Virgin Media O2[1] publishes Q2 results to 30 June 2023

Virgin Media O2 accelerates network rollout as Transaction Adjusted Revenue and EBITDA grow

London, UK - 25 July 2023

- **Growth in revenue and EBITDA:** Transaction Adjusted Revenue increased 6.2%, 1.0% excluding the impact of nexfibre construction, supported by price rise implementation through the quarter. Growth in Transaction Adjusted EBITDA continued and improved in Q2 to 4.6%
- **Network evolution:** Fixed network rollout accelerated with 175,500 additional homes serviceable; 5G services available in over 2,800 towns and cities
- **Trading update:** Mobile contract base stable, with a small increase in fixed-line churn due to price rise implementation
- **Integration continues:** Remain on target to deliver over 50% of £540 million run-rate synergies by the end of 2023
- **Better Connections Plan:** One year since launch of Virgin Media O2's ESG strategy, the Better Connections Plan, net zero carbon emissions targets were validated by the Science Based Targets initiative (SBTi)

Lutz Schüler, CEO of Virgin Media O2, said:

"As we navigate a tough economic climate, we have a clear long-term strategy and continue to deliver for customers.

"Amidst higher costs, rising usage and continued investment, we executed necessary price increases in line with our expectations with the impact starting to flow through to our Q2 revenue and EBITDA growth.

"Demand for our award-winning connectivity remains, and our significant network investments and service improvements ensure we can meet all customer needs today while preparing for the decades ahead.

"For the remainder of the year we are focused on building commercial momentum, realising the synergies of the Joint Venture and future proofing our networks."

Continued focus on meeting customer needs and increasing convergence

The **fixed customer base** ended the quarter at 5.8 million, representing a 24,700 net reduction in Q2, with an increase in disconnections due to the implementation of price rises over April and May. Broadband performance was more resilient with a 15,300 net reduction in Q2, while the average download speed across the company's broadband base increased 34% year-on-year to 332Mbps at the end of Q2, approximately 5x higher than the national average. In May, the company boosted upload speeds for customers on M500 and Gig1 broadband packages, following a download and upload speed upgrade to its M100 and M200 packages last year.

The **contract mobile base** was stable, with a 1,500 net reduction in Q2. O2's monthly contract churn showed a modest improvement to 0.9% despite the implementation of price rises, as it continues to differentiate in the market through loyalty initiatives like O2 Priority and being the only major UK network operator not to charge for EU roaming. The total mobile base decreased by 991,300 connections in Q2 to 44.0 million, due to a reduction in Wholesale connections caused by the migration of customers from one of the business' smaller MVNO partners.

Virgin Media O2's lead consumer convergence proposition, Volt, continued to see sustained momentum as it passed the milestone of over 1.5 million customers taking one of these bundles.

The company continues to support businesses of all sizes, strengthening its offering with the launch of a comprehensive range of market-leading cloud and security solutions to further enhance its core fixed and mobile network transformation services. The launch of a new proposition, Flex, also enables small business broadband customers to adjust their broadband package once every 30 days to cater to their usage needs.

Accelerating fibre build and 5G rollout on target

Fixed network deployment into new locations accelerated with build, primarily on behalf of nexfibre, of 175,500 additional premises in Q2 2023, up from 107,800 in Q1 2023. This took Virgin Media O2's total gigabit footprint to 16.4 million homes serviceable. In June, the company switched on its services for the first time over the nexfibre network utilising XGS-PON technology. Services currently mirror Virgin Media's existing broadband tiers and TV Stream availability, with further product enhancements to come.

Deployment of full fibre across the existing Virgin Media O2 network continued to increase in Q2, and the company remains on track to upgrade its entire fixed network in 2028. Meanwhile, as an indicator of the strong performance of the existing network, Virgin Media O2 was rated the "Best in Test" and "Best Rated" for user download and upload speeds in Umlaut's recent broadband benchmarking survey, ahead of other major providers.

Virgin Media O2's combined FTTP footprint reached 3 million homes at the end of Q2, and is set to extend towards 4 million by the end of 2023.

In Mobile, **5G connectivity** expanded to more than 2,800 towns and cities, remaining on track to deliver 5G services to 50% of the UK population in 2023. Support for rural communities also continued, as Virgin Media O2 reached its 50th rural site as part of its commitment to the £1 billion Shared Rural Network programme.

In June, mobile network benchmarking specialist, GWS, named Virgin Media O2 as having UK's "Best Combined Connectivity Experience", in the first performance measure of its kind combining results from mobile operators and internet service providers into one score.

Continued progress in delivering Better Connections Plan ESG targets

One year on since Virgin Media O2 launched its ESG strategy, the Better Connections Plan, the company announced a reduction in carbon emissions of 29% against the 2020 baseline. This came as the SBTi validated Virgin Media O2's near-term and net zero targets, where net zero carbon emissions are planned across operations, products and supply chain (Scopes 1, 2 and 3 emissions) by the end of 2040.

Virgin Media O2 has supported more than 1.5 million people to improve their digital skills and confidence to use the internet by supporting initiatives via its strategic partnerships with Good Things Foundation and Internet Matters. As a result of this significant achievement, the company has extended its goal to support 6 million people – from its original goal of 2 million – by the end of 2025.

Positive revenue coupled with continued EBITDA growth

Revenue[1]: Q2 Transaction Adjusted Revenue increased 6.2% year-on-year to £2,713.1 million, 1.0% excluding the impact of nexfibre construction. Mobile revenue of £1,493.8 million increased 4.7%, primarily driven by consumer price rises. Consumer Fixed revenue of £832.4 million declined 3.8%, as price rise implementation phased over the quarter was offset by a decline in ARPU due to household spend optimisation, most notably in home phone and mid-tier TV packages. B2B Fixed revenue of £129.8 million declined 7.8%, due to a high level of installation revenue for high-capacity data services in Q2 2022 and a reduction in underlying service revenue. Other revenue of £257.1 million increased 112.0% driven by nexfibre revenues for which there were no revenues in Q2 2022.

Adjusted EBITDA[1]: Q2 Transaction Adjusted EBITDA increased 4.6% year-on-year to £1,016.6 million, before £17.6 million of opex cost to capture "CTC". The key drivers of growth were the realisation of synergies and implementation of price rises, partially offset by increased energy costs, with nexfibre also providing additional Transaction Adjusted EBITDA growth. Transaction Adjusted EBITDA margin declined to 37.5% in Q2 2023 compared to 38.1% in the Q2 2022, due to lower margin nexfibre revenues which did not occur in the corresponding period.

Adjusted EBITDA less Capex[1]: Q2 Transaction Adjusted EBITDA less Capex increased 1.9% to £467.1 million, before opex and capex CTC of £47.2 million. This was due to an increase in P&E additions, which equate to our continued network and services investments, and RoU asset additions more than offsetting the aforementioned growth in Transaction Adjusted EBITDA.

Free Cash Flow: Adjusted free cash flow was £460.5 million in Q2.

Full year 2023 guidance: We expect to deliver growth in Transaction Adjusted Revenue and mid-single-digit Transaction Adjusted EBITDA (before CTC) growth, both excluding the impact of nexfibre construction. Additionally, we predict opex and capex CTC of approximately £150 million and P&E additions of around £2.0 billion. The cash distribution to shareholders is anticipated to be £1.8 to £2.0 billion, including cash from recapitalisations to maintain leverage at the upper-end of the 4-5x range.

Strong capital structure to support business growth

At 30 June 2023, our fully-swapped third-party debt borrowing cost was 4.9% and the average tenor of third-party debt (excluding vendor financing) was 6.0 years.

At 30 June 2023, 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 3.60x and 3.90x, 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 5.06x at 30 June 2023.

In June 2023, we made a £325.0 million draw down of Term Loan X, used to fund the cash distribution to shareholders of £325.0 million.

At 30 June 2023, the company had maximum undrawn commitments equivalent to £1,378 million. When compliance reporting requirements have been completed and assuming no change from 30 June 2023 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 June	
	2023	**2022**
Footprint		
Homes Serviceable	**16,449,900**	**15,859,600**
Fixed-Line Customer Relationships		
Fixed-Line Customer Relationships	**5,791,700**	**5,767,700**
O/w Broadband Connections	5,667,300	5,612,000
Fixed-Line Customer Relationship net additions (losses)	**(24,700)**	**7,500**
O/w Broadband net additions (losses)	(15,300)	16,200
Q2 Monthly Transaction Adjusted ARPU per Fixed-Line Customer Relationship	£ 47.04	£ 49.00
Mobile		
Retail Connections	**34,525,900**	**33,095,400**
Mobile	23,915,500	24,096,000
Contract	16,053,300	15,961,900
Prepaid	7,862,200	8,134,100
IoT	10,610,400	8,999,400
Wholesale Connections	**9,429,700**	**10,431,000**
Total Mobile Connections	**43,955,600**	**43,526,400**
Retail net additions(i)	**456,200**	**500,400**
Mobile net additions(i)	46,500	85,000
Contract net additions (losses)(i)	(1,500)	13,300
Prepaid net additions	48,000	71,700
IoT net additions	409,700	415,400
Wholesale net additions (losses)(i)	**(1,447,500)**	**304,500**
Total Mobile net additions (losses)	**(991,300)**	**804,900**

(i) Movements exclude the impact of a reclassification of 11,900 connections to the Q1 2023 closing base. This increases Wholesale connections and decreases Contract connections - there is no change at a base or net additions Total Mobile Connections level.

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

The preliminary unaudited selected financial results are set forth below:

	Three months ended 30 June		Increase (decrease)	Six months ended 30 June		Increase (decrease)
	2023	2022		2023	2022	
	in £ millions, except % amounts					
Transaction Adjusted Revenue						
Mobile	**1,493.8**	**1,427.4**	**4.7%**	**2,923.0**	**2,809.1**	**4.1%**
Handset	357.7	360.8	(0.9%)	744.6	718.0	3.7%
Fixed	**962.2**	**1,005.8**	**(4.3%)**	**1,920.5**	**2,012.7**	**(4.6%)**
Consumer Fixed	832.4	865.0	(3.8%)	1,654.8	1,719.9	(3.8%)
Subscription	818.1	847.1	(3.4%)	1,625.9	1,683.6	(3.4%)
Other	14.3	17.9	(20.1%)	28.9	36.3	(20.4%)
B2B Fixed	129.8	140.8	(7.8%)	265.7	292.8	(9.3%)
Other	**257.1**	**121.3**	**112.0%**	**475.4**	**240.4**	**97.8%**
Transaction Adjusted Revenue	**2,713.1**	**2,554.5**	**6.2%**	**5,318.9**	**5,062.2**	**5.1%**
Transaction adjustments[(i)]	(2.8)	(6.0)		(6.0)	(13.6)	
Total Revenue	2,710.3	2,548.5	6.3%	5,312.9	5,048.6	5.2%
Transaction Adjusted EBITDA						
Transaction Adjusted EBITDA	**1,016.6**	**972.0**	**4.6%**	**1,967.0**	**1,903.7**	**3.3%**
Transaction Adjusted EBITDA as a % of Transaction Adjusted Revenue	37.5%	38.1%		37.0%	37.6%	
Opex CTC	(17.6)	(14.8)		(38.4)	(25.2)	
Transaction Adjusted EBITDA including CTC	999.0	957.2	4.4%	1,928.6	1,878.5	2.7%
Transaction Adjusted EBITDA less Capex						
Transaction Adjusted EBITDA	1,016.6	972.0	4.6%	1,967.0	1,903.7	3.3%
Property & equipment additions	526.4	491.7	7.1%	1,005.3	964.7	4.2%
ROU asset additions	23.1	21.9	5.5%	53.7	53.6	0.2%
Transaction Adjusted EBITDA less Capex	**467.1**	**458.4**	**1.9%**	**908.0**	**885.4**	**2.6%**
Transaction Adjusted EBITDA less Capex as a % of Transaction Adjusted Revenue	17.2%	17.9%		17.1%	17.5%	
Opex and Capex CTC	(47.2)	(86.3)		(93.0)	(130.3)	
Transaction Adjusted EBITDA less Capex including CTC	419.9	372.1	12.8%	815.0	755.1	7.9%
Adjusted Free Cash Flow (FCF)						
Adjusted FCF	**460.5**	**490.7**		**(291.1)**	**171.5**	

(i) Revenue transaction adjustments relate to the reversal of the write-off of deferred revenue shown in Footnote (i)(b) on page 6.

A reconciliation of net profit to Transaction Adjusted EBITDA is set forth below:

	Three months ended 30 June		Increase (decrease)	Six months ended 30 June		Increase (decrease)
	2023	2022		2023	2022	
	in £ millions, except % amounts					
Net profit	307.6	78.1		18.1	170.0	
Income tax expense	116.3	10.5		32.7	28.7	
Other expense (income), net	(4.4)	(0.6)		(8.6)	0.5	
Share of results of investments accounted for by the equity method	(1.0)	0.1		(1.7)	(0.6)	
Finance income	(635.5)	(924.2)		(863.2)	(1,423.6)	
Finance costs	302.8	923.8		896.8	1,359.6	
Operating income	85.8	87.7		74.1	134.6	
Depreciation and amortisation	856.5	865.6		1,769.4	1,739.3	
Share-based compensation expense	15.9	6.6		29.5	14.3	
Restructuring and other operating	39.2	5.7		52.4	12.0	
Cost to capture	17.6	14.8		38.4	25.2	
Adjusted EBITDA	1,015.0	980.4	3.5%	1,963.8	1,925.4	2.0%
Transaction adjustments(i)	1.6	(8.4)		3.2	(21.7)	
Transaction Adjusted EBITDA	**1,016.6**	**972.0**	**4.6%**	**1,967.0**	**1,903.7**	**3.3%**

A reconciliation of our net cash provided by operating activities to Adjusted Free Cash Flow is set forth below:

	Three months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022
	in £ millions			
Net cash provided by operating activities	957.2	894.0	937.8	1,342.3
Operating-related vendor financing additions	652.4	614.1	1,277.2	1,055.2
Capital expenditures, net	(311.9)	(410.4)	(720.0)	(767.3)
Principal payments on vendor financing	(781.8)	(551.2)	(1,677.1)	(1,334.5)
Principal payments on certain leases	(55.4)	(55.8)	(109.0)	(124.2)
Adjusted FCF	460.5	490.7	(291.1)	171.5

(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 £1.2 million and £14.4 million for the three months ended 30 June 2023 and 2022, respectively, and £2.8 million and £35.3 million for the six months ended 30 June 2023 and 2022, respectively

(b) Deferred revenue write-off of £2.8 million and £6.0 million for the three months ended 30 June 2023 and 2022, respectively, and £6.0 million and £13.6 million for the six months ended 30 June 2023 and 2022, respectively

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

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 is set forth below:

	30 June 2023				31 March 2023	
	Borrowing currency		£ equivalent			
			in millions			
Senior and Senior Secured Credit Facilities:						
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		2,595.1		2,672.5
Term Loan O (EURIBOR + 2.50%) due 2029	€	750.0		644.0		660.2
Term Loan Q (LIBOR + 3.25%) due 2029	$	1,300.0		1,022.3		1,052.8
Term Loan R (EURIBOR + 3.25%) due 2029	€	750.0		644.0		660.2
Term Loan X (SONIA[1] + 3.25%) due 2027	£	1,280.0		1,280.0		955.0
Term Loan Y (SOFR[2] + 3.25%) due 2031	$	750.0		589.8		607.4
£1,378 million (equivalent) RCF (SONIA[1] + 2.75%) due 2026	£	—		—		—
VM Financing Facilities (GBP equivalent)	£	35.3		35.3		110.4
Total Senior and Senior Secured Credit Facilities				7,710.5		7,618.5
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		1,120.6		1,154.0
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		719.5		741.0
4.125% GBP Senior Secured Notes due 2030	£	480.0		480.0		480.0
3.25% EUR Senior Secured Notes due 2031	€	950.0		815.7		836.3
4.25% USD Senior Secured Notes due 2031	$	1,350.0		1,061.6		1,093.3
4.75% USD Senior Secured Notes due 2031	$	1,400.0		1,100.9		1,133.8
4.50% GBP Senior Secured Notes due 2031	£	675.0		675.0		675.0
Total Senior Secured Notes				8,223.3		8,363.4
Senior Notes:						
5.00% USD Senior Notes due 2030	$	925.0		727.4		749.1
3.75% EUR Senior Notes due 2030	€	500.0		429.3		440.1
Total Senior Notes				1,156.7		1,189.2
Vendor financing				2,563.3		2,404.9
Share of CTIL[3] debt				180.5		179.0
Other debt				199.8		206.3
Lease obligations				786.5		818.4
Total third-party debt and lease obligations				**20,820.6**		**20,779.7**
Less: unamortised premiums, discounts, deferred financing costs and fair value adjustments, net				(23.8)		(29.2)
Total carrying amount of third-party debt and lease obligations				**20,844.4**		**20,808.9**
Less: cash and cash equivalents				623.0		279.2
Net carrying amount of third-party debt and lease obligations			**£**	**20,221.4**	**£**	**20,529.7**
Exchange rate (€ to £)				1.1647		1.1360
Exchange rate ($ to £)				1.2717		1.2348

[1] SONIA (Sterling Overnight Index Average) plus a credit adjustment spread
[2] SOFR (Secured Overnight Financing Rate) plus a credit adjustment spread
[3] CTIL: Cornerstone Telecommunications Infrastructure Limited

Covenant Debt Information[1]

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 is set forth below. The pound sterling equivalents presented below are based on exchange rates that were in effect as of 30 June 2023. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts in future periods.

	30 June 2023	31 March 2023
	in millions	
Total third-party debt and lease obligations (£ equivalent)	**£ 20,820.6**	**£ 20,779.7**
Vendor financing	(2,433.0)	(2,269.0)
Other debt	(199.8)	(206.3)
CTIL debt	(180.5)	(179.0)
Credit Facility excluded amount	(1,040.9)	(1,036.4)
Lease obligations	(786.5)	(818.4)
Projected principal-related cash payments (receipts) associated with our cross-currency derivative instruments	95.8	(234.0)
Total covenant amount of third-party gross debt	**16,275.7**	**16,036.6**
Cash and cash equivalents	(18.2)	(64.8)
Total covenant amount of third-party net debt	**£ 16,257.5**	**£ 15,971.8**

Net Senior Debt to Annualised Adjusted EBITDA and Net Total Debt to Annualised Adjusted EBITDA is set forth below. These ratios calculate Adjusted EBITDA on a last two quarters annualised basis, as of 30 June 2023.

	30 June 2023	Covenant
Net Senior Debt to Annualised Adjusted EBITDA (last two quarters annualised)	3.60x	4.00x
Net Total Debt to Annualised Adjusted EBITDA (last two quarters annualised)	3.90x	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.

Contact Information

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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 85 million(i) 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 across content, technology and infrastructure, including strategic stakes in companies like Vodafone, ITV, Televisa Univision, Plume, AtlasEdge and the Formula E racing series.

Telefónica is one the largest telecommunications service providers in the world. The company offers fixed and mobile connectivity as well as a wide range of digital services for residential and business customers. With more than 384 million customers, Telefónica operates in Europe and Latin America. Telefónica is a 100% listed company and its shares are traded on the Spanish Stock Market and on those in New York and Lima.

(i) Represents aggregate consolidated and 50% owned non-consolidated fixed and mobile subscribers. Includes wholesale mobile connections of the VMO2 JV and B2B fixed subscribers of the VodafoneZiggo JV.

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 six months ended 30 June 2023 and 2022.

2. In addition to Transaction Adjusted EBITDA, the supplementary financial measure Transaction Adjusted EBITDAaL is set forth below:

	Three months ended 30 June		Increase (decrease)	Six months ended 30 June		Increase (decrease)
	2023	2022		2023	2022	
	in £ millions, except % amounts					
Transaction Adjusted EBITDAaL						
Transaction Adjusted EBITDA	1,016.6	972.0	4.6%	1,967.0	1,903.7	3.3%
Lease depreciation and interest costs	(56.1)	(59.1)		(112.9)	(119.2)	
Transaction Adjusted EBITDAaL	960.5	912.9	5.2%	1,854.1	1,784.5	3.9%

Glossary

5G Population Coverage: The percentage of the UK outdoor population with access to 5G services.

5G Towns & Cities: The number of UK locations with over 50% outdoor population coverage.

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 Serviceable: Homes, residential multiple dwelling units or commercial units that can be connected to our networks that are technologically capable of providing two-way services (including video, internet and telephony services) or partner networks with which we have a service agreement, where customers can request and receive our services, without materially extending the distribution plant. Certain of our Homes Serviceable 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.

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 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.

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.

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

Scope 1 & 2 Carbon Emissions: Metric tons of (Carbon Dioxide emissions) CO_2e. Direct emissions (Scope 1) from fuel consumption and leakage of refrigerant gases in our operations, as well as indirect emissions from secondary energy sources (Scope 2).

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 fair value measurement required, in connection with completion of the joint venture, whereby the opening balance sheet of the combined business as reported at its estimated fair value, resulting in the adjustment of certain deferred revenue, primarily installation, and deferred commission and install cost balances, which would have been recognised as revenue and operating costs respectively. We believe this is a key metric to understand VMED O2's growth, as it allows for a more meaningful comparison of trends from period to period.

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.