1.5% sequentially to £2,549.1 million due to higher revenue in Mobile, Fixed and Other revenue
  - Pro forma transaction adjusted fixed revenue increased 3.2% YoY to £1,037.2 million partially supported by the company lapping Q2 2020 COVID-19 impacts
    - Fixed consumer revenue was supported by a 2.4% YoY increase in fixed-line customers partially offset by a 0.8% YoY decline in transaction adjusted fixed-line customer ARPU
    - Growth in fixed B2B revenue was driven by the installation of Public Sector contract wins for local full fibre networks and Wholesale wins for high-capacity data services
  - Pro forma transaction adjusted mobile revenue declined 3.1% YoY to £1,396.3 million, primarily due to a reduction in handset sales compared to a strong Q2 2020 which benefited from changes in the distribution channel mix
  - Pro forma transaction adjusted other revenue increased 10.0% to £115.6 million due to growth in B2B revenue underpinned by growth in the smart metering programme
- Q2 pro forma transaction adjusted EBITDA of £934.5 million increased 6.2% YoY excluding £11.4 million of opex cost to capture "CTC"
  - Pro forma transaction adjusted EBITDA margin increased 220 basis points YoY to 36.7%

    - This performance was primarily due to the mobile distribution strategy and the temporary suppression of certain costs due to continued COVID impacts
- Delivered pro forma transaction adjusted OFCF of £169.3 million in Q2, excluding £22.5 million of opex and capex CTC
    - This reflected the aforementioned growth in pro forma transaction adjusted EBITDA and the following increases in capital expenditure in Q2
        - A 12.6% YoY increase in pro forma P&E additions to £463.4 million as the company continued to invest in its fixed and mobile infrastructure
        - ROU asset additions increased significantly YoY to £301.8 million in Q2, due to the nonrecurring impact of £289.9 million related to a new agreement signed with Cornerstone earlier this year. Excluding this impact pro forma transaction adjusted OFCF would have been higher than in Q2 2020

Network investment continues at pace to expand our footprint and boost connectivity

- Project Lightning network expansion saw 89,000 new premises added in Q2 and 167,000 in H1, taking the company's cumulative Lightning build in the UK to 2.5 million
    - Lightning build costs continued to trend down with Q2 periodic cost per premise (CPP) of £576, down from £619 in Q2 2020, as use of Openreach passive infrastructure has increased; cumulative Lightning CPP has also trended down and is now at £660
- Virgin Media O2 is the largest gigabit speed provider in the U.K. now reaching 7.2 million homes, equivalent to 47% of its footprint
- 5G services are now available in almost 200 towns and cities. The company also boosted 4G capacity in 45,000 postcodes and upgraded cell sites across coastal and tourist hotspots ahead of the holiday season
- Virgin Media O2 benefits from a leading position in low-band spectrum which is best for coverage and indoor penetration

Business integration is underway and set drive increased free cash flow generation

- The company has validated and reaffirmed its annual synergy target of £540 million by mid-2026
- The senior leadership team is in place with clear accountability and focus on key strategic activities
- Cross-selling activity with business customers has commenced and exciting joint fixed/mobile propositions for consumers are in development

Committed to being a purpose-led company to drive positive change

- In June, Virgin Media O2 launched its first ever Green Bond to fund investments which will help close the digital divide and build a cleaner, greener economy in line with our commitment to be a net-zero carbon business by the end of 2025
- Following on from the introduction of the Essential Broadband tariff last year, Virgin Media O2 has joined up with the Good Things Foundation to launch the first ever National Databank to help tackle digital exclusion and provide mobile data to those in need. The company will contribute £12.5 million worth of connectivity and is calling on other UK mobile operators to join this effort
    - This builds on Virgin Media O2's support for communities through its "Together Fund", which launched on 1 June and gave 400 local charities grants of £1,000 aligning with the nation's first ever Thank You Day on 4 July

Strong capital structure to support business growth

- At 30 June 2021, Virgin Media O2's fully-swapped third-party debt borrowing cost was 4.2% and the average tenor of third-party debt (excluding vendor financing) was 7.4 years
- In June, the company issued its first Green Bond comprising $850 million 4.75% Senior Secured Notes due 2031 and £675 million 4.5% Senior Secured Notes due 2031. The proceeds were used to redeem £1,124 million Term Loan P and partial redemption of the 5.5% Senior Secured Notes due 2026 in July. The 2031 Green Bonds were subsequently tapped in July, and an additional $550 million was issued and used to repay the remaining 5.5% Senior Secured Notes due 2026
    - The net proceeds of the Green Bonds will be allocated to projects in accordance with the VMED O2 Green Bond Framework. The company will provide annual status updates until the proceeds have been fully allocated. It is expected that projects with energy efficiency benefits will make up a large majority of the eligible spend
- At 30 June 2021, and subject to the completion of the corresponding compliance reporting requirements, the ratios of Net Senior Debt and Net Total Debt to Annualised pro forma adjusted EBITDA (last two quarters annualised) were 3.26x and 3.61x, respectively, each as calculated in accordance with the most restrictive covenants, and reflecting the exclusion of the Credit Facility Excluded Amounts as defined in the respective credit agreements
    - Vendor financing obligations are not included in the calculation of the company's leverage covenants. If these obligations were included in the leverage ratio calculation, and Virgin Media O2 did not reflect the exclusion of the Credit Facility Excluded Amounts, the ratio of Total Net Debt to Annualised EBITDA would have been 4.41x at 30 June 2021
- At 30 June 2021, the company had maximum undrawn commitments of £1.0 billion equivalent. When compliance reporting requirements have been completed and assuming no change from June 30, 2021 borrowing levels, it is anticipated that the full borrowing capacity will available, based on the maximum the company can incur and upstream which is subject to a 4x net senior test

Operating Statistics Summary[(i)]

	As of and for the three months ended 30 June	
	2021	**2020**
Footprint		Pro forma
Homes Passed	15,476,400	15,072,600
Fixed-Line Customer Relationships		
Fixed-Line Customer Relationships	**5,677,100**	**5,546,000**
O/w Broadband Connections	5,494,100	5,318,400
Q2 Fixed-Line Customer Relationship net additions	**22,200**	**23,000**
O/w Broadband net additions	35,700	33,200
Q2 Monthly Transaction Adjusted ARPU per Fixed-Line Customer Relationship	£ 50.06	£ 50.45
Mobile		
Retail Connections	31,358,100	28,672,000
Mobile	24,063,800	23,096,200
Contract	15,701,300	15,323,400
Prepaid	8,362,500	7,772,800
IoT	7,294,300	5,575,800
Wholesale Connections	9,594,400	8,694,300
Total Mobile Connections	**40,952,500**	**37,366,300**
Retail net additions (losses)	740,200	(569,100)
Mobile net additions (losses)	228,200	(589,600)
Contract net additions	64,800	70,500
Prepaid net additions (losses)	163,400	(660,100)
IoT net additions	512,000	20,500
Wholesale net additions (losses)	244,000	(79,900)
Total Mobile net additions (losses)	**984,200**	**(649,000)**

(i) Operating statistics presented for 30 June 2021 show period end actuals for homes passed, customer relationships and connections, while net additions (losses) and ARPU are presented on a pro forma basis for the three-month period.

Financial Results, Transaction Adjusted EBITDA Reconciliation, Property and Equipment Additions

The following table reflects preliminary unaudited selected financial results for the one-month period post the formation of Virgin Media O2 and pro forma results for the three months and six months ended June 30, 2021 and 2020:

	Actual	Pro forma					
	Period June	Three months ended 30 June		Increase/	Six months ended 30 June		Increase/
	2021	2021	2020	(decrease)	2021	2020	(decrease)
		in £ millions, except % amounts					
Transaction Adjusted Revenue							
Mobile	467.9	1,396.3	1,441.5	(3.1%)	2,766.0	2,922.7	(5.4%)
Handset	115.6	352.4	377.7	(6.7%)	692.9	746.7	(7.2%)
Fixed	347.2	1,037.2	1004.6	3.2%	2,067.1	2,034.1	1.6%
Consumer Fixed	289.3	870.3	845.3	3.0%	1,728.3	1,720.0	0.5%
Subscription	282.4	850.8	836.9	1.7%	1,691.2	1,694.5	(0.2%)
Other	6.9	19.5	8.4	132.1%	37.1	25.4	46.1%
B2B Fixed	57.9	166.9	159.3	4.8%	338.8	314.2	7.8%
Other	40.9	115.6	105.1	10.0%	226.3	227.5	(0.5%)
Transaction Adjusted Revenue	**856.0**	**2,549.1**	**2,551.2**	**(0.1%)**	**5,059.4**	**5,184.3**	**(2.4%)**
Transaction adjustments[ii]	3.3	6.5	11.1	(41.4%)	11.7	23.9	(51.0%)
Total Revenue	**852.7**	**2,542.6**	**2,540.1**	**0.1%**	**5,047.7**	**5,160.4**	**(2.2%)**
Transaction Adjusted EBITDA							
Transaction Adjusted EBITDA	**310.9**	**934.5**	**880.2**	**6.2%**	**1,843.0**	**1,750.4**	**5.3%**
Transaction Adjusted EBITDA as a % of Revenue	36.5%	36.7%	34.5%		36.4%	33.8%	
Opex CTC	3.6	11.4	—		18.0	—	
Transaction Adjusted EBITDA including CTC	307.3	923.1	880.2	4.9%	1,825.0	1,750.4	4.3%
Transaction Adjusted Operating Free Cash Flow (OFCF)							
Transaction Adjusted EBITDA	310.9	934.5	880.2	6.2%	1,843.0	1,750.4	5.3%
Property & equipment additions	161.4	463.4	411.4	12.6%	927.0	858.0	8.0%
ROU asset additions[ii]	0.2	301.8	39.5	664.1%	340.4	75.1	353.3%
Transaction Adjusted OFCF	**149.3**	**169.3**	**429.3**	**(60.6%)**	**575.6**	**817.3**	**(29.6%)**
Transaction Adjusted OFCF as a % of Revenue	17.4%	6.6%	16.8%		11.4%	15.8%	
Opex and Capex CTC	4.8	22.5	—		30.1	—	
OFCF Including CTC	144.5	146.8	429.3	(65.8%)	545.5	817.3	(33.3%)
Spectrum license additions	—	—	—		448.0	—	

[ii] Revenue transaction adjustment relate to the reversal of the deferred revenue write-off

[iii] ROU asset additions include £289.9 million in Q2 2021 and £309.6 million in H1 2021 relating to the renewal of the Cornerstone agreement in January 2021

The following table provides a reconciliation of net profit (loss) to Transaction Adjusted EBITDA for the for the one-month period post the formation of Virgin Media O2 and pro forma for the three months and six months ended June 30, 2021 and 2020:

	Actual	Pro forma					
	Period June	Three months ended 30 June		Increase /	Six months ended 30 June		Increase /
	2021	2021	2020	(Decrease)	2021	2020	(Decrease)
		in £ millions, except % amounts					
Net Profit (Loss)	(112.5)	252.4	(380.3)		339.6	(291.4)	
Income Tax Expense (Benefit)	(7.7)	(442.5)	(80.2)		(424.7)	(268.4)	
Other Expense (Income), net	(0.1)	(1.0)	—		(1.0)	—	
Share of Losses (profit) of Investments Accounted for by the Equity Method	(0.1)	(0.1)	(0.4)		(0.1)	(0.5)	
Finance Income	(1.9)	(3.1)	(14.0)		(239.6)	(509.4)	
Finance Costs	128.8	218.8	445.7		368.6	1,018.1	
Operating Income	6.5	24.5	(29.2)		42.8	(51.6)	
Depreciation and Amortization	296.0	877.0	921.3		1,761.7	1,835.7	
Share-based Compensation Expense	3.2	14.0	9.9		21.2	18.1	
Restructuring and other operating	10.8	20.3	7.3		20.2	11.5	
Cost to Capture	3.6	11.4	—		18.0	—	
Adjusted EBITDA	320.1	947.2	909.3	4.2%	1,863.9	1,813.7	2.8%
Transaction Adjustments[iv]	(9.2)	(12.7)	(29.1)		(20.9)	(63.3)	
Transaction Adjusted EBITDA	**310.9**	**934.5**	**880.2**	**6.2%**	**1,843.0**	**1,750.4**	**5.3%**

[iv] In connection with the completion of the joint venture, the opening balance sheet of the combined business was reported at its estimated fair value. As such, certain amounts were adjusted to reflect the new basis of accounting. These transaction adjustments therefore reverse the effect of the following:

(a) Deferred commissions and install costs write-off of £12.5 million for the month ended 30 June 2021, £19.2 million and £40.2 million for the three months ended 30 June 2021 and 2020 and £32.6 million and £87.2 million for the six months ended 30 June 2021 and 2020, respectively

(b) Deferred revenue write-off of £3.3 million for the month ended 30 June 2021, £6.5 million and £11.1 million for the three months ended 30 June 2021 and 2020 and £11.7 million and £23.9 million for the six months ended 30 June 2021 and 2020, respectively

Third-Party Debt, Finance Lease Obligations and Cash and Cash Equivalents

The following table details the borrowing currency and pound sterling equivalent of the nominal amount outstanding of VMED O2's consolidated third-party debt, finance lease obligations and cash and cash equivalents:

	30 June 2021		
	Borrowing currency		£ equivalent
	in millions		
Senior and Senior Secured Credit Facilities:			
Term Loan P (LIBOR + 2.75%) due 2026	£	1,354.0	1,354.0
Term Loan L (LIBOR + 3.25%) due 2027	£	400.0	400.0
Term Loan M (LIBOR + 3.25%) due 2027	£	500.0	500.0
Term Loan N (LIBOR + 2.50%) due 2028	$	3,300.0	2,391.2
Term Loan O (EURIBOR + 2.50%) due 2029	€	750.0	643.9
Term Loan Q (LIBOR + 3.25%) due 2029	$	1,300.0	942.0
Term Loan R (LIBOR + 3.25%) due 2029	€	750.0	633.0
£1,000 million (equivalent) RCF (LIBOR + 2.75%) due 2026	£	—	—
VM Financing Facility	£	2.7	2.7
VM Financing Facility II	£	1.3	1.3
VM Financing Facility III	£	15.7	15.7
VM Financing Facility IV	$	8.8	6.4
Total Senior and Senior Secured Credit Facilities			6,890.2
Senior Secured Notes:			
5.50% USD Senior Secured Notes due 2026	$	750.0	543.5
5.00% GBP Senior Secured Notes due 2027	£	675.0	675.0
5.50% USD Senior Secured Notes due 2029	$	1,425.0	1,032.6
5.25% GBP Senior Secured Notes due 2029	£	340.0	340.0
4.00% GBP Senior Secured Notes due 2029	£	600.0	600.0
4.25% GBP Senior Secured Notes due 2030	£	635.0	635.0
4.50% USD Senior Secured Notes due 2030	$	915.0	663.0
4.125% GBP Senior Secured Notes due 2030	£	480.0	480.0
3.25% EUR Senior Secured Notes due 2031	€	950.0	815.6
4.25% USD Senior Secured Notes due 2031	$	1,350.0	978.2
Total Senior Secured Notes			6,762.9
Senior Notes:			
5.00% USD Senior Notes due 2030	$	925.0	670.3
3.75% EUR Senior Notes due 2030	€	500.0	429.3
Total Senior Notes			1,099.6
Vendor financing			2,258.1
Other debt			212.4
Lease obligations			1,008.3
Total third-party debt and lease obligations			18,231.5
Less: unamortised premiums, discounts and deferred financing costs, fair value adjustments, net			(107.8)
Total carrying amount of third-party debt and lease obligations			18,339.3
Less: cash and cash equivalents			474.6
Net carrying amount of third-party debt and lease obligations[6]			17,864.7
Exchange rate (€ to £)			1.1641
Exchange rate ($ to £)			1.3801

Covenant Debt Information

The following table details the pound sterling equivalent of the reconciliation from Virgin Media's consolidated third-party debt to the total covenant amount of third-party gross and net debt and includes information regarding the projected principal-related cash flows of our cross-currency derivative instruments. The pound sterling equivalents presented below are based on exchange rates that were in effect as of 30 June 2021. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts in future periods.

	30 June 2021
	in £ millions
Total Third-party Debt and Lease Obligations (£ equivalent)	18,231.5
Vendor Financing	(2,130.6)
Other Debt	(212.4)
Credit Facility Excluded Amount	(966.2)
Lease Obligations	(1,008.3)
Projected Principal-related Cash Payments (Receipts) Associated With Our Cross-currency Derivative Instruments	65.4
Total Covenant Amount of Third-party Gross Debt	13,979.4
Cash and Cash Equivalents	(44.2)
Total Covenant Amount of Third-party Net Debt	13,935.2

Forward-Looking Statements

This press release contains forward-looking statements including statements regarding our strategies, future growth ambitions and opportunities, and other information and statements that are not historical fact. Accordingly, one should not place undue reliance on these statements.

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About Virgin Media O2

VMED O2 UK Limited (Virgin Media O2) is an integrated communications provider of broadband internet, video, fixed-line telephony and mobile services to residential customers and businesses in the United Kingdom (U.K.). Virgin Media O2 is a 50:50 joint venture between Liberty Global plc (Liberty Global) and Telefónica, SA (Telefónica).

Liberty Global (NASDAQ: LBTYA, LBTYB and LBTYK) is a world leader in converged broadband, video and mobile communications services. It delivers next-generation products through advanced fiber and 5G networks that connect 85 million subscribers across Europe and the United Kingdom. Liberty Global's businesses operate under some of the best-known consumer brands, including Virgin Media O2 in the UK, VodafoneZiggo in The Netherlands, Telenet in Belgium, Sunrise UPC in Switzerland, Virgin Media in Ireland and UPC in Eastern Europe. Through its substantial scale and commitment to innovation, it is building Tomorrow's Connections Today, investing in the infrastructure and platforms that empower our customers to make the most of the digital revolution, while deploying the advanced technologies that nations and economies need to thrive.
Liberty Global's consolidated businesses generate annual revenue of more than $7 billion, while its joint-ventures in the UK and the Netherlands generate combined annual revenue of more than $17 billion.

Telefónica is one of the world's leading telecommunications service providers. The company offers fixed and mobile connectivity services, as well as a wide range of digital services for individuals and businesses. It is present in Europe and Latin America, where it has more than 345 million customers.
Telefónica is a fully private company whose shares are listed on the Continuous Market of the Spanish stock exchanges and on the New York and Lima stock exchanges.

Footnotes

1. This press release includes certain pro forma information which give effect to the combination of Virgin Media UK and O2 UK as if it had occurred on January 1, 2020 and pushes back purchase price accounting, policy alignment and transaction adjustments to this date. The pro forma financial statements, which have been prepared in accordance with IFRS, do not purport to project the results of operations or financial condition of Virgin Media O2 for any future period nor do they purport to represent what the actual results of operations or financial condition of Virgin Media O2 would have been had the joint venture transactions occurred on 1 January 2020. Selected quarterly pro forma financial information for the joint venture is presented in the table below:

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
	in £ millions, except % amounts					
Transaction Adjusted Revenue						
Mobile	1,481.2	1,441.5	1,462.7	1,567.9	1,369.7	1,396.3
Handset	369.0	377.7	380.1	493.1	340.5	352.4
Fixed	1,029.5	1,004.6	1,031.9	1,057.6	1,029.9	1,037.2
Consumer Fixed	874.6	845.3	860.4	862.2	858.0	870.3
Subscription	857.6	836.9	843.8	844.8	840.4	850.8
Other	17.0	8.4	16.6	17.8	17.6	19.5
B2B Fixed	154.9	159.3	171.5	195	171.9	166.9
Other	122.4	105.1	90.7	113.8	110.7	115.6
Transaction Adjusted Revenue	**2,633.1**	**2,551.2**	**2,585.2**	**2,739.3**	**2,510.3**	**2,549.1**
Transaction adjustments(v)	12.8	11.1	8.6	6.2	5.2	6.5
Total Revenue	2,620.3	2,540.1	2,576.6	2,733.1	2,505.1	2,542.6
Transaction Adjusted EBITDA(vi)						
Transaction Adjusted EBITDA	**870.2**	**880.2**	**917.9**	**935.7**	**908.5**	**934.5**
Transaction Adjusted EBITDA as a % of Revenue	33.0%	34.5	35.5%	34.2%	36.2%	36.7%
Opex CTC	—	—	10.6	13.8	6.6	11.4
Transaction Adjusted EBITDA including CTC	870.2	880.2	907.3	921.9	901.9	923.1
Transaction Adjusted Operating Free Cash Flow (OFCF)						
Transaction Adjusted EBITDA	870.2	880.2	917.9	935.7	908.5	934.5
Property & Equipment additions	446.6	411.4	449.4	468.9	463.6	463.4
ROU asset additions(vii)	35.7	39.5	32.4	16.6	38.6	301.8
Transaction Adjusted OFCF	**387.9**	**429.3**	**436.1**	**450.2**	**406.3**	**169.3**
OFCF as a % of Revenue	14.7%	16.8%	16.9%	16.4%	16.2%	6.6%
Opex and Capex CTC	—	—	10.6	13.8	7.6	22.5
OFCF Including CTC	387.9	429.3	425.5	436.4	398.7	146.8
Spectrum license additions	—	—	—	83.5	448.0	—

(v) Revenue transaction adjustment relate to the reversal of the deferred revenue write-off

(vi) Transaction Adjusted EBITDA includes the reversal of the following transaction adjustments:

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
	in £ millions					
Deferred commissions and install write-off	47.0	40.2	31.5	21.1	13.4	19.2
Deferred revenue write-off	(12.8)	(11.1)	(8.6)	(6.2)	(5.2)	(6.5)

(vii) ROU asset additions include £289.9 million in Q2 2021 and £19.7 million in Q1 2021 relating to the renewal of the Cornerstone agreement in January 2021

Reconciliation of net profit (loss) to transaction adjusted EBITDA

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
	in £ millions, except % amounts					
Net Profit (Loss)	88.9	(380.3)	(146.2)	(252.2)	87.2	252.4
Income Tax Expense (Benefit)	(188.2)	(80.2)	(61.4)	(79.8)	17.8	(442.5)
Other Expense (Income), net	—	—	—	—	—	(1.0)
Share of Losses (profit) of Investments Accounted for by the Equity Method	(0.1)	(0.4)	(0.4)	(0.2)	—	(0.1)
Finance Income	(495.4)	(14.0)	(254.9)	(329.7)	(236.5)	(3.1)
Finance Costs	572.4	445.7	471.9	733.0	149.8	218.8
Operating Income	(22.4)	(29.2)	9.0	71.1	18.3	24.5
Depreciation and Amortization	914.4	921.3	908.2	848.4	884.7	877.0
Share-based Compensation Expense	8.2	9.9	9.1	16.9	7.2	14.0
Restructuring and Other Operating	4.2	7.3	3.9	0.4	(0.1)	20.3
Cost to Capture	—	—	10.6	13.8	6.6	11.4
Adjusted EBITDA	904.4	909.3	940.8	950.6	916.7	947.2
Transaction Adjustments	(34.2)	(29.1)	(22.9)	(14.9)	(8.2)	(12.7)
Transaction Adjusted EBITDA	870.2	880.2	917.9	935.7	908.5	934.5

Glossary

ARPU per fixed-line customer: Average Revenue Per Unit is the average monthly subscription revenue per average fixed line customer. Calculated by dividing the average monthly subscription revenue from residential cable and SOHO services by the average number of fixed line customer relationships for the period. Fixed-line customer relationships of entities acquired during the period are normalized. In addition, for purposes of calculating the percentage change in ARPU on a rebased basis, which is a non-GAAP measure, we adjust the prior-year subscription revenue and fixed-line customer relationships to reflect acquisitions and dispositions on a comparable basis with the current year, consistent with how we calculate our pro forma growth for revenue and transaction adjusted EBITDA, as further described in footnote 1 above.

Adjusted EBITDA: Adjusted EBITDA is the primary measure used by our chief operating decision maker to evaluate operating performance and is also a key factor that is used by our internal decision makers to (i) determine how to allocate resources and (ii) evaluate the effectiveness of our management for purposes of annual and other incentive compensation plans. As we use the term, Adjusted EBITDA is defined as profit (loss) from continuing operations before net income tax benefit (expense), other non-operating income or expenses, share of profit (loss) of investments accounted for by the equity method, net finance costs, depreciation and amortization, share-based compensation and CTC opex costs. Our internal decision makers believe Adjusted EBITDA is a meaningful measure because it represents a transparent view of our recurring operating performance that is unaffected by our capital structure and allows management to (1) readily view operating trends, (2) perform analytical comparisons and benchmarking and (3) identify strategies to improve operating performance. We believe our consolidated Adjusted EBITDA measure, which is a non-GAAP measure, is useful to investors because it is one of the bases for comparing our performance with the performance of other companies in the same or similar industries, although our measure may not be directly comparable to similar measures used by other public companies.

Blended fully-swapped debt borrowing cost: The weighted average interest rate on our aggregate variable- and fixed-rate indebtedness (excluding finance leases and including vendor financing obligations), including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of financing costs.

B2B: Business-to-Business.

Contract Churn: The rate at which contract subscribers relinquish their subscriptions. This is calculated by dividing the proportion of postpay contract mobile connections who have terminated their contract (Consumer, SMB, Enterprise and Mobile Broadband) for the period concerned by the average base.

CTC: Costs to capture generally include incremental, third-party operating and capital related costs that are directly associated with integration activities, restructuring activities, and certain other costs associated with aligning our business processes to derive synergies. These costs are necessary to the joint venture being formed or are incidental to the joint venture formation. As a result, costs to capture may include certain (i) operating costs that are included in Adjusted EBITDA, (ii) capital related costs that are included in property and equipment additions and OFCF and (iii) certain integration related restructuring expenses that are not included within Adjusted EBITDA or OFCF. Given the achievement of synergies occurs over time, certain of our costs to capture are recurring by nature, and generally incurred within a few years of completing the transaction.

Customer Churn: The rate at which customers relinquish their subscriptions. The annual rolling average basis is calculated by dividing the number of disconnects during the preceding 12 months by the average number of customer relationships. For the purpose of computing churn, a disconnect is deemed to have occurred if the customer no longer receives any level of service from us and is required to return our equipment. A partial product downgrade, typically used to encourage customers to pay an outstanding bill and avoid complete service disconnection, is not considered to be disconnected for purposes of our churn calculations. Customers who move within our cable footprint and upgrades and downgrades between services are also excluded from the disconnect figures used in the churn calculation.

Fixed Connections: A fixed connection is separately a broadband connection, video connection or telephony connection. A home, residential multiple dwelling unit, or commercial unit may contain one or more fixed connection. For example, if a residential customer in our U.K. market subscribed to our video service, fixed-line telephony service and broadband service, the customer would constitute three fixed connections. Virgin Media O2 had 13.3 million total fixed connections at 30 June 2021. Fixed connections generally are counted on a unique premises basis such that a given premises does not count as more than one fixed connection for any given service. On the other hand, if an individual receives one of our services in two premises (e.g., a primary home and a vacation home), that individual will count as two fixed connections for that service. Each bundled broadband, video or telephony service is counted as a separate fixed connection regardless of the nature of any bundling discount or promotion. Non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period. Services offered without charge on a long-term basis (e.g., VIP subscribers or free service to employees) generally are not counted as fixed connections.

Fixed-Line Customer Relationships: The number of customers who receive at least one of our broadband, video or telephony services that we count as Fixed Connections, without regard to which or to how many services they subscribe. Fixed-Line Customer Relationships generally are counted on a unique premises basis. Accordingly, if an individual receives our services in two premises (e.g., a primary home and a vacation home), that individual generally will count as two Fixed-Line Customer Relationships. We exclude mobile-only customers from Fixed-Line Customer Relationships.

Fixed-Mobile Convergence (FMC) penetration: Fixed-mobile convergence penetration represents the number of customers who subscribe to both a fixed broadband internet service and postpaid mobile telephony service, divided by the total number of customers who subscribe to our fixed broadband internet service.

Homes Passed: Homes, residential multiple dwelling units or commercial units that can be connected to our networks without materially extending the distribution plant. Certain of our Homes Passed counts are based on census data that can change based on either revisions to the data or from new census results.

Broadband Connection: A home, residential multiple dwelling unit or commercial unit that receives internet services over our networks, or that we service through a partner network.

IoT Connections: Total number of Machine-to-Machine (M2M) contract mobile connections including Smart Metering (SMIP) contract connections

Lightning Premises: Includes homes, residential multiple dwelling units and commercial premises that potentially could subscribe to our residential or SOHO services, which have been connected to our networks as a part of our Project Lightning network extension program in the UK. Project Lightning infill build relates to construction in areas adjacent to our existing network.

Mobile Retail Connections: The number of active SIM cards in service rather than services provided. For example, if a mobile subscriber has both a data and voice plan on a smartphone this would equate to one mobile subscriber. Alternatively, a subscriber who has a voice and data plan for a mobile handset and a data plan for a laptop would be counted as two mobile subscribers. Customers who do not pay a recurring monthly fee are excluded from our mobile telephony subscriber counts after periods of inactivity of 30 days. Total number of retail mobile connections includes Consumer, SMB, Enterprise, Mobile Broadband and IoT (comprising M2M and SMIP) and excluding Mobile Wholesale Connections (as defined below)

Mobile Contract: Total number of Postpaid contract retail mobile connections including Consumer, SMB, Enterprise and Mobile Broadband but excluding M2M, SMIP and Mobile Wholesale Connections (as defined below)

Mobile Prepaid: Total number of Prepay retail mobile connections for Virgin Media, O2 and giffgaff brands measured on a conventional basis (activity within 3 calendar months)

Mobile Wholesale Connections: Total number of wholesale MVNO contract connections (Tesco mobile, Sky, Lyca, SMB Wholesale and other)

MVNO: Mobile Virtual Network Operator.

NPS: Net Promoter Score.

OFCF: As used herein, Operating Free Cash Flow or "OFCF", which is a non-GAAP measure, represents Transaction Adjusted EBITDA less P&E additions and less ROU asset additions. OFCF is an additional metric that we use to measure the performance of our operations after considering the level of P&E additions and ROU additions incurred during the period. For limitations of OFCF, see the definition of Transaction Adjusted EBITDA.

Pro forma: This assumes the joint venture transaction occurred on 1 January 2020 and pushes back purchase price accounting, policy alignment and transaction adjustments to this date. The pro forma financial statements, which have been prepared in accordance with IFRS, do not purport to project the results of operations or financial condition of the UK JV for any future period nor do they purport to represent what the actual results of operations or financial condition of the UK JV would have been had the joint venture transactions occurred on the dates indicated.

P&E additions: Includes capital expenditures on an accrual basis, amounts financed under vendor financing or finance lease arrangements and other non-cash additions but excludes CTC capex costs.

ROU asset: The right-of-use asset is the lessee's right to use an asset over the contracted term of a lease.

SIM: Subscriber Identification Module.

SOHO: Small or Home Office Subscribers.

Telephony Connection: A home, residential multiple dwelling unit or commercial unit that receives voice services over our networks, or that we service through a partner network. Telephony Subscribers exclude mobile telephony subscribers.

Transaction Adjusted EBITDA: This is Adjusted EBITDA which has been normalised for certain adjustments which have been made to more accurately represent the performance of the underlying operations. These adjustments reflect the new basis of accounting in connection with the completion of the joint venture, where the opening balance sheet of the combined business was reported at its estimated fair value.

Transaction Adjusted EBITDA margin: Transaction adjusted EBITDA margin is a non-GAAP metric calculated by dividing Transaction adjusted EBITDA by total revenue for the applicable period.

Video Connection: A home, residential multiple dwelling unit or commercial unit that receives our video service over our broadband network or through a partner network via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology. Video Subscribers are counted on a unique premises basis. For example, a subscriber with one or more set-top boxes that receives our video service in one premises is generally counted as just one subscriber.

YoY: Year-over-year.