Virgin Media O2[1] publishes third quarter results to 30 September 2022

Virgin Media O2 delivers strong strategic and operational progress combined with accelerating transaction adjusted EBITDA growth

London, UK - 2 November 2022

Strategic & operational developments

- **Commercial momentum:** Customer growth in the third quarter with 12,000 fixed net adds and 47,000 mobile contract net adds. Introduced a new “Switch Up” mobile proposition offering increased handset flexibility; launched the UK’s fastest WiFi guarantee; delivered a positive performance in TV Stream from Virgin Media and saw improved mobile revenue trends.
- **Delivering on convergence:** In its first year since launch we surpassed 1 million customers taking our lead convergence proposition, Volt.
- **Expanding and upgrading our networks:** Added 115,000 fixed premises as we reached 3 million Lightning premises and a total gigabit network of 16 million; announced new fibre Joint Venture will extend Virgin Media O2’s total Fibre-To-The-Home footprint to up to 23 million premises; fibre upgrade progressing well; 5G services now available in over 800 towns and cities.
- **Continued delivery of synergies:** On-track to achieve 30 per cent of the annualised run rate of £540 million synergies by the end of 2022.
- **Supporting our customers, society and people through macroeconomic challenges:** Delivering a range of targeted measures in the quarter including enhancements to our Essential Broadband tariff; providing connectivity to communities and a £1,400 cost-of-living allowance for our people[i].

Financial developments

- **Accelerating transaction adjusted EBITDA growth:** Our strong strategic and operational progress underpinned by the realisation of synergies and cost efficiencies led to an increase in transaction adjusted EBITDA of 8.6 per cent[ii] to £991.2 million.
- **Robust financial position:** With a fully-swapped cost of borrowing of 4.6 per cent and average tenor of 6.8 years, we are well placed to support our growth plans and navigate market volatility.

Lutz Schüler, CEO of Virgin Media O2, said:

“This quarter has seen an increasingly challenging macroeconomic backdrop against which we continue to provide high speed and quality services whilst supporting our customers and people through these challenging times. Additionally, we accelerated our growth in profitability as our commercial momentum advanced and we continue to make strong progress on our three growth waves of expanding and upgrading our network, realisation of synergies and digitalising our business. Our converged offering combined with our improved understanding of our customer, through digitalisation, is underpinning our development and customer-value proposition.

“The third quarter has been one of strong strategic and operational progress supporting our delivery for the rest of the year and beyond. We have grown our mobile and fixed customer base, improved our product offering, hit a major convergence milestone and achieved another quarter of EBITDA growth. We reaffirm our 2022 guidance.”

[i] Employees earning £35,000 basic pay and under will receive a support allowance totalling £1,400 to assist with the rise in the cost-of-living

[ii] Includes one-off release of £30 million following the resolution of a legal matter for which there is no impact on cash

Operational progress driven by our ability to meet customer needs

Our **fixed customer base grew** by 12,000 net additions to a total base of 5.8 million driven by increased homes passed, while continued demand for fast, high-quality connectivity drove third quarter broadband net adds of 19,000. The average speed across the company's broadband base increased 29 per cent year-on-year to 261 Mbps, which is more than 4 times higher than the national average.

In addition, we announced the UK's fastest WiFi guarantee from a major broadband provider which uses our range of self-optimising hubs and mesh WiFi pods to enhance connectivity within the home. The guarantee is included at no extra cost for Gig1 and Volt customers or as a bolt-on for £8 per month.

In mobile, our commercial momentum continued with a positive development in service revenues. Total mobile net additions were 629,000 in the quarter, with increases across Wholesale, IoT, prepaid and contract. The **contract mobile base increased** by 47,000 to 16.0 million. O2's monthly contract churn remains stable at sector-low levels of just 0.8 per cent. In August, we launched a new **"Switch Up" mobile proposition** allowing customers to swap their handset at any point in their contract, included automatically in Plus Plans at no extra cost or as a bolt-on for £3.99 per month to all other contracts.

Less than a year after the launch of our first fixed-mobile bundle, we passed a significant milestone as we connected our 1 millionth Volt customer. Volt customers benefit from a broadband speed boost and double the mobile data with these customers enjoying download speeds of 452Mbps, more than 100% faster than the average customer with non-Volt packages.

Accelerating investment in the UK's digital infrastructure

The expansion of our fixed network continued with 115,000, Project Lightning premises passed in the third quarter, taking the Lightning footprint to 3 million, and the total fixed network to 16 million premises. 330,000 premises have been passed since the start of the year and the company remains on-track to deliver more than 500,000 Lightning premises in 2022.

In the third quarter, our shareholders and InfraVia Capital Partners announced a new **fibre joint venture,** which will extend Virgin Media O2's footprint to approximately 80 per cent of the UK and utilise our build, network and corporate services expertise. The formation of the fibre joint venture is still on-track for clearance in the fourth quarter with preparation well underway. Additionally, we have continued to progress our **fibre upgrade across our existing footprint** with the goal to roll out full fibre across the fixed network at a cost of £100 per home with completion in 2028.

In mobile, we have expanded our reach of **5G services** to more than 800 towns and cities as well as our upgrade of 4G capacity in 190,000 postcodes in the third quarter. We are on-track to deliver 5G services to 50 per cent of the UK population in 2023.

Increased support for our customers, communities and people amid a rising cost-of-living

In the current economic climate with a rising **cost-of-living**, Virgin Media O2 has stepped up through a range of **targeted support measures** delivering against the "Better Connections Plan" ESG strategy.

For customers, further enhancements were made to our Essential Broadband tariff with a reduced price of £12.50 and in November, an additional 50Mbps tariff will be launched at £20.00 to help provide low-cost access to connectivity for those receiving Universal Credit. This is in addition to collaboration with the Department for Work and Pensions (DWP) to implement a new tool which will automate checks for eligibility and make it easier to access social broadband tariffs.

Virgin Media O2 built on its partnership with digital inclusion charity, Good Things Foundation, donating £2 million to support the provision of free connectivity, devices, and digital skills training, including connecting 17 Greater Manchester community buildings with free internet for five years. We also provided free calls, texts and data in Pakistan for those impacted by floods and those impacted by events in Ukraine.

To bolster its support for our people during the cost-of-living crisis, we introduced a new targetted support allowance of £1,400 for people earning £35,000 basic pay and under, with payments spread from October until July 2023. This was alongside the introduction of best-in-class Human Resource leave policies, including becoming one of the first businesses in the United Kingdom to offer both paid carer's leave and neonatal leave.

Accelerating profitability growth driven by price rises and synergies

Revenue[1]: Third quarter Transaction Adjusted Revenue of £2,587.9 million decreased by 0.6% year-on-year. Total revenues were flat when excluding a 3.7% decline in handset revenue. Total Mobile revenues increased by 2.1% to £1,495.8 million, with service revenues increasing 4.3%. This was offset by declines in Consumer Fixed of 2.0% to £851.2 million due to a change in customer mix alongside continued decline in B2B Fixed.

Adjusted EBITDA[1]: Third quarter Transaction Adjusted EBITDA increased 8.6% year-on-year to £991.2 million, excluding £15.8 million of opex CTC. Growth was supported by the realisation of synergies, cost efficiencies and a one-off release of £30 million following the resolution of a legal matter for which there is no impact on cash, partially offset by increased energy costs. In the third quarter 2022, Transaction Adjusted EBITDA margin improved to 38.3% compared to 35.1% in the third quarter 2021.

Adjusted EBITDA less Capex[1]: Third quarter Transaction Adjusted EBITDA less Capex increased 9.2% year-on-year to £420.9 million, before opex and capex CTC of £77.0 million. This increase was primarily attributable to the aforementioned Transaction Adjusted EBITDA growth as well as a reduced level of ROU asset additions, partially offset by increased P&E additions.

Free Cash Flow: Adjusted free cash flow was £89.3 million in the third quarter, with a cash distribution to shareholders of £580 million.

2022 guidance reaffirmed: The company expects to deliver mid-single-digit growth in pro forma Transaction Adjusted EBITDA (before CTC), supported by improved top-line growth and the delivery of synergies which will ramp through the year. Expect opex and capex CTC of over £300 million and P&E additions of around £2.1 billion as the company accelerates network investments. The cash distribution to shareholders is anticipated to be £1.6 billion including cash from recapitalisations to maintain leverage at the upper-end of the 4-5x range.

Strong capital structure to support business growth

During the third quarter, we successfully placed a £1,474 million Term Loan A facility which was priced at SONIA + 3.25% and has a maturity of 5 years from first drawdown. The new TLA is comprised of £1,124 million of new money and £350 million of rolling commitments from our existing Term Loan P facility. At 30 September 2022, Virgin Media O2's fully-swapped third-party debt borrowing cost was 4.6% and the average tenor of third-party debt (excluding vendor financing) was 6.8 years.

At 30 September 2022, and subject to the completion of the corresponding compliance reporting requirements, the ratios of Net Senior Debt and Net Total Debt to Annualised Adjusted EBITDA (last two quarters annualised) were 3.15x and 3.45x, respectively, each as calculated in accordance with the most restrictive covenants, and reflecting the Credit Facility Excluded Amounts as defined in the respective credit agreements. Vendor financing, lease and certain other 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 Adjusted EBITDA would have been 4.53x at 30 September 2022.

At 30 September 2022, the company had maximum undrawn commitments equivalent to £2,502 million, including £1,378 million of Revolving Credit Facility (RCF) and £1,124 million of Term Loan A. When compliance reporting requirements have been completed and assuming no change from 30 September 2022 borrowing levels, it is anticipated that the full borrowing capacity will continue to be available, based on the maximum the company can incur and upstream which is subject to a 4x net senior debt test.

Operating Statistics Summary

	Three months ended 30 September	
	2022	**2021**
Footprint		
Homes Passed	**15,980,100**	**15,546,300**
Fixed-Line Customer Relationships		
Fixed-Line Customer Relationships	**5,780,000**	**5,715,600**
O/w Broadband Connections	5,631,100	5,536,400
Fixed-Line Customer Relationship net additions	**12,300**	**38,500**
O/w Broadband net additions	19,100	42,300
Q3 Monthly Transaction Adjusted ARPU per Fixed-Line Customer Relationship(i)	£ 48.19	£ 49.61
Mobile		
Retail Connections	**33,507,900**	**31,864,600**
Mobile	24,178,100	24,093,300
Contract	16,008,400	15,809,300
Prepaid	8,169,700	8,284,000
IoT	9,329,800	7,771,300
Wholesale Connections	**10,647,200**	**9,773,600**
Total Mobile Connections	**44,155,100**	**41,638,200**
Retail net additions	**412,500**	**506,500**
Mobile net additions	82,100	29,500
Contract net additions	46,500	108,000
Prepaid net additions	35,600	(78,500)
IoT net additions	330,400	477,000
Wholesale net additions	**216,200**	**179,200**
Total Mobile net additions	**628,700**	**685,700**

(i) Restatement of Q3 2021 from £49.41 to £49.61, due to reclassification of transaction adjustments

Financial Results, Transaction Adjusted EBITDA Reconciliation, Property and Equipment Additions and Adjusted Free Cash Flow

The following table reflects preliminary selected financial results for the three and nine months ended 30 September 2022 (actual) and 2021 (pro forma, as applicable):

	Actual			Actual	Pro forma	
	Three months ended 30 September		Increase (decrease)	Nine months ended 30 September		Increase (decrease)
	2022	2021		2022	2021	
	in £ millions, except % amounts					
Transaction Adjusted Revenue						
Mobile	1,495.8	1,465.6	2.1%	4,304.9	4,231.6	1.7%
Handset	393.3	408.4	(3.7%)	1,111.3	1,101.3	0.9%
Fixed	981.4	1,024.2	(4.2%)	2,994.1	3,091.3	(3.1%)
Consumer Fixed	851.2	868.7	(2.0%)	2,571.1	2,597.0	(1.0%)
Subscription	833.4	847.1	(1.6%)	2,517.0	2,538.3	(0.8%)
Other	17.8	21.6	(17.6%)	54.1	58.7	(7.8%)
B2B Fixed	130.2	155.5	(16.3%)	423.0	494.3	(14.4%)
Other	110.7	113.9	(2.8%)	351.1	340.2	3.2%
Transaction Adjusted Revenue	2,587.9	2,603.7	(0.6%)	7,650.1	7,663.1	(0.2%)
Transaction adjustments[i]	(4.7)	(9.7)		(18.3)	(21.4)	
Total Revenue	2,583.2	2,594.0	(0.4%)	7,631.8	7,641.7	(0.1%)
Transaction Adjusted EBITDA						
Transaction Adjusted EBITDA	991.2	912.7	8.6%	2,894.9	2,755.7	5.1%
Transaction Adjusted EBITDA as a % of Transaction Adjusted Revenue	38.3%	35.1%		37.8%	36.0%	
Opex CTC	(15.8)	(11.0)		(41.0)	(29.0)	
Transaction Adjusted EBITDA including CTC	975.4	901.7	8.2%	2,853.9	2,726.7	4.7%
Transaction Adjusted EBITDA less Capex						
Transaction Adjusted EBITDA	991.2	912.7	8.6%	2,894.9	2,755.7	5.1%
Property & equipment additions	551.4	500.1	10.3%	1,516.1	1,414.0	7.2%
ROU asset additions[ii]	18.9	27.2	(30.5%)	72.5	367.6	(80.3%)
Transaction Adjusted EBITDA less Capex	420.9	385.4	9.2%	1,306.3	974.1	34.1%
Transaction Adjusted EBITDA less Capex as a % of Transaction Adjusted Revenue	16.3%	14.8%		17.1%	12.7%	
Opex and Capex CTC	(77.0)	(20.1)		(207.3)	(51.2)	
Transaction Adjusted EBITDA less Capex including CTC	343.9	365.3	(5.9%)	1,099.0	922.9	19.1%
Spectrum license additions	—	—		—	448.0	
Adjusted Free Cash Flow (FCF)						
Adjusted FCF	89.3	(57.4)		260.8		

[i] Revenue transaction adjustments relate to the reversal of the deferred revenue write-off as described in FN (i)(b) below

[ii] ROU asset additions include £309.6 million in the nine months ended 30 September 2021 relating to the renewal of the Cornerstone agreement in January 2021

The following table provides a reconciliation of net profit to Transaction Adjusted EBITDA for the three and nine months ended 30 September 2022 (actual) and 2021 (pro forma, as applicable):

	Actual			Actual	Pro forma	
	Three months ended 30 September		Increase (decrease)	Nine months ended 30 September		Increase (decrease)
	2022	2021		2022	2021	
	in £ millions, except % amounts					
Net profit	677.1	16.5		847.1	121.8	
Income tax expense (benefit)	269.6	15.9		298.3	(174.5)	
Other income, net	(0.6)	(0.1)		(0.1)	(1.1)	
Share of results of investments accounted for by the equity method	(0.6)	(0.1)		(1.2)	(0.2)	
Finance income	(2,042.9)	(359.8)		(3,466.5)	(599.4)	
Finance costs	1,144.8	382.8		2,504.4	751.4	
Operating income	47.4	55.2		182.0	98.0	
Depreciation and amortisation	889.8	852.5		2,629.1	2,614.2	
Share-based compensation expense	16.9	11.9		31.2	33.1	
Restructuring and other operating	25.9	6.0		37.9	26.2	
Cost to capture	15.8	11.0		41.0	29.0	
Adjusted EBITDA	995.8	936.6	6.3%	2,921.2	2,800.5	4.3%
Transaction adjustments(i)	(4.6)	(23.9)		(26.3)	(44.8)	
Transaction Adjusted EBITDA	**991.2**	**912.7**	**8.6%**	**2,894.9**	**2,755.7**	**5.1%**

The following table provides a reconciliation of our net cash provided by operating activities to Adjusted Free Cash Flow for the three months ended 30 September 2022 and 2021 and the nine months ended 30 September 2022:

	Three months ended 30 September		Nine months ended 30 September
	2022	2021	2022
	in £ millions		
Net cash provided by operating activities	565.4	498.9	1,907.7
Operating-related vendor financing additions	451.8	452.2	1,507.0
Capital expenditures, net	(304.0)	(320.2)	(1,071.3)
Principal payments on vendor financing	(580.8)	(623.2)	(1,915.3)
Principal payments on certain leases	(43.1)	(65.1)	(167.3)
Adjusted FCF	89.3	(57.4)	260.8

(i) 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 £9.3 million and £33.6 million for the three months ended 30 September 2022 and 2021, respectively, and £44.6 million and £66.2 million for the nine months ended 30 September 2022 and 2021, respectively

(b) Deferred revenue write-off of £4.7 million and £9.7 million for the three months ended 30 September 2022 and 2021, respectively, and £18.3 million and £21.4 million for the nine months ended 30 September 2022 and 2021, respectively

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

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

	30 September 2022			30 June 2022
	Borrowing currency		£ equivalent	
			in millions	
Senior and Senior Secured Credit Facilities:				
Term Loan P (SONIA[1] + 2.75%) due 2026	£	376.0	£ 376.0	£ 376.0
Term Loan L (SONIA[1] + 3.25%) due 2027	£	400.0	400.0	400.0
Term Loan M (SONIA[1] + 3.25%) due 2027	£	500.0	500.0	500.0
Term Loan N (LIBOR + 2.50%) due 2028	$	3,300.0	2,965.0	2,709.9
Term Loan O (EURIBOR + 2.50%) due 2029	€	750.0	659.7	645.6
Term Loan Q (LIBOR + 3.25%) due 2029	$	1,300.0	1,168.0	1,067.5
Term Loan R (EURIBOR + 3.25%) due 2029	€	750.0	659.7	645.6
Term Loan A (SONIA[1] + 3.25%)[2]	£	—	—	—
£1,378 million (equivalent) RCF (SONIA[1] + 2.75%) due 2026	£	—	—	—
VM Financing Facilities (GBP equivalent)	£	11.4	11.4	22.7
Total Senior and Senior Secured Credit Facilities			6,739.8	6,367.3
Senior Secured Notes:				
5.00% GBP Senior Secured Notes due 2027	£	675.0	675.0	675.0
5.50% USD Senior Secured Notes due 2029	$	1,425.0	1,280.3	1,170.2
5.25% GBP Senior Secured Notes due 2029	£	340.0	340.0	340.0
4.00% GBP Senior Secured Notes due 2029	£	600.0	600.0	600.0
4.25% GBP Senior Secured Notes due 2030	£	635.0	635.0	635.0
4.50% USD Senior Secured Notes due 2030	$	915.0	822.1	751.4
4.125% GBP Senior Secured Notes due 2030	£	480.0	480.0	480.0
3.25% EUR Senior Secured Notes due 2031	€	950.0	835.6	817.8
4.25% USD Senior Secured Notes due 2031	$	1,350.0	1,212.9	1,108.6
4.75% USD Senior Secured Notes due 2031	$	1,400.0	1,257.9	1,149.7
4.50% GBP Senior Secured Notes due 2031	£	675.0	675.0	675.0
Total Senior Secured Notes			8,813.8	8,402.7
Senior Notes:				
5.00% USD Senior Notes due 2030	$	925.0	831.1	759.6
3.75% EUR Senior Notes due 2030	€	500.0	439.8	430.4
Total Senior Notes			1,270.9	1,190.0
Vendor Financing			2,416.2	2,278.1
Share of CTIL[3] debt			150.0	205.0
Other debt			207.9	211.3
Lease obligations			838.7	861.4
Total third-party debt and lease obligations			20,437.3	19,515.8
Less: unamortised premiums, discounts, deferred financing costs and fair value adjustments, net			(66.8)	(65.0)
Total carrying amount of third-party debt and lease obligations			20,504.1	19,580.8
Less: cash and cash equivalents			307.5	501.7
Net carrying amount of third-party debt and lease obligations			£ 20,196.6	£ 19,079.1
Exchange rate (€ to £)			1.1369	1.1617
Exchange rate ($ to £)			1.1130	1.2178

(1) SONIA (Sterling Overnight Index Average) plus a credit adjustment spread
(2) Maturity five years from first draw down
(3) CTIL: Cornerstone Telecommunications Infrastructure Limited

Covenant Debt Information[1]

The following table details the pound sterling equivalent of the reconciliation from VMED O2's consolidated third-party debt and lease obligations 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 September 2022. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts in future periods.

	30 September 2022	30 June 2022
	in millions	
Total third-party debt and lease obligations (£ equivalent)	**£ 20,437.3**	**£ 19,515.8**
Vendor financing	(2,271.7)	(2,144.1)
Other debt	(207.9)	(211.3)
CTIL debt	(150.0)	(205.0)
Credit Facility excluded amount	(1,069.3)	(1,035.5)
Lease obligations	(838.7)	(861.4)
Projected principal-related cash payments (receipts) associated with our cross-currency derivative instruments	(1,189.0)	(703.4)
Total covenant amount of third-party gross debt	**14,710.7**	**14,355.1**
Cash and cash equivalents	(36.3)	(7.1)
Total covenant amount of third-party net debt	**£ 14,674.4**	**£ 14,348.0**

The following table provides Net Senior Debt to Annualised Adjusted EBITDA and Net Total Debt to Annualised Adjusted EBITDA. These ratios calculate Adjusted EBITDA on a last two quarters annualised basis, as of 30 September 2022.

	30 September 2022	Covenant
Net Senior Debt to Annualised Adjusted EBITDA (last two quarters annualised)	3.15x	4.00x
Net Total Debt to Annualised Adjusted EBITDA (last two quarters annualised)	3.45x	5.00x

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 is a world leader in converged broadband, video and mobile communications services. It delivers next-generation products through advanced fibre and 5G networks that currently provides over 86 million connections 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 in Switzerland, Virgin Media in Ireland and UPC in Slovakia. Liberty Global, through its global investment arm Liberty Global Ventures, has a portfolio of more than 75 companies and funds across content, technology and infrastructure, including strategic stakes in companies like ITV, Televisa Univision, Plume, Lionsgate and the Formula E racing series.

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 384 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. Formed on 1 June 2021, Virgin Media O2 is a 50:50 joint venture between Liberty Global plc (Liberty Global) and Telefónica, SA (Telefónica). The information provided in this release includes the financial information of VMED O2 UK Limited, a holding company that is not included as a restricted subsidiary for purposes of the facilities agreement and bond indentures governing Virgin Media O2. Disclosures may differ from reporting required under debt covenant arrangements.

   This release includes the actual IFRS results for Virgin Media O2 for the three and nine months ended 30 September 2022. The comparative results for the prior year third quarter period for the company are also actual IFRS results, however, the results for the nine months ended 30 September 2021 are as though the joint venture was created on 1 January 2020. The commentary and YoY growth rates presented in this release are based on a comparison of the actual results for third quarter 2022 compared to the actual results for third quarter 2021. The financial and operating information contained herein is preliminary and subject to change.

2. Effective with the release of our second quarter 2022 earnings, in addition to Transaction Adjusted EBITDA we have introduced the supplementary financial measure Transaction Adjusted EBITDAaL. This new metric is presented below:

	Actual			Actual	Pro forma	
	Three months ended 30 September		Increase (decrease)	Nine months ended 30 September		Increase (decrease)
	2022	2021		2022	2021	
	in £ millions, except % amounts					
Transaction Adjusted EBITDAaL						
Transaction Adjusted EBITDA	991.2	912.7	8.6%	2,894.9	2,755.7	5.1%
Lease depreciation and interest costs	(57.9)	(64.4)		(177.1)	(181.3)	
Transaction Adjusted EBITDAaL	933.3	848.3	10.0%	2,717.8	2,574.4	5.6%

Glossary

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 results of investments accounted for by the equity method, net finance costs, depreciation and amortization, share-based compensation, impairment, restructuring and other operating items and CTC opex costs. Share-based compensation for the purposes of calculating Adjusted EBITDA also includes awards granted to Virgin Media O2 employees that are settled with Liberty Global and Telefónica shares. 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 companies.

Adjusted Free Cash Flow: Net cash provided by our operating activities, plus expenses financed by an intermediary, less (i) capital expenditures, as reported in our consolidated statements of cash flows, (ii) principal payments on amounts financed by vendors and intermediaries and (iii) principal payments on certain finance leases. We believe that our presentation of Adjusted Free Cash Flow, which is a non-GAAP measure, provides useful information to our investors because this measure can be used to gauge our ability to service debt and fund new investment opportunities. Adjusted Free Cash Flow should not be understood to represent our ability to fund discretionary amounts, as we have various mandatory and contractual obligations, including debt repayments, which are not deducted to arrive at this amount. Investors should view Adjusted Free Cash Flow as a supplement to, and not a substitute for, IFRS measures of liquidity included in our consolidated statements of cash flows.

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 growth for Transaction Adjusted Revenue and Transaction Adjusted EBITDA.

B2B: Business-to-Business.

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

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

Costs to Capture (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 in Adjusted EBITDA less Capex and (iii) certain integration related restructuring expenses that are not included within Adjusted EBITDA or Adjusted EBITDA less Capex. 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.

Fixed-Line Customer Relationships: The number of customers who receive at least one of our broadband, video or telephony services, 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 90 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 Prepaid 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.

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 lease arrangements and other non-cash additions, but excludes CTC capex costs.

rNPS: Relationship Net Promoter Score.

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.

Transaction Adjusted EBITDA: 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 after Leases (Transaction Adjusted EBITDAaL): We define Transaction Adjusted EBITDAaL as Transaction Adjusted EBITDA as further adjusted to include lease related depreciation and interest expense. Our internal decision makers believe Adjusted EBITDAaL is a meaningful measure because it represents a transparent view of our recurring operating performance that includes recurring lease expenses necessary to operate our business. We believe Adjusted EBITDAaL, 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. Adjusted EBITDAaL should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, IFRS measures of income included in our consolidated statements of profit or loss.

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

Transaction Adjusted EBITDA less Capex: Transaction Adjusted EBITDA less P&E and ROU asset additions. Adjusted EBITDA less Capex is a meaningful measure because it provides (i) a transparent view of Adjusted EBITDA that remains after our capital spend, which we believe is important to take into account when evaluating our overall performance and (ii) a comparable view of our performance relative to other telecommunications companies. Our Adjusted EBITDA less Capex measure may differ from how other companies define and apply their definition of similar measures. Adjusted EBITDA less Capex should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, operating income, net profit or loss or other IFRS measures of income. For limitations of this metric see the definition of Transaction Adjusted EBITDA.

YoY: Year-over-year.