Virgin Media O2 publishes Q3 results to 30 September 2023

Virgin Media O2 delivers customer growth and advances network rollout

London, UK - 1 November 2023

- **Improved customer growth:** Net additions across fixed +32,500, broadband +40,800, and mobile contract +50,000 in Q3
- **Network rollout:** Fixed network rollout passes 500,000 in 2023, with 250,800 additional homes serviceable in Q3
- **Strategic network developments:** Integration of Upp fibre network is underway after acquisition; agreement of the sale of a minority stake in mobile tower joint venture Cornerstone
- **Synergies progress:** On track to deliver over 50% of £540 million run-rate synergies by the end of 2023
- **Development in revenue and EBITDA[(i)]:** Transaction Adjusted Revenue increased 7.1%, 1.3% excluding the benefit of nexfibre construction in the current year. Growth in Transaction Adjusted EBITDA continued for another quarter at 5.6% in Q3
- **2023 guidance update:** We expect to deliver stable revenue excluding nexfibre construction, as household spend optimisation continues to impact fixed and is deteriorating the outlook for low-margin handset revenues

Lutz Schüler, CEO of Virgin Media O2, said:

“With wider economic pressures persisting, Q3 has remained a tough environment to navigate as some consumers tighten spend, notably across mid-tier TV, home phone and on low-margin handsets.

“However, notwithstanding these factors, Q3 has seen positives - the implementation of price increases across the second quarter have led to service revenue growth; we’ve returned to strong customer additions across the board; and our converged fixed-mobile proposition continues to perform well, with 1.75 million people now taking a Volt bundle.

“We are continuing to invest in our products, services and networks to give our customers an even better experience. This has included bringing 5G connectivity to new areas and expanding our fixed network footprint faster than ever before to reach over half a million new fibre premises so far this year.

“We’ll continue to be opportunistic in the market where the economics and strategic logic stacks up as recently demonstrated through the successful acquisition of Upp, and the sale of a minority stake in our mobile tower joint venture Cornerstone.

“Despite external pressures, we remain firmly focused on delivering for our customers in line with our core strategy.”

(i) Growth impacted by approximately £38 million of revenue and Adjusted EBTIDA resulting from a change in terms of a related-party contract in Q3.

Subscriber growth driven by demand for high quality connectivity

The **fixed customer base returned to positive growth** with 32,500 net additions in Q3, bringing the total base to 5.8 million customers at the end of the quarter. Continued demand for fast, high-quality connectivity drove 40,800 Q3 broadband net adds, as average download speeds across the company's broadband base increased 34% year-on-year to 349Mbps, approximately 5x higher than the national average.

The **contract mobile base increased** by 50,000 in Q3, whilst total mobile connections increased by 649,600 due to strong growth in IoT, wholesale, contract and prepaid connections. O2's monthly contract churn increased to 1.0%, however still remains low in the market, as customers benefited from free EU roaming over the summer period and made use of exclusive deals and perks through O2's leading loyalty app, Priority.

Virgin Media O2's leading converged consumer proposition, **Volt, continued to see sustained momentum** as it passed the milestone of over 1.75 million customers taking one of these bundles.

Operational and strategic development in network evolution

Fixed network expansion into new locations continued at record pace with build, primarily on behalf of nexfibre, seeing 250,800 additional premises passed with fibre in Q3 2023 and more than 500,000 premises passed so far this year. This ongoing expansion activity takes Virgin Media O2's total gigabit footprint to 16.7 million homes serviceable as at the end of Q3, alongside a growing fibre footprint as the company's fibre upgrade activity remains on track for completion in 2028.

In September, **fibre altnet, Upp, was acquired** through a partnership between Virgin Media O2 and nexfibre. The transaction will efficiently boost the footprint of premises that can access Virgin Media O2's converged offering. Virgin Media O2 initially purchased the provider and has begun integration and the completion of in-progress build, with nexfibre ultimately funding the acquisition through a back-to-back agreement to buy Upp's network assets. As a result of the transaction, approximately 175,000 premises will be transferred to nexfibre within the next year.

In Mobile, **5G connectivity** expanded to more than 3,200 towns and cities, remaining on track to deliver 5G services to 50% of the UK population in 2023. In September, Virgin Media O2 announced its plan to switch off 3G services in 2025 evolving its network to faster, more reliable and energy-efficient 4G and 5G connectivity.

Virgin Media O2 reached **an agreement to to sell a 16.67% minority stake in its mobile tower joint venture, Cornerstone Telecommunications Infrastructure Limited**, to the UK-based infrastructure fund, GLIL Infrastructure LLP. Virgin Media O2 will receive approximately £360 million payable in cash at closing of the transaction, which represents a multiple of 18.7x on Cornerstone's adjusted EBITDAaL for the year ended in March 2023. Cornerstone is the UK's largest mobile towers business, consisting of a nationwide network used by both Virgin Media O2 and Vodafone UK as anchor tenants.

Supporting communities through a rising cost-of-living

Virgin Media O2 further stepped up its support to communities by providing free connectivity to those in need. In partnership with technology charity, Jangala, 5,000 WiFi-enabled 'Get Boxes' will be distributed to households, community centres, refuges, and homeless shelters across the UK. This is in addition to the existing commitment to donate 61 million GB of O2 mobile data to the National Databank by the end of 2025.

Continued EBITDA progression while investing in long-term growth drivers

Revenue[1]: Q3 Transaction Adjusted Revenue increased 7.1% year-on-year to £2,771.5 million, 1.3% excluding the impact of nexfibre construction. Mobile revenue of £1,504.7 million increased 0.6%, as growth in service revenues supported by price rises were partially offset by a 4.9% reduction in handset revenues as consumers hold on to devices for longer. Fixed revenue of £963.2 million decreased 1.9%, as Consumer Fixed revenue of £838.6 million decreased 1.5%, due to continued household spend optimisation offsetting price rises, while B2B Fixed revenue of £124.6 million decreased 4.3%. Other revenue of £303.6 million increased 174.3% driven by nexfibre revenues and approximately £38 million of revenue from a change in terms of a related-party contract in Q3.

Adjusted EBITDA[1]: Q3 Transaction Adjusted EBITDA increased 5.6% year-on-year to £1,046.5 million, before £21.7 million of opex costs to capture “CTC”. The key drivers of growth were the realisation of synergies, the implementation of price rises and services provided to nexfibre, partially offset by increased energy costs. Additionally, the aforementioned £38 million related-party contract change, and a one-off release of £30 million in Q3 2022 impacted growth. Transaction Adjusted EBITDA margin declined to 37.8% in Q3 2023 compared to 38.3% in Q3 2022, due to lower margin nexfibre revenues which did not occur in the corresponding period.

Adjusted EBITDA less Capex[1]: Q3 Transaction Adjusted EBITDA less Capex increased 12.4% to £473.3 million, before opex and capex CTC of £47.9 million. This was driven by the aforementioned increased Transaction Adjusted EBITDA, as well as a reduction in P&E additions, partially offset by increased ROU asset additions.

Adjusted Free Cash Flow: Q3 Adjusted Free Cash Flow was £248.8 million.

Cash distributions to shareholders: Q3 cash distributions to shareholders were £675.0 million.

Full year 2023 guidance: We expect to deliver stable Transaction Adjusted Revenue, and mid-single-digit growth in Transaction Adjusted EBITDA (before CTC), 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.

Refinancing further strengthens capital structure to support business growth

At 30 September 2023, our fully-swapped third-party debt borrowing cost was 5.0% and the average tenor of third-party debt (excluding vendor financing) was 5.8 years.

The company further strengthened its capital position with financing activity completed in the quarter. In September, Virgin Media O2 entered into a €700.0 million sustainability-linked term loan facility (Term Loan Z), maturing 15 October 2031 and bearing interest at a rate of The Euro Interbank Offered Rate (EURIBOR) plus 3.50%. The company also entered into a $500.0 million extension of sustainability-linked Term Loan Y maturing 31 March 2031. The proceeds of both term loan facilities will be used for repayment of existing debt, with existing swaps, meaning no change in effective debt borrowing cost until 2027. In August, Virgin Media O2 extended the maturity, and introduced sustainability-linked metrics to, approximately £1,270 million of its Revolving Credit Facility (RCF) to 30 September 2029.

At 30 September 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 3.43x and 3.72x, 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 4.89x at 30 September 2023.

At 30 September 2023, the company had maximum undrawn commitments equivalent to £1,985 million, consisting of £1,378 million of RCF, and £607 million of Term Loan Z. When compliance reporting requirements have been completed and assuming no change from 30 September 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 September 2023	Three months ended 30 September 2022
Footprint		
Homes Serviceable(i)	**16,700,700**	**15,977,200**
Fixed-Line Customer Relationships		
Fixed-Line Customer Relationships(ii)	**5,824,200**	**5,780,000**
O/w Broadband Connections(ii)	5,708,100	5,631,100
Fixed-Line Customer Relationship net additions	**32,500**	**12,300**
O/w Broadband net additions	40,800	19,100
Q3 Monthly Transaction Adjusted ARPU per Fixed-Line Customer Relationship	£ 47.28	£ 48.19
Mobile		
Retail Connections	**35,065,600**	**33,507,900**
Mobile	24,069,500	24,178,100
Contract	16,103,300	16,008,400
Prepaid	7,966,200	8,169,700
IoT	10,996,100	9,329,800
Wholesale Connections	**9,539,600**	**10,647,200**
Total Mobile Connections	**44,605,200**	**44,155,100**
Retail net additions	**539,700**	**412,500**
Mobile net additions	154,000	82,100
Contract net additions	50,000	46,500
Prepaid net additions	104,000	35,600
IoT net additions	385,700	330,400
Wholesale net additions	**109,900**	**216,200**
Total Mobile net additions	**649,600**	**628,700**

(i) Excludes Upp premises where integration is underway, once complete, premises will be transferred to nexfibre and included in Virgin Media O2's homes serviceable footprint

(ii) Excludes Upp customers

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 September		Increase (decrease)	Nine months ended 30 September		Increase (decrease)
	2023	**2022**		**2023**	**2022**	
	in £ millions, except % amounts					
Transaction Adjusted Revenue						
Mobile	**1,504.7**	**1,495.8**	**0.6%**	**4,427.7**	**4,304.9**	**2.9%**
Handset	374.0	393.3	(4.9%)	1,118.6	1,111.3	0.7%
Fixed	**963.2**	**981.4**	**(1.9%)**	**2,883.7**	**2,994.1**	**(3.7%)**
Consumer Fixed	838.6	851.2	(1.5%)	2,493.4	2,571.1	(3.0%)
Subscription	823.1	833.4	(1.2%)	2,449.0	2,517.0	(2.7%)
Other	15.5	17.8	(12.9%)	44.4	54.1	(17.9%)
B2B Fixed	124.6	130.2	(4.3%)	390.3	423.0	(7.7%)
Other	**303.6**	**110.7**	**174.3%**	**779.0**	**351.1**	**121.9%**
Transaction Adjusted Revenue	**2,771.5**	**2,587.9**	**7.1%**	**8,090.4**	**7,650.1**	**5.8%**
Transaction adjustments(i)	(2.4)	(4.7)		(8.4)	(18.3)	
Total Revenue	2,769.1	2,583.2	7.2%	8,082.0	7,631.8	5.9%
Transaction Adjusted EBITDA						
Transaction Adjusted EBITDA	**1,046.5**	**991.2**	**5.6%**	**3,013.5**	**2,894.9**	**4.1%**
Transaction Adjusted EBITDA as a % of Transaction Adjusted Revenue	37.8%	38.3%		37.2%	37.8%	
Opex CTC	(21.7)	(15.8)		(60.1)	(41.0)	
Transaction Adjusted EBITDA including CTC	1,024.8	975.4	5.1%	2,953.4	2,853.9	3.5%
Transaction Adjusted EBITDA less Capex						
Transaction Adjusted EBITDA	1,046.5	991.2	5.6%	3,013.5	2,894.9	4.1%
Property & equipment additions	543.0	551.4	(1.5%)	1,548.3	1,516.1	2.1%
ROU asset additions	30.2	18.9	59.8%	83.9	72.5	15.7%
Transaction Adjusted EBITDA less Capex	**473.3**	**420.9**	**12.4%**	**1,381.3**	**1,306.3**	**5.7%**
Transaction Adjusted EBITDA less Capex as a % of Transaction Adjusted Revenue	17.1%	16.3%		17.1%	17.1%	
Opex and Capex CTC	(47.9)	(77.0)		(140.9)	(207.3)	
Transaction Adjusted EBITDA less Capex including CTC	425.4	343.9	23.7%	1,240.4	1,099.0	12.9%
Adjusted Free Cash Flow (FCF)						
Adjusted FCF	**248.8**	**89.3**		**(42.3)**	**260.8**	

(i) Revenue transaction adjustments relate to the reversal of the write-off of deferred revenue shown in Footnote (i)(b) on page 7.

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

	Three months ended 30 September		Increase (decrease)	Nine months ended 30 September		Increase (decrease)
	2023	2022		2023	2022	
	in £ millions, except % amounts					
Net (loss) profit	(311.5)	677.1		(293.4)	847.1	
Income tax (benefit) expense	(93.6)	269.6		(60.9)	298.3	
Other income, net	(4.2)	(0.6)		(12.8)	(0.1)	
Share of results of investments accounted for by the equity method	0.5	(0.6)		(1.2)	(1.2)	
Finance income	(62.5)	(2,042.9)		(925.7)	(3,466.5)	
Finance costs	754.2	1,144.8		1,651.0	2,504.4	
Operating income, net	282.9	47.4		357.0	182.0	
Depreciation and amortisation	690.5	889.8		2,459.9	2,629.1	
Share-based compensation expense	10.9	16.9		40.4	31.2	
Restructuring and other operating	39.0	25.9		91.4	37.9	
Cost to capture	21.7	15.8		60.1	41.0	
Adjusted EBITDA	1,045.0	995.8	4.9%	3,008.8	2,921.2	3.0%
Transaction adjustments(i)	1.5	(4.6)		4.7	(26.3)	
Transaction Adjusted EBITDA	**1,046.5**	**991.2**	**5.6%**	**3,013.5**	**2,894.9**	**4.1%**

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

	Three months ended 30 September		Nine months ended 30 September	
	2023	2022	2023	2022
	in £ millions			
Net cash provided by operating activities	676.6	565.4	1,614.4	1,907.7
Operating-related vendor financing additions	452.8	451.8	1,730.0	1,507.0
Capital expenditures, net	(333.6)	(304.0)	(1,053.6)	(1,071.3)
Principal payments on vendor financing	(492.4)	(580.8)	(2,169.5)	(1,915.3)
Principal payments on certain leases	(54.6)	(43.1)	(163.6)	(167.3)
Adjusted FCF	**248.8**	**89.3**	**(42.3)**	**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 £0.9 million and £9.3 million for the three months ended 30 September 2023 and 2022, respectively, and £3.7 million and £44.6 million for the nine months ended 30 September 2023 and 2022, respectively
- (b) Deferred revenue write-off of £2.4 million and £4.7 million for the three months ended 30 September 2023 and 2022, respectively, and £8.4 million and £18.3 million for the nine months ended 30 September 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 September 2023			30 June 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 (Term SOFR[2] + 2.50%) due 2028	$	3,300.0	2,703.7	2,595.1
Term Loan O (EURIBOR + 2.50%) due 2029	€	750.0	650.0	644.0
Term Loan Q (Term SOFR[2] + 3.25%) due 2029	$	1,300.0	1,065.1	1,022.3
Term Loan R (EURIBOR + 3.25%) due 2029	€	750.0	650.0	644.0
Term Loan X (SONIA[1] + 3.25%[3]) due 2027	£	1,280.0	1,280.0	1,280.0
Term Loan Y (Term SOFR[2] + 3.25%[3]) due 2031	$	1,250.0	1,024.1	589.8
Term Loan Z (EURIBOR + 3.50%[3]) due 2031	€	—	—	—
£108 million (equivalent) RCF (SONIA[1] + 2.75%) due 2026	£	—	—	—
£1,270 million (equivalent) RCF (SONIA[1] + 2.75%[3]) due 2029	£	—	—	—
VM Financing Facilities (GBP equivalent)	£	23.1	23.1	35.3
Total Senior and Senior Secured Credit Facilities			8,296.0	7,710.5
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	1,167.5	1,120.6
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	749.7	719.5
4.125% GBP Senior Secured Notes due 2030	£	480.0	480.0	480.0
3.25% EUR Senior Secured Notes due 2031	€	950.0	823.3	815.7
4.25% USD Senior Secured Notes due 2031	$	1,350.0	1,106.1	1,061.6
4.75% USD Senior Secured Notes due 2031	$	1,400.0	1,147.0	1,100.9
4.50% GBP Senior Secured Notes due 2031	£	675.0	675.0	675.0
Total Senior Secured Notes			8,398.6	8,223.3
Senior Notes:				
5.00% USD Senior Notes due 2030	$	925.0	757.9	727.4
3.75% EUR Senior Notes due 2030	€	500.0	433.3	429.3
Total Senior Notes			1,191.2	1,156.7
Vendor financing			2,811.1	2,563.3
Share of CTIL debt			203.0	180.5
Other debt			199.4	199.8
Lease obligations			779.1	786.5
Total third-party debt and lease obligations			**21,878.4**	**20,820.6**
Less: unamortised premiums, discounts, deferred financing costs and fair value adjustments, net			(15.9)	(23.8)
Total carrying amount of third-party debt and lease obligations			**21,894.3**	**20,844.4**
Less: cash and cash equivalents			544.6	623.0
Net carrying amount of third-party debt and lease obligations			**£ 21,349.7**	**£ 20,221.4**
Exchange rate (€ to £)			1.1539	1.1647
Exchange rate ($ to £)			1.2206	1.2717

[1] SONIA (Sterling Overnight Index Average) plus a credit adjustment spread
[2] Term SOFR (Term Secured Overnight Financing Rate) plus a credit adjustment spread
[3] Rates are subject to adjustment based upon the achievement or otherwise of certain ESG metrics

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 September 2023. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts in future periods.

	30 September 2023	30 June 2023
	in millions	
Total third-party debt and lease obligations (£ equivalent)	**£ 21,878.4**	**£ 20,820.6**
Vendor financing	(2,688.4)	(2,433.0)
Other debt	(199.4)	(199.8)
CTIL debt	(203.0)	(180.5)
Credit Facility excluded amount	(1,085.9)	(1,040.9)
Lease obligations	(779.1)	(786.5)
Projected principal-related cash payments (receipts) associated with our cross-currency derivative instruments	(306.5)	95.8
Total covenant amount of third-party gross debt	**16,616.1**	**16,275.7**
Cash and cash equivalents	(444.7)	(18.2)
Total covenant amount of third-party net debt	**£ 16,171.4**	**£ 16,257.5**

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 September 2023.

	30 September 2023	Covenant
Net Senior Debt to Annualised Adjusted EBITDA (last two quarters annualised)	3.43x	4.00x
Net Total Debt to Annualised Adjusted EBITDA (last two quarters annualised)	3.72x	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 connections(i) 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 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 385 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 nine months ended 30 September 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 September		Increase (decrease)	Nine months ended 30 September		Increase (decrease)
	2023	2022		2023	2022	
	in £ millions, except % amounts					
Transaction Adjusted EBITDAaL						
Transaction Adjusted EBITDA	1,046.5	991.2	5.6%	3,013.5	2,894.9	4.1%
Lease depreciation and interest costs	(54.1)	(57.9)		(167.0)	(177.1)	
Transaction Adjusted EBITDAaL	992.4	933.3	6.3%	2,846.5	2,717.8	4.7%

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.

CTIL: Cornerstone Telecommunications Infrastructure Limited

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, 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.