Condensed Consolidated Financial Statements
31 March 2024

VMED O2 UK HOLDINGS LIMITED
500 Brook Drive
Reading, RG2 6UU
United Kingdom

VMED O2 UK HOLDINGS LIMITED
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Condensed Consolidated Financial Statements

Condensed consolidated statements of financial position (unaudited)

	Note References	31 March 2024 in millions	31 December 2023 in millions
ASSETS			
Non-current assets:			
Intangible assets, net	4	£ 16,773.9	£ 17,013.1
Property, plant and equipment, net	4 and 6	9,509.8	9,370.0
Investments		11.9	11.2
Deferred tax assets	12	304.1	318.2
Related-party notes receivable	13	13,298.8	13,539.5
Derivative instruments	7 and 8	830.9	825.3
Retirement benefit asset		287.1	284.7
Trade receivables and other non-current assets	10 and 13	381.1	399.8
Total non-current assets		**41,397.6**	**41,761.8**
Current assets:			
Trade receivables and other current assets	10 and 13	2,454.3	2,382.1
Derivative instruments	7 and 8	587.5	420.6
Inventory		244.6	261.7
Related-party receivables	13	308.5	241.2
Cash and cash equivalents		65.6	243.1
Total current assets		**3,660.5**	**3,548.7**
Total assets		**£ 45,058.1**	**£ 45,310.5**
LIABILITIES AND EQUITY			
Non-current liabilities:			
Non-current debt and lease obligations	5, 6, 8 and 13	£ 18,429.0	£ 18,350.3
Retirement benefit obligation		3.1	3.1
Non-current portion of provisions	9	144.9	139.1
Derivative instruments	7 and 8	320.5	544.0
Deferred tax liabilities	12	0.4	—
Trade payables and other non-current liabilities	11 and 13	196.8	207.9
Total non-current liabilities		**19,094.7**	**19,244.4**
Current liabilities:			
Trade payables and other current liabilities	11 and 13	3,329.2	3,607.1
Current tax payable	12	7.5	1.3
Derivative instruments	7 and 8	337.1	367.6
Provisions	9	47.1	55.2
Current portion of debt and lease obligations	5, 6 and 8	3,405.4	3,425.5
Total current liabilities		**7,126.3**	**7,456.7**
Total liabilities		**26,221.0**	**26,701.1**
Owner's equity:			
Additional paid-in capital (**APIC**)		20,773.8	20,773.8
Other reserves		212.5	212.5
Accumulated loss		(2,113.9)	(2,338.7)
Accumulated other comprehensive loss		(182.0)	(184.8)
Total owner's equity		**18,690.4**	**18,462.8**
Non-controlling interests	14	146.7	146.6
Total combined equity		**18,837.1**	**18,609.4**
Total equity and liabilities		**£ 45,058.1**	**£ 45,310.5**

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

Condensed consolidated statements of profit or (loss) (unaudited)

	Note References	Three months ended 31 March			
			2024		2023
			in millions		in millions
Revenue	3 and 13	£	2,588.8	£	2,602.6
Cost of sales	13		(873.0)		(895.8)
Gross profit			**1,715.8**		**1,706.8**
Personnel expenses			(188.3)		(187.9)
Other expenses	6 and 13		(605.5)		(617.7)
Depreciation and amortisation	4		(729.5)		(912.9)
Operating profit (loss)			**192.5**		**(11.7)**
Finance income	11		448.6		326.8
Finance costs	11		(404.9)		(594.2)
Net finance income (costs)			**43.7**		**(267.4)**
Share of results of equity method investments			0.7		0.7
Other income, net			3.2		4.2
Profit (loss) before income taxes			**240.1**		**(274.2)**
Income tax (expense) benefit	12		(16.7)		83.6
Net profit (loss)		**£**	**223.4**	**£**	**(190.6)**
Net profit (loss) attributable to:					
Owners		£	223.3	£	(190.6)
Non-controlling interests	14		0.1		—
Net profit (loss)		**£**	**223.4**	**£**	**(190.6)**

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

Condensed consolidated statements of comprehensive income (loss) (unaudited)

	Note References	Three months ended 31 March 2024 in millions		2023 in millions	
Net profit (loss)		**£**	**223.4**	**£**	**(190.6)**
Other comprehensive income (loss), net of taxes:					
Items that have been or may be reclassified to the statement of profit or loss					
Foreign currency translation adjustments			2.8		(5.6)
Other comprehensive income (loss)			**2.8**		**(5.6)**
Comprehensive income (loss)		**£**	**226.2**	**£**	**(196.2)**
Comprehensive (loss) income attributable to:					
Owners		£	226.1	£	(196.2)
Non-controlling interests	14		0.1		—
Comprehensive income (loss)		**£**	**226.2**	**£**	**(196.2)**

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

Condensed consolidated statements of changes in equity (unaudited)

	APIC [(a)] in millions	Other reserves In millions	Accumulated loss in millions	Accumulated other comprehensive loss in millions	Total owner's equity in millions	Non-controlling interests [(b)] in millions	Total combined equity in millions
Balance at 1 January 2024	**£ 20,773.8**	**£ 212.5**	**£ (2,338.7)**	**£ (184.8)**	**£ 18,462.8**	**£ 146.6**	**£ 18,609.4**
Net profit	—	—	223.3	—	**223.3**	0.1	**223.4**
Other comprehensive income	—	—	—	2.8	**2.8**	—	**2.8**
Share-based compensation	—	—	1.5	—	**1.5**	—	**1.5**
Balance at 31 March 2024	**£ 20,773.8**	**£ 212.5**	**£ (2,113.9)**	**£ (182.0)**	**£ 18,690.4**	**£ 146.7**	**£ 18,837.1**

	APIC [(a)] in millions	Accumulated profit in millions	Accumulated other comprehensive loss in millions	Total owner's equity in millions
Balance at 1 January 2023	**£ 20,773.8**	**£ 720.6**	**£ (100.8)**	**£ 21,393.6**
Net loss	—	(190.6)	—	**(190.6)**
Other comprehensive loss	—	—	(5.6)	**(5.6)**
Share-based compensation	—	4.6	—	**4.6**
Balance at 31 March 2023	**£ 20,773.8**	**£ 534.6**	**£ (106.4)**	**£ 21,202.0**

(a) APIC includes share premium and the merger reserve resulting from the September 2021 Transactions. The total value recognised in APIC represents the value required to be recognised after purchase price accounting as a result of the JV Transaction (as defined and described in note 1).
(b) Non-controlling interest (**NCI**) applicable from November 2023. See note 14 for further details.

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

Condensed consolidated statements of cash flows (unaudited) (restated)[(a)]

	Note References	Three months ended 31 March 2024 in millions	Three months ended 31 March 2023 in millions
Cash flows from operating activities:			
Net profit (loss)		**£ 223.4**	**£ (190.6)**
Adjustments to reconcile net profit (loss) to net cash provided (used) by operating activities:			
Share-based compensation (gain) expense		(3.4)	13.6
Depreciation and amortisation	4	729.5	912.9
Impairment, restructuring and other operating items, net	8 and 9	7.1	13.2
Amortisation of debt premiums, deferred financing costs and non-cash interest	11	0.4	(1.0)
Share of results of equity method investments	19	(0.7)	(0.7)
Realised and unrealised (gains) losses on derivative instruments, net	5, 7 and 8	(235.1)	306.9
Foreign currency transaction losses (gains), net	11	62.4	(220.6)
Losses on debt extinguishment, net	5 and 11	0.4	4.0
Deferred income tax expense (benefit)	12	14.4	(89.0)
Interest paid		(372.1)	(320.8)
Income taxes paid		—	(0.9)
Changes in operating assets and liabilities [(a)]		(381.2)	(453.1)
Net cash provided (used) by operating activities		**£ 45.1**	**£ (26.1)**
Cash flows from investing activities:			
Capital expenditures, net [(a)]	4	£ (415.4)	£ (430.6)
Net advances (payments) to related parties	13	447.7	(68.6)
Other investing activities, net		(3.6)	6.4
Net cash provided (used) by investing activities		**£ 28.7**	**£ (492.8)**

(a) Prior year cash flows associated with certain vendor financing arrangements have been reclassified to align with classification in the 2023 Annual Bond Report. Specifically, an amount recognised within Q4 2023 has been re-phased for comparability purposes. There is no change to total Adjusted Free Cash Flow or 31 December 2023 balances.

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

Condensed consolidated statements of cash flows (unaudited) (restated)[(a)] – continued

	Note References	Three months ended 31 March 2024 in millions	2023 in millions
Cash flows from financing activities:			
Repayments of third-party debt and lease obligations:			
Principal payments on operating-related vendor financing	5	£ (887.4)	£ (668.6)
Debt (excluding vendor financing)	5	(670.4)	(990.6)
Principal payments on capital-related vendor financing	5	(227.9)	(226.7)
Principal payments on leases	6	(52.9)	(53.6)
Borrowings of third-party debt	5	750.2	1,813.0
Operating-related vendor financing additions [(a)]	5	802.8	651.6
Net borrowings of related-party debt	5 and 13	38.7	—
Payment of financing costs and debt premiums	11	(3.7)	(2.4)
Net cash paid related to derivative instruments	7	—	(3.8)
Other financing activities, net		(0.4)	—
Net cash (used) provided by financing activities		**£ (251.0)**	**£ 518.9**
Effect of exchange rate changes on cash and cash equivalents		(0.3)	(0.4)
Net decrease in cash and cash equivalents and restricted cash		**(177.5)**	**(0.4)**
Cash and cash equivalents and restricted cash:			
Beginning of period		243.1	46.0
End of period		**£ 65.6**	**£ 45.6**

(a) Prior year cash flows associated with certain vendor financing arrangements have been reclassified to align with classification in the 2023 Annual Bond Report. Specifically, an amount recognised within Q4 2023 has been re-phased for comparability purposes. There is no change to total Adjusted Free Cash Flow or 31 December 2023 balances.

Notes to condensed consolidated financial statements 31 March 2024 (unaudited)

(1) Basis of Presentation

VMED O2 UK Holdings Limited (**VMED O2**) is domiciled in England and Wales (registration number 13047827). The registered address of VMED O2 is 500 Brook Drive, Reading, RG2 6UU. VMED O2 is an integrated communications provider of mobile, broadband internet, video and fixed-line telephony services to residential customers and businesses in the United Kingdom (**UK**).

.In these notes, the terms "we," "our," "our Company" and "us" may refer, as the context requires, to VMED O2 or collectively to VMED O2 and its subsidiaries.

VMED O2 is a wholly-owned subsidiary of VMED O2 UK Limited, which is a 50:50 joint venture (the Joint Venture) that was formed on 1 June 2021 between Liberty Global Ltd (**Liberty Global**) and Telefónica, SA (through Telefónica O2 Holdings Limited) (**Telefónica**) (the **JV Transaction**) (the **Shareholders**). In these Condensed Consolidated Financial Statements, Liberty Global and Telefónica are each referred to as a "Shareholder". Prior to the completion of the JV Transaction, (i) Virgin Media was a wholly-owned subsidiary of Liberty Global that provided fixed and mobile communications services in the UK and (ii) O2 was a wholly-owned subsidiary of Telefónica that provided mobile communications services in the UK.

The unaudited, interim condensed consolidated financial statements for the period ending 31 March 2024 have been prepared in accordance with International Accounting Standard (**IAS**) 34 Interim Financial Reporting. The results of operations for any interim period are not necessarily indicative of results of the full year and do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with VMED O2's audited annual report and financial statements for the period from 1 January 2023 to 31 December 2023, which includes a description of the significant accounting policies followed in these financial statements. There has been no material diversion within our unaudited condensed consolidated financial statements at 31 March 2024 from the accounting policies adopted within the annual report and consolidated financial statements at 31 December 2023.

The Company has prepared the financial statements on the basis that it will continue to operate as a going concern. We consider that there are no material uncertainties that may cast significant doubt over this assumption. We have formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

These financial statements have been prepared under the historical cost convention and are presented in pound sterling, which is our functional currency. Unless otherwise indicated, convenience translations into pound sterling are calculated as of 31 March 2024.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through **30 May 2024.**

(2) Recent Accounting Pronouncements

New Accounting Standards, Not Yet Effective

At the date of preparation of these condensed consolidated non-statutory financial statements, the following new IAS and International Financial Reporting Standards (**IFRS**) accounting standards and amendments to existing standards had been published, but their application is not mandatory:

Standards and amendments	Title	Mandatory application: annual periods beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Asset between an investor and its Associates or Joint Venture	Available for optional adoption / effective date deferred indefinitely.
IFRS 18	Presentation and Disclosures in Financial Statements	January 2027

Based on assessments made to date, we do not expect the adoption of these new pronouncements to have a significant impact on our condensed consolidated financial statements. All standards that became effective on 1 January 2024 have been adopted with no material impact on our condensed consolidated financial statements being:

- Amendment to IAS 1: Classification of Liabilities as Current or Non-current
- Amendment to IAS 1: Non-current Liabilities with Covenants
- Amendment to IAS 7 and IFRS 7: Supplier Finance Arrangements
- Amendment to IFRS 16: Lease Liability in a Sale and Leaseback

(3) Segment Reporting

We have one reportable segment that provides mobile, broadband internet, video and fixed-line telephony services in the UK. Our revenue by major category is set forth below:

	Three months ended 31 March	
	2024	2023
	in millions	in millions
Mobile [(a)]	**£ 1,362.7**	**£ 1,429.2**
Handset	291.9	386.9
Fixed	**931.6**	**956.1**
Consumer fixed [(b)]	822.9	822.4
Subscription [(c)]	807.7	807.8
Other [(d)]	15.2	14.6
Business-to-Business (**B2B**) fixed [(e)]	108.7	133.7
Other [(f)]	**294.5**	**217.3**
Total	**£ 2,588.8**	**£ 2,602.6**

(a) Mobile revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue.

(b) Consumer fixed revenue includes subscription and other revenue for ongoing services and the recognition of deferred installation revenue over the associated contract period.

(c) Consumer fixed subscription revenue includes revenue from subscribers who purchase bundled services at a discounted rate and is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our fixed-line and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period. Additionally, we include revenue from certain small or home office (**SoHo**) subscribers who pay a premium price to receive expanded service levels that are the same or similar to the mass-marketed products offered to our residential subscribers.

(d) Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment.

(e) B2B fixed revenue includes (i) revenue from business broadband internet, video and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network.

(f) Other revenue includes primarily revenue from construction management activities provided to nexfibre, £195.5 million in the three months ended 31 March 2024, amongst other items such as corporate activities provided to nexfibre, the sale of handset insurance policies, the Smart Metering Implementation Programme (**SMIP**), the provision of information and communication technology (**ICT**) services and associated connectivity to O2 business customers and other services.

(4) Intangible Assets and Property, Plant and Equipment

Intangible Assets

Changes in the carrying amounts of our goodwill and intangible assets subject to amortisation during the three months ended 31 March 2024 are as follows:

	Goodwill	Customer relationships	Mobile spectrum licences and other	Computer software	Intangible assets in progress	Total
	in millions	in millions	in millions	in millions	in millions	in millions
Cost:						
1 January 2024	**£ 9,740.9**	**£ 7,713.0**	**£ 1,461.7**	**£ 988.4**	**£ 171.9**	**£ 20,075.9**
Additions	—	—	—	—	75.0	75.0
Assets transferred into service	—	—	—	124.8	(124.8)	—
31 March 2024	**£ 9,740.9**	**£ 7,713.0**	**£ 1,461.7**	**£ 1,113.2**	**£ 122.1**	**£ 20,150.9**
Accumulated amortisation:						
1 January 2024	**£ —**	**£ (2,213.9)**	**£ (263.6)**	**£ (585.3)**	**£ —**	**£ (3,062.8)**
Amortisation	—	(214.4)	(23.2)	(76.6)	—	(314.2)
31 March 2024	**£ —**	**£ (2,428.3)**	**£ (286.8)**	**£ (661.9)**	**£ —**	**£ (3,377.0)**
Intangible assets, net:						
31 March 2024	**£ 9,740.9**	**£ 5,284.7**	**£ 1,174.9**	**£ 451.3**	**£ 122.1**	**£ 16,773.9**
1 January 2024	**£ 9,740.9**	**£ 5,499.1**	**£ 1,198.1**	**£ 403.1**	**£ 171.9**	**£ 17,013.1**

Goodwill is not amortised but instead tested for impairment at least annually against the sole cash generating unit. If, amongst other factors, the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill and, to a lesser extent, other non-current assets. Any such impairment charges could be significant.

Property, Plant and Equipment, Net

Changes in the carrying amounts of our property, plant and equipment, net, during the three months ended 31 March 2024 are as follows:

	Plant and machinery in millions	Land and buildings in millions	Computer equipment, tools and other items in millions	Property, plant and equipment in progress in millions	Total in millions
Cost:					
1 January 2024	**£ 10,772.9**	**£ 1,182.3**	**£ 1,779.1**	**£ 584.6**	**£ 14,318.9**
Additions	24.3	51.8	—	496.4	572.5
Retirements, disposals and other	(16.0)	(21.5)	(1.4)	—	(38.9)
Assets transferred into service	392.5	10.8	93.7	(497.0)	—
31 March 2024	**£ 11,173.7**	**£ 1,223.4**	**£ 1,871.4**	**£ 584.0**	**£ 14,852.5**
Accumulated depreciation:					
1 January 2024	**£ (3,716.3)**	**£ (474.5)**	**£ (758.1)**	**£ —**	**£ (4,948.9)**
Depreciation	(286.8)	(45.4)	(83.1)	—	(415.3)
Retirements, disposals and other	10.1	10.2	1.2	—	21.5
31 March 2024	**£ (3,993.0)**	**£ (509.7)**	**£ (840.0)**	**£ —**	**£ (5,342.7)**
Property, plant and equipment, net:					
31 March 2024	**£ 7,180.7**	**£ 713.7**	**£ 1,031.4**	**£ 584.0**	**£ 9,509.8**
1 January 2024	**£ 7,056.6**	**£ 707.8**	**£ 1,021.0**	**£ 584.6**	**£ 9,370.0**

During the three months ended 31 March 2024 and 2023, we recorded non-cash increases to our property, plant and equipment related to vendor financing arrangements of £190.3 million and £173.1 million (restated), respectively, which exclude related value-added taxes (**VAT**) of £35.6 million and £32.8 million (restated), respectively, that were also financed under these arrangements.

(5) Debt

The pound sterling equivalents of the components of our third-party debt are as follows:

	31 March 2024		Principal amount	
	Weighted average interest rate [a]	Unused borrowing capacity [b] in millions	31 March 2024 in millions	31 December 2023 in millions
VMED O2 Credit Facilities [c]	8.02 %	£ 1,378.0	£ 8,176.5	£ 8,082.6
VMED O2 Senior Secured Notes	4.50 %	—	8,031.4	7,999.1
VMED O2 Senior Notes	4.54 %	—	1,160.2	1,158.3
Vendor financing [d]	6.90 %	—	2,904.3	2,991.2
CTIL Loan [e]	7.77 %	100.5	187.0	188.0
Other	6.52 %	—	300.1	293.7
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest [f]	**6.28 %**	**£ 1,478.5**	**£ 20,759.5**	**£ 20,712.9**

The following table provides a reconciliation of total third-party debt before deferred financing costs, discounts, premiums and accrued interest to total debt including interest and lease obligations:

	31 March 2024 in millions	31 December 2023 in millions
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest	**£ 20,759.5**	**£ 20,712.9**
Deferred financing costs, discounts and premiums, net	0.7	5.7
Total carrying amount of third-party debt	**£ 20,760.2**	**£ 20,718.6**
Lease obligations (note 6)	757.7	750.8
Total third-party debt and lease obligations	**£ 21,517.9**	**£ 21,469.4**
Accrued interest	268.0	297.6
Related-party debt (note 13)	48.5	8.8
Total debt including interest and lease obligations	**£ 21,834.4**	**£ 21,775.8**
Non-current debt and lease obligations	**£ 18,429.0**	**£ 18,350.3**
Current portion of debt and lease obligations	**£ 3,405.4**	**£ 3,425.5**

(a) Represents the weighted average interest rate in effect at 31 March 2024 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of deferred financing costs, the weighted average interest rate on our aggregate third-party variable and fixed-rate indebtedness was 5.01% at 31 March 2024. For information regarding our derivative instruments, see note 7.

(b) Unused borrowing capacity under the VMED O2 Credit Facilities amounts to £1,378.0 million relating to the revolving credit facility, of which £54.0 million matures in 2026 and the remainder in 2029 . Unused borrowing capacity represents the maximum availability under the VMED O2 Credit Facilities at 31 March 2024 without regard to covenant compliance calculations or other conditions precedent to borrowing. At 31 March 2024, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests £1,378.0 million of unused borrowing capacity was available to be borrowed and there were no restrictions on our ability to make loans or distributions from this availability to other VMED O2 subsidiaries and ultimately to VMED O2 UK Limited.
Upon completion of the relevant 31 March 2024 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect £1,378.0 million of unused borrowing capacity will continue to be available, with no restrictions to loan or distribute. Our above expectations do not consider any actual or potential changes to our borrowing levels or any amounts loaned or distributed subsequent to 31 March 2024, or the impact of additional amounts that may be available to borrow, loan or distribute under certain defined baskets within the VMED O2 Credit Facilities.
The Cornerstone Telecommunications Infrastructure Limited (**CTIL**) Loan is a revolving loan facility with maximum borrowing capacity equivalent to £575.0 million (as defined and described below). At 31 March 2024, our proportional share of the unused borrowing capacity of the CTIL Loan was £100.5 million. See paragraph (e) for further information regarding the CTIL loan.

(c) As of 31 March 2024 and 31 December 2023, principal amounts include £103.0 million and £37.0 million, respectively, of borrowings pursuant to excess cash facilities under the VMED O2 Credit Facilities. These borrowings are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.

(d) Represents amounts owed to various creditors pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, plant and equipment additions and operating expenses. These arrangements extend our repayment terms beyond a vendor's ordinary due dates (e.g., extension beyond a vendor's customary payment terms) and as such are classified outside of accounts payable as debt in our condensed consolidated statements of financial position. These obligations are generally due within one year and include VAT that was also financed under these arrangements. For purposes of our condensed consolidated statements of cash flows, operating-related expenses financed by an intermediary are treated as constructive operating cash outflows and constructive financing cash inflows when the intermediary settles the liability with the vendor as there is no actual cash outflow until we pay the financing intermediary. During the three months ended 31 March 2024 and 2023, the constructive cash outflows included in cash flows from operating activities and the corresponding constructive cash inflows included in cash flows from financing activities related to these operating expenses were £802.8 million and £651.6 million (restated), respectively. Repayments of vendor financing obligations at the time we pay the financial intermediary are included in repayments of third-party debt and lease obligations in our condensed consolidated statements of cash flows.

(e) Represents our proportional share of the third-party debt of CTIL, a £575.0 million revolving loan facility (the **CTIL Loan**). The CTIL Loan was issued at par, matures on 6 January 2027 and bears interest at a rate of Sterling Overnight Index Average (**SONIA**) + 2.0%, subject to a SONIA floor of 0.0%. CTIL periodically draws down and repays the CTIL Loan. We have determined our interest in CTIL, which is principally engaged in maintaining and managing the passive assets supporting the mobile wireless network of Vodafone Limited (**Vodafone**) and Telefonica UK Limited (a subsidiary of VMED O2), to be classified as a joint operation (see note 14 for further details), and as such, the assets, liabilities (including the CTIL Loan), revenue, expenses and share of commitments have been recognised in proportion to VMED O2's contribution to the joint operation within our Condensed Consolidated Financial Statements.

(f) As of 31 March 2024 and 31 December 2023, our debt had an estimated fair value of £19.5 billion and £19.8 billion, respectively. The estimated fair values of our debt instruments are generally determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 8.

Financing Transactions

Below we provide summary descriptions of certain financing transactions completed during 2024. In general, a portion of our financing transactions may include non-cash borrowings and repayments. During the three months ended 31 March 2024, our non-cash borrowings and repayments aggregated nil.

In January 2024, we drew down €20.0 million under Term Loan Z. The proceeds were used for refinancing.

In January 2024, we utilised the Revolving Facility, drawing down an aggregate amount of £360.0 million. £260.0 million of which was subsequently repaid in February and March 2024.

In February, we reduced our 2026 tranche of the Revolving Facility by £54.2 million.

In March 2024, certain lenders under Term Loan X extended the maturity of their commitments to 30 September 2029. This was effected by way of such lenders under Term Loan X converting their respective commitments in Term Loan X into commitments under a new Term Loan X1. Term Loan X was then reduced by £46.8 million resulting in the residual principal amount of £236.9 million. The principal amount of Term Loan X1 is £750.0 million (which includes additional borrowings of £33.7 million). The additional proceeds, £33.7 million, will be used for refinancing.

Maturities of Debt

Maturities of our debt as of 31 March 2024 are presented below:

	Third-party debt [a]	Related-party debt	Total
	in millions	in millions	in millions
Year ending 31 December:			
2024 (remainder of the year)	£ 2,805.3	£ 48.5	£ 2,853.8
2025	155.5	—	155.5
2026	321.7	—	321.7
2027	1,450.5	—	1,450.5
2028	2,624.4	—	2,624.4
2029	5,131.0	—	5,131.0
Thereafter	8,271.1	—	8,271.1
Total debt maturities [b]	**20,759.5**	**48.5**	**20,808.0**
Accrued interest	268.0	—	268.0
Deferred financing costs, discounts and premiums, net	0.7	—	0.7
Total debt	**£ 21,028.2**	**£ 48.5**	**£ 21,076.7**
Non-current portion	**£ 17,820.0**	**£ —**	**£ 17,820.0**
Current portion	**£ 3,208.2**	**£ 48.5**	**£ 3,256.7**

(a) Amounts include Special Purpose Entity (**SPE**) Notes issued by the SPEs which, as described above, are consolidated by VMED O2.

(b) Amounts include vendor financing obligations of £2,904.3 million, as set forth below (in millions):

Year ending 31 December:	
2024 (remainder of the year)	£ 2,708.6
2025	155.5
2026	21.5
2027	14.4
2028	4.3
Total vendor financing maturities [1]	**£ 2,904.3**
Non-current portion	**£ 62.0**
Current portion	**£ 2,842.3**

(1) Virgin Media Vendor Financing Notes III Designated Activity Company and Virgin Media Vendor Financing Notes IV Designated Activity Company (together, the **2020 VM Financing Companies**) have issued an aggregate £1,296.0 million equivalent of notes maturing in July 2028. The net proceeds from these notes are used by the 2020 VM Financing Companies to purchase from various third parties certain vendor financed receivables owed by certain of our subsidiaries. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund excess cash facilities under our senior credit facilities. The 2020 VM Financing Companies can request the excess cash facilities be repaid by certain of our subsidiaries as additional vendor financed receivables become available for purchase.

Vendor Financing Obligations

A reconciliation of the beginning and ending balances of our vendor financing obligations for the indicated periods is set forth below:

	2024	2023 (restated)
	in millions	In millions
Balance at 1 January	£ 2,991.2	£ 2,442.7
Operating-related vendor financing additions [a]	802.8	651.6
Capital-related vendor financing additions [a]	190.3	173.1
Principal payments on operating-related vendor financing	(887.4)	(668.6)
Principal payments on capital-related vendor financing	(227.9)	(226.7)
Foreign currency and other	35.3	32.8
Balance at 31 March	**£ 2,904.3**	**£ 2,404.9**

(a) Prior year cash flows associated with certain vendor financing arrangements have been reclassified to align with classification in the 2023 Annual Bond Report. Specifically, an amount recognised within Q4 2023 has been re-phased for comparability purposes. There is no change to total Adjusted Free Cash Flow or 31 December 2023 balances.

(6) Leases

General

We enter into leases for network equipment, real estate and vehicles. We provide residual value guarantees on certain of our vehicle leases.

Right of Use (ROU) Assets

A summary of the changes in our ROU assets for the three months ended 31 March 2024 is set forth below:

	Plant and machinery in millions	Land and buildings in millions	Total in millions
Cost:			
1 January 2024	**£ 240.5**	**£ 892.1**	**£ 1,132.6**
Additions	24.3	51.8	76.1
Retirements and disposals	(16.6)	(20.1)	(36.7)
31 March 2024	**£ 248.2**	**£ 923.8**	**£ 1,172.0**
Accumulated depreciation:			
1 January 2024	**£ (125.7)**	**£ (329.8)**	**£ (455.5)**
Depreciation	(13.7)	(33.2)	(46.9)
Retirements and disposals	7.3	10.0	17.3
31 March 2024	**£ (132.1)**	**£ (353.0)**	**£ (485.1)**
ROU assets, net:			
31 March 2024	**£ 116.1**	**£ 570.8**	**£ 686.9**
1 January 2024	£ 114.8	£ 562.3	£ 677.1

Our ROU assets are included in property, plant and equipment, net, in our condensed consolidated statements of financial position. At 31 March 2024 the weighted average remaining lease term of our ROU assets was 9.1 years.The weighted average discount rate for 31 March 2024 was 5.4%. During the three months ended 31 March 2024 and 2023, we recorded non-cash additions to our ROU assets associated with leases of £76.1 million and £30.6 million, respectively.

Lease Liabilities

Maturities of our lease liabilities as of 31 March 2024 are presented below (in millions):

Not later than one year	£ 184.2
Later than one year and not later than five years	484.1
Later than five years	362.1
Total payments	**1,030.4**
Less: present value discount	(272.7)
Present value of lease payments	**£ 757.7**
Non-current portion [(a)]	**£ 609.0**
Current portion [(a)]	**£ 148.7**

(a) The non-current and current portions of our lease liabilities are included within non-current debt and lease obligations and current portion of debt and lease obligations, respectively, in our condensed consolidated statements of financial position.

Lease Expense

A summary of our aggregate lease expense is set forth below:

	Three months ended 31 March	
	2024 in millions	2023 in millions
Depreciation:		
Land and buildings	£ 33.2	£ 33.4
Plant and machinery	13.7	14.1
Total depreciation	**46.9**	**47.5**
Interest expense	9.6	9.3
Total lease expense	**£ 56.5**	**£ 56.8**

Expenses relating to leases of low-value assets and short-term leases for which no ROU asset or lease liability has been recognised were not material.

Cash Flows from Leases
Our total cash outflows from leases recorded during the three months ended 31 March 2024 and 2023 were £57.7 million and £57.0 million, respectively.

(7) Derivative Instruments

In general, we enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than the functional currency of the borrowing entity. In this regard, we have entered into various derivative instruments to manage interest rate exposure and foreign currency exposure with respect to the United States (**US**) dollar (**$**) and the euro (**€**). We do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most of our derivative instruments are recorded in finance income or costs in our condensed consolidated statements of profit or loss.

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

	31 March 2024			31 December 2023		
	Non-current in millions	Current in millions	Total in millions	Non-current in millions	Current in millions	Total in millions
Assets:						
Cross-currency derivative contracts [a]	£ 303.1	£ 245.4	£ 548.5	£ 337.3	£ 166.8	£ 504.1
Interest rate derivative contracts [a]	527.8	341.8	869.6	488.0	253.3	741.3
Foreign currency forward and option contracts	—	0.3	0.3	—	0.5	0.5
Total	**£ 830.9**	**£ 587.5**	**£ 1,418.4**	**£ 825.3**	**£ 420.6**	**£ 1,245.9**
Liabilities:						
Cross-currency derivative contracts [a]	£ 261.2	£ 108.1	£ 369.3	£ 339.7	£ 57.9	£ 397.6
Interest rate derivative contracts [a]	59.3	227.8	287.1	204.3	309.3	513.6
Foreign currency forward and option contracts	—	1.2	1.2	—	0.4	0.4
Total	**£ 320.5**	**£ 337.1**	**£ 657.6**	**£ 544.0**	**£ 367.6**	**£ 911.6**

(a) We consider credit risk relating to our and our counterparties' non-performance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net (losses) gains of (£3.0 million) and £26.6 million during the three months ended 31 March 2024 and 2023, respectively. These amounts are included in finance costs and finance income, respectively, in our condensed consolidated statements of profit or loss. For additional information regarding our fair value measurements, see note 8.

The details of our realised and unrealised gains (losses) on derivative instruments, net, are set forth below:

	Three months ended 31 March	
	2024 in millions	2023 in millions
Cross-currency derivative contracts	£ 121.0	£ (252.7)
Interest rate derivative contracts	114.8	(53.3)
Foreign currency forward and option contracts	(0.7)	(0.9)
Total	**£ 235.1**	**£ (306.9)**

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our condensed consolidated statements of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. The following table sets forth the classification of the net cash outflows of our derivative instruments:

	Three months ended 31 March	
	2024 in millions	2023 in millions
Operating activities	£ (191.5)	£ (173.6)
Financing activities	—	(3.8)
Total	**£ (191.5)**	**£ (177.4)**

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions, however notwithstanding, given the size of our derivative portfolio, the default of certain counterparties could have a significant impact on our condensed consolidated statements of profit or loss. Collateral is generally not posted by either party under the terms of our derivative instruments. At 31 March 2024 and 31 December 2023, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £776.2 million and £567.9 million respectively.

We have entered into derivative instruments under master agreements with each counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument. The master netting arrangements are limited to the derivative instruments governed by the relevant master agreement and are independent of similar arrangements.

Under our derivative contracts, it is generally only the non-defaulting party that has a contractual option to exercise early termination rights upon the default of the other counterparty and to set off other liabilities against sums due upon such termination. However, in the event of an insolvency of a derivative counterparty, under the laws of certain jurisdictions, the defaulting counterparty or its insolvency representatives may be able to compel the termination of one or more derivative contracts and trigger early termination payment liabilities payable by us, reflecting any mark-to-market value of the contracts for the counterparty. Alternatively, or in addition, the insolvency laws of certain jurisdictions may require the mandatory set off of amounts due under such derivative contracts against present and future liabilities owed to us under other contracts between us and the relevant counterparty. Accordingly, it is possible that we may be subject to obligations to make payments, or may have present or future liabilities owed to us partially or fully discharged by set off as a result of such obligations, in the event of the insolvency of a derivative counterparty, even though it is the counterparty that is in default and not us. To the extent that we are required to make such payments, our ability to do so will depend on our liquidity and capital resources at the time. In an insolvency of a defaulting counterparty, we will be an unsecured creditor in respect of any amount owed to us by the defaulting counterparty, except to the extent of the value of any collateral we have obtained from that counterparty.

In addition, where a counterparty is in financial difficulty, under the laws of certain jurisdictions, the relevant regulators may be able to (i) compel the termination of one or more derivative instruments, determine the settlement amount and compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty.

Details of our Derivative Instruments

Cross-currency Derivative Contracts

We generally match the denomination of our borrowings with the functional currency of the supporting operations or, when it is more cost effective, we provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 March 2024, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts:

31 March 2024					31 December 2023				
Notional amount due from counterparty		Notional amount due to counterparty		Weighted average remaining life	Notional amount due from counterparty		Notional amount due to counterparty		Weighted average remaining life
in millions		in millions		in years	in millions		in millions		in years
$	16,222.9	£	12,834.2 (a)	3.7	$	15,472.9	£	12,239.6 (a)	3.9
€	4,420.0	£	3,935.8	5.3	€	3,800.0	£	3,403.7	5.5
£	1,005.5	$	1,445.0 (b)	0.8	£	1,005.5	$	1,445.0 (b)	1.1
$	500.0	£	394.2	1.3	$	500.0	£	394.2	1.5
$	166.6	€	150.0	4.5	$	166.6	€	150.0	4.5

(a) Includes certain derivative instruments that are "forward-starting," such that the initial exchange occurs at a date subsequent to 31 March 2024. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

(b) These derivative instruments do not involve the exchange of notional amounts at the inception and maturity of the instruments. Accordingly, the only cash flows associated with these derivative instruments are coupon-related payments and receipts

Interest Rate Swap Contracts
The following table sets forth the total pound sterling equivalents of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts:

	Pay fixed rate [a]		Receive fixed rate	
	Notional amount in millions	Weighted average remaining life in years	Notional amount in millions	Weighted average remaining life in years
31 March 2024	£ 12,046.0	3.3	£ 4,680.1	1.2
31 December 2023	£ 10,883.8	3.2	£ 4,510.2	1.3

(a) Includes forward-starting derivative instruments.

Interest Rate Swap Options
From time to time, we enter into interest rate swap options (**swaptions**), which give us the right, but not the obligation, to enter into certain interest rate swap contracts at set dates in the future. Such contracts typically have a life of no more than three years. At the transaction date, the strike rate of each of these contracts was above the corresponding market rate. As of 31 March 2024, the option expiration period on each of our swaptions had expired.

Basis Swaps
Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and (iii) the borrowing period. We typically enter into these swaps to optimise our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At 31 March 2024 and 31 December 2023, the total pound sterling equivalent of the notional amounts due from the counterparty was £5.5 billion and £5.5 billion, respectively. The related weighted average remaining contractual life of our basis swap contracts at 31 March 2024 and 31 December 2023 were 0.4 years and 0.3 years, respectively.

Interest Rate Caps and Floors
From time to time, we enter into interest rate cap and floor agreements. Purchased interest rate caps lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Purchased interest rate floors protect us from interest rates falling below a certain level, generally to match a floating rate floor on a debt instrument. At 31 March 2024, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1.3 billion and £4.4 billion, respectively. At 31 December 2023, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1.3 billion and £4.4 billion, respectively.

Impact of Derivative Instruments on Borrowing Costs
Excluding forward-starting instruments and swaptions, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was a decrease of 127 basis points and 95 basis points to our borrowing costs at 31 March 2024 and 31 December 2023, respectively.

Foreign Currency Forwards and Options
We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of 31 March 2024 and 31 December 2023, the total of the notional amounts of our foreign currency forward and option contracts was £284.4 million and £160.6 million, respectively.

(8) Fair Value Measurements
We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of 31 March 2024 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

In order to manage our interest rate and foreign currency exchange risk, we have entered into various derivative instruments, as further described in note 7. The recurring fair value measurements of these instruments are determined using discounted cash flow models. With the exception of the inputs for certain swaptions, most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these instruments. This observable data mostly includes currency rates, interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We use a Monte Carlo based approach to incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own non-performance risk and the non-performance risk of our counterparties. The inputs used for our credit risk valuations, including our and our counterparties' credit spreads, represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect these parameters to have a significant impact on the valuations of these instruments, we have determined that these valuations (other than the valuations of the aforementioned swaptions) fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency and interest rate swaps are quantified and further explained in note 7.

Fair value measurements are also used in connection with non-recurring valuations. These non-recurring valuations primarily include intangible assets subject to amortisation, including customer relationships and mobile spectrum licences, property, plant and equipment and the implied value of goodwill. The implied value of goodwill is determined by allocating the fair value of a Cash Generating Unit (**CGU**) to all of the assets and liabilities of that unit as if the CGU had been acquired in a business combination, with the residual amount allocated to goodwill. All of our non-recurring valuations, except for third-party debt, as further described below, use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy.

The fair values of our financial assets, financial liabilities and inventory, together with the carrying amounts shown in our condensed consolidated statements of financial position are as follows:

		31 March 2024		31 December 2023	
	Fair value hierarchy under IFRS 13 [(a)]	**Carrying amount in millions**	**Fair value in millions**	**Carrying amount in millions**	**Fair value in millions**
Assets carried at fair value:					
Derivative financial instruments (note 7)	II	£ 1,418.4	£ 1,418.4	£ 1,245.9	£ 1,245.9
Assets carried at cost or amortised cost:					
Trade receivables and unbilled revenue	I	£ 966.8	£ 966.8	£ 1,002.0	£ 1,002.0
Loans receivable – related-party (note 13)	I	13,298.8	13,298.8	13,539.5	13,539.5
Inventory	I	244.6	244.6	261.7	261.7
Restricted cash	I	44.1	44.1	43.4	43.4
Other current and non-current financial assets	I	1,169.2	1,169.2	1,126.0	1,126.0
Cash and cash equivalents	I	65.6	65.6	243.1	243.1
Total		**£ 15,789.1**	**£ 15,789.1**	**£ 16,215.7**	**£ 16,215.7**
Liabilities carried at fair value:					
Derivative financial instruments (note 7)	II	£ 657.6	£ 657.6	£ 911.6	£ 911.6
Liabilities carried at cost or amortised cost:					
Debt obligations (note 5)	I	£ 20,760.2	£ 19,522.8	£ 20,718.6	£ 19,797.9
Loans payable – related-party (note 13)	I	48.5	48.5	8.8	8.8
Accrued liabilities	I	1,150.7	1,150.7	1,076.6	1,076.6
Trade payables and other liabilities	I	1,132.7	1,132.7	1,463.6	1,463.6
Lease obligations (note 6)	I	757.7	757.7	750.8	750.8
Total		**£ 23,849.8**	**£ 22,612.4**	**£ 24,018.4**	**£ 23,097.7**

(a) Level I refers to financial assets and liabilities measured at amortised cost, Levels II and III refer to financial assets and liabilities measured at fair value through profit or loss. Inventory is measured at cost less impairment.

(9) Provisions

A summary of the changes in our provisions during the three months ended 31 March 2024 is set forth below:

	Restructuring [(a)] in millions	**Asset retirement obligations [(b)] in millions**	**Other in millions**	**Total in millions**
Balance at 1 January 2024	**£ 48.0**	**£ 141.5**	**£ 4.8**	**£ 194.3**
Additions to property, plant and equipment	—	8.2	—	8.2
Net charges (credits) included in other expenses in the condensed consolidated statements of profit or loss	7.5	(1.3)	(0.1)	6.1
Cash payments	(16.5)	(0.1)	—	(16.6)
Balance at 31 March 2024	**£ 39.0**	**£ 148.3**	**£ 4.7**	**£ 192.0**

(a) Restructuring provisions include the full cost of planned business restructuring programmes entered into during the year, most of which are expected to be completed within the next 12 months.

(b) VMED O2 has certain legal obligations, principally relating to the restoration of leased property to its original condition at the end of the lease term. The provision is based on assumptions covering the discount rate, expected lease renewals and the expected cost of restoring the sites. The payment dates of these asset retirement costs are uncertain, but are currently as of 31 March 2024 and 31 December 2023, anticipated to be over the next 22 years and 26 years, respectively. The provision recognised represents the best estimate of the expenditure required to settle the present obligation at 31 March 2024. Such cost estimations, expressed at current price levels at the date of the estimate are discounted at 31 March 2024 and 31 December 2023 using rates in the range of 3.6% to 4.4% and 3.8% to 4.1%, respectively, per annum. The initial discounted cost amount has been capitalised as part of property, plant and equipment and depreciated over the life of the assets.

(10) Revenue Recognition and Related Costs

Contract Assets & Liabilities

Our contract assets were £741.1 million and £722.6 million as of 31 March 2024 and 31 December 2023, respectively. The non-current and current portions of our contract assets are included within trade receivables and other non-current assets and trade receivables and other current assets, respectively, in our condensed consolidated statements of financial position.

Our contract liabilities were £648.7 million and £639.5 million as of 31 March 2024 and 31 December 2023, respectively. The non-current and current portions of our contract liabilities are included within trade payables and other non-current liabilities and trade payables and other current liabilities, respectively, in our condensed consolidated statements of financial position.

Contract-related Costs

Contract-related costs refer to incremental costs incurred to obtain customer contracts, principally sales commissions. These are recognised as assets, and amortised over the applicable period benefited, generally the contract life. If, however the amortisation period is less than one year, we expense such costs in the period incurred. Our contract-related costs were £147.7 million and £153.5 million as of 31 March 2024 and 31 December 2023, respectively. The non-current and current portions are included within trade receivables and other-non current assets and trade receivables and other current assets, respectively in our condensed consolidated statements of financial position. We amortised £45.5 million and £36.7 million during the three months ended 31 March 2024 and 2023, respectively, to operating costs and expenses related to these assets.

(11) Finance Income and costs

A summary of the finance income and costs that are included in our net finance income (costs) is set forth below:

	Three months ended 31 March	
	2024	**2023**
	in millions	**in millions**
Finance income:		
Interest income	£ 213.5	£ 106.2
Realised and unrealised gains on derivative instruments	235.1	—
Foreign currency transaction gains	—	220.6
Total finance income	**448.6**	**326.8**
Finance costs:		
Interest expense	£ (342.1)	£ (283.3)
Realised and unrealised losses on derivative instruments	—	(306.9)
Foreign currency transaction losses	(62.4)	—
Losses on debt extinguishment	(0.4)	(4.0)
Total finance costs	**(404.9)**	**(594.2)**
Net finance income (costs)	**£ 43.7**	**£ (267.4)**

(12) Income Taxes

Our interim tax (expense) benefit is calculated in accordance with IAS 34 — Interim Financial Reporting and is based on management's best estimate of the effective tax rate for the period applied to profit or loss before income taxes and adjusted for tax on discrete items. The major components of income tax (expense) benefit included in our condensed consolidated statements of profit or loss are as follows:

	Three months ended 31 March	
	2024	**2023**
	in millions	**in millions**
Income taxes:		
Current income tax expense	£ (2.3)	£ (5.4)
Deferred income tax (expense) benefit relating to origination and reversal of temporary differences	(14.4)	89.0
Total income tax (expense) benefit	**£ (16.7)**	**£ 83.6**

The effective tax rate for the three months ended 31 March 2024 is 7.0%. This results in an income tax expense lower than the expected income tax expense of £60.0 million, based on the UK corporate income tax rate of 25%, primarily due to the net positive impact of group relief claimed for nil consideration, partially offset by the net negative impact of certain income subject to US federal income tax.

The effective tax rate for the three months ended 31 March 2023 was 30.5%. This resulted in an income tax benefit higher than the expected income tax benefit of £64.4 million, based on the blended UK corporate income tax rate of 23.5%, primarily due to the net positive impact of group relief claimed for nil consideration, partially offset by the net negative impact of certain income subject to US federal income tax.

The UK corporate income tax rate increased from 19.0% to 25.0% from 1 April 2023.

A 15.0% corporate alternative minimum tax (**CAMT**) applies in the US on "adjusted financial statement income" for tax years beginning after 31 December 2022. CAMT did not have an impact on our Condensed Consolidated Financial Statements as at 31 March 2024. We will continue to monitor additional guidance as it is issued to assess the impact to our tax position.

A global minimum effective tax rate of 15.0% applies in the UK for accounting periods starting on or after 31 December 2023. The legislation implements a domestic top-up tax and a multinational top-up tax. This legislation did not have a material impact on our financial statements as at 31 March 2024. We will continue to monitor future legislation and any additional guidance that is issued.

(13) Related-party Transactions

Our significant related-party agreements are set forth below.

Shareholders Agreement

We are a wholly-owned subsidiary of VMED O2 UK Limited. Liberty Global and Telefónica (the **Shareholders**) each hold 50% of the issued share capital of VMED O2 UK Limited. The Shareholders have an agreement (the **Shareholders Agreement**) which contains customary provisions for the governance of a 50:50 joint venture that result in Liberty Global and Telefónica having joint control over decision making with respect to the Joint Venture and each Shareholder has the right to initiate an initial public offering after the third anniversary of the closing.

The Shareholders Agreement also provides (i) for a dividend policy that requires VMED O2 UK Limited, subject to certain exceptions, to distribute all unrestricted cash to the Shareholders as soon as reasonably practicable following each quarterly period (subject to our Company maintaining a minimum amount of cash and complying with the terms of our financing arrangements) and (ii) that VMED O2 UK Limited will be managed with a leverage ratio between 4.0 and 5.0 times EBITDA (as defined in the Shareholders Agreement), including the completion of periodic recapitalisations and/or refinancings.

Charges for JV Services - Framework Services Agreements

Pursuant to the framework services agreements (collectively, the **JV Service Agreements**) entered into in connection with the closing of the JV Transaction, Liberty Global and Telefónica charge VMED O2 UK Limited fees, which our parent passes through, for certain services provided to us by the Shareholders and their respective subsidiaries (collectively, the **JV Services**). The JV Services are provided to us on a transitional or ongoing basis. Pursuant to the terms of the JV Service Agreements, both the ongoing services and transitional services are provided for specified terms from the 1 June 2021 formation of the Joint Venture. The JV Services provided by the Shareholders and their respective subsidiaries consist primarily of (i) technology and other services, (ii) capital-related expenditures for assets that we use or otherwise benefit us, (iii) brand name and procurement fees and (iv) certain corporate services. The fees that Liberty Global and Telefónica charge us for the JV Services, as set forth in the table below, include both fixed and usage-based fees.

During the first quarter of 2024, we changed the terms related to and approach to how we reflect charges for certain products and services received from Liberty Global under the JV Services Agreement, specifically Customer Premise Equipment (**CPE**) hardware and embedded essential software. As a result of a contractual change, we now procure and capitalise the combined cost of the CPE hardware and the embedded essential software as property, plant and equipment additions. Previously while CPE hardware was capitalised it was procured directly by VMED O2, with the related embedded essential software procured through Liberty Global and reflected within Other expenses in the comparative period.

Fibre Joint Venture Agreements

In December 2022, Liberty Global and Telefónica, along with investment firm InfraVia Capital Partners, formed a new fibre joint venture to build a wholesale Fibre-To-The-Home (**FTTH**) network in the UK under the brand name nexfibre. nexfibre is rolling out fibre to 5 million greenfield homes not currently served by VMED O2's network by 2026, with the option to expand to an additional 2 million greenfield homes. VMED O2 is an anchor tenant of the new network, extending its total fibre footprint to up to 23 million homes, as well as providing its well-established network expansion expertise, systems and relationships to nexfibre, including construction, IT, technology and corporate services.

All related-party transactions relate to regular trading activities of our Company and are on an arm's length basis. Our related-party transactions consist of the following:

	Three months ended 31 March			
	2024		2023	
	in millions		in millions	
Credits (charges) included in:				
Revenue	£	276.0	£	171.0
Cost of sales		(0.4)		(0.3)
Other expenses		(45.0)		(70.2)
Share-based compensation expense		(1.5)		(4.6)
Included in operating profit (loss)		**229.1**		**95.9**
Interest income		207.2		101.2
Interest expense		(2.3)		(2.4)
Included in net profit (loss)	**£**	**434.0**	**£**	**194.7**
Property, plant and equipment transfers, net	**£**	**11.6**	**£**	**—**

Revenue. Amounts primarily consist of our charges to nexfibre, charges to the Tesco Mobile Limited (**Tesco Mobile**) joint venture, commissions from Telefónica for handset insurance policy sales and to a lesser extent, roaming charges to Telefónica.

Cost of sales. Amounts primarily consist of interconnect, roaming, lease and access fees and other services provided to us by certain subsidiaries of Liberty Global and Telefónica.

Other expenses. Amounts primarily consist of support function staffing, network and technology services provided to us by certain subsidiaries of Liberty Global and Telefónica, as well as brand and licensing fees payable to Telefónica for use of the "O2", "O2 Refresh" and "Priority" brands.

Share-based compensation expense. Amounts relate to charges for share-based incentive awards held by certain employees of our subsidiaries associated with ordinary shares of Liberty Global and Telefónica. Such awards were granted to employees prior to the closing of the JV Transaction. Share-based compensation expense is included in other expenses in our condensed consolidated statements of profit or loss.

Interest income. Amounts primarily represent interest accrued on the VMED O2 UK Limited Receivable (as defined below).

Interest expense. Amounts represent interest expense on non-current related-party debt, as further described below.

Property, plant and equipment transfers, net. Amounts represent net transfers with certain Liberty Global subsidiaries and associates.

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

	31 March 2024		31 December 2023	
	in millions		in millions	
Assets:				
Non-current receivables [(a)]	£	13,298.8	£	13,539.5
Trade receivables [(b)]		69.4		75.5
Other current receivables [(c)]		308.5		241.2
Total	**£**	**13,676.7**	**£**	**13,856.2**
Liabilities:				
Lease obligations [(d)]	£	107.8	£	108.5
Non-current Related-party debt [(e)]		—		8.8
Current Related-party debt [(f)]		48.5		—
Accounts payable [(g)]		180.8		225.3
Accrued and other liabilities [(g)]		100.1		91.0
Total	**£**	**437.2**	**£**	**433.6**

(a) Amounts represent interest-bearing loan receivables due from VMED O2 UK Limited (the **VMED O2 UK Limited Receivables**), which bear interest at a rate of 6.4%.
(b) Amounts primarily relate to trade receivables arising from our charges to Tesco Mobile.
(c) Amounts primarily relate to non-interest bearing receivables due from VMED O2 UK Limited and from certain Liberty Global and Telefónica subsidiaries, and accrued income from nexfibre.
(d) Amounts represent lease obligations with certain Liberty Global subsidiaries and associates.
(e) Amounts in the prior year represented interest-bearing loans due to VMED O2 UK Limited, which bear interest at a rate of 4.4% and mature on 18 December 2025. The loan was fully repaid Q1 2024.
(f) Amounts relate to the value associated with Telefónica Factoring España, S.A., which bear interest at a rate of 7.2%.
(g) Amounts represent both non-interest and interest-bearing payables, accrued capital expenditures and other accrued liabilities related to transactions with VMED O2 UK Limited and certain Liberty Global and Telefónica subsidiaries and associates, which are periodically cash settled.

(14) Non-controlling Interests (NCI)

In November 2023, we sold a minority stake in CTIL to the UK-based infrastructure fund GLIL Infrastructure LLP (**GLIL**). The sale was structured through Granstone Holdco Limited (formally VMED O2 UK Networks), a subsidiary undertaking of VMED O2, which continues to own the 50% share of CTIL. GLIL purchased 33.3% of Granstone Holdco Limited with VMED O2 owning the remaining 66.7%. VMED O2 continues to proportionally consolidate Granstone Holdco Limited, but recognises a non-controlling interest for the proportion of Granstone Holdco Limited's consolidated results attributable to GLIL.

The following table summarises VMED O2's interest in Granstone Holdco Limited and the relevant non-controlling interest:

	31 March 2024 In millions	31 December 2023 In millions
Non-current assets	£ 1,063.5	£ 1,067.9
Current assets	151.9	125.6
Non-current liabilities	(570.2)	(559.0)
Current liabilities	(204.7)	(194.3)
Net assets	**£ 440.5**	**£ 440.2**
Net assets attributable to non-controlling interest	£ 146.7	£ 146.6

	Three months ended 31 March 2024 In millions
Revenue	£ 23.4
Net profit	**£ 0.3**
Net profit attributable to non-controlling interest	£ 0.1

(15) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our Company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, JV service agreements, purchases of customer premise and other equipment and services and other items. The following table sets forth the pound sterling equivalents of such commitments as of 31 March 2024. The commitments included in this table do not reflect any liabilities that are included in our 31 March 2024 condensed consolidated statement of financial position.

	Payments due during							
	Remainder of 2024 in millions	2025 in millions	2026 in millions	2027 in millions	2028 in millions	2029 in millions	Thereafter in millions	Total in millions
Programming commitments [(a)]	£ 391.2	£ 402.8	£ 396.3	£ 377.8	£ 186.0	£ —	£ —	£ 1,754.1
Network and connectivity commitments [(b)]	991.4	161.5	55.5	20.5	17.9	17.9	168.9	1,433.6
JV Service Agreements [(c)]	150.2	186.1	190.3	177.8	170.2	174.7	74.7	1,124.0
Purchase commitments [(d)]	485.1	212.0	103.9	93.9	80.8	39.0	37.8	1,052.5
Other commitments	42.2	41.6	29.5	21.3	14.2	—	—	148.8
Total	**£2,060.1**	**£1,004.0**	**£ 775.5**	**£ 691.3**	**£ 469.1**	**£ 231.6**	**£ 281.4**	**£ 5,513.0**

(a) Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. Programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect this will continue to be the case in future periods.

(b) Network and connectivity commitments include (i) service commitments associated with the nexfibre construction programme (see below for further details), (ii) commitments associated with VMED O2's full fibre upgrade and (iii) commitments associated with our Mobile Virtual Network Operator (**MVNO**) agreements. The amounts reflected in the above table with respect to certain of our MVNO commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly less than the actual amounts we ultimately pay in these periods.

(c) Pursuant to the JV Service Agreements, Liberty Global and Telefónica charge VMED O2 UK Limited fees, which our parent passes through, for JV Services. The JV Services are provided to us on a transitional or ongoing basis. The JV Services provided by the Shareholders and their respective subsidiaries consist primarily of (i) technology and other services, (ii) capital-related expenditures for assets that we use or otherwise benefit us, (iii) brand name and procurement fees and (iv) certain corporate services. The amounts set forth in the table above represent fixed minimum charges from Liberty Global and Telefónica pursuant to the JV Service Agreements. In addition to the fixed minimum charges, the JV Service Agreements provide for certain JV Services to be charged to us based upon usage of the services received. The fixed minimum charges set forth in the table above exclude fees for the usage-based services as these fees will vary from period to period. Accordingly, we expect to incur charges in addition to those set forth in the table above for usage-based services.

(d) Purchase commitments include unconditional and legally binding obligations related to (i) the purchase of customer premise and other equipment and (ii) certain service-related commitments, including call centre, information technology and maintenance services.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments, see note 7.

Guarantees and Other Credit Enhancements

In the ordinary course of business, we may provide (i) indemnifications to our lenders, our vendors and certain other parties and (ii) performance and financial guarantees to local municipalities, our customers and vendors. Historically, these arrangements have not resulted in our Company making any material payments and we do not believe that they will result in material payments in the future.

Legal and Regulatory Proceedings and Other Contingencies

Disclosure Requests. O2 has been addressing a request for disclosure made by governmental authorities related to possible violations of anti-bribery laws and regulations. O2 continues to co-operate with the governmental authorities investigating this matter, which is still ongoing. It is not possible at this time to predict the full scope or duration of this matter or its eventual outcome.

Phones 4u. Legal proceedings were issued in the High Court against O2 by the Administrators of Phones 4u. The trial of this case in the High Court took place in Spring/ Summer 2022. Mr Justice Roth handed down his judgment on 10 November 2023. The Court rejected all of Phones4u's claims. After applying for, and being denied permission to appeal at first instance, the Court of Appeal granted Phones4u's application. The appeal will be heard in May 2025.

Class action regarding alleged combined handset and airtime charges overpayment. In December 2023 we received a claim brought against Telefonica UK by an individual acting as a proposed class representative. The same individual is bringing similar claims against the other three mobile network operators. These claims are brought in the Competition Appeal Tribunal. It is alleged in these claims that customers with combined handset and airtime contracts have been overcharged when their handset minimum term contract expired. The claimant assesses the value of the claim against Telefonica UK at £256.0 million and as against the four mobile network operators at £3.3 billion. Discussions regarding the claims are preliminary and there are various procedural stages to be completed before the matter may proceed, including the determination of whether the claim can be 'certified' at a Tribunal hearing which has been listed for 3-4 days from 31 March 2025. We intend to vigorously defend this matter.

Other Regulatory Matters. Mobile, broadband internet, video and fixed-line telephony businesses are subject to significant regulation and supervision by various regulatory bodies in the UK. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property, plant and equipment additions. In addition, regulation may also restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

In addition to the foregoing items, we may have contingent liabilities related to matters arising in the ordinary course of business including (i) legal proceedings, (ii) issues involving VAT and employment, property, withholding and other tax issues and (iii) disputes over interconnection, programming, copyright and channel carriage fees. While we generally expect that the amounts required to satisfy these contingencies will not materially differ from any estimated amounts we have accrued, no assurance can be given that the resolution of one or more of these contingencies will not result in a material impact on our results of operations, cash flows or financial position in any given period. Due, in general, to the complexity of the issues involved and, in certain cases, the lack of a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavourable outcomes.

(16) Subsequent Events

In April 2024, we issued €600.0 million principal amount of Euro denominated senior secured notes and $750.0 million principal amount of US dollar denominated senior secured notes. These notes were issued at par, mature on 15 April 2032 and bear interest at a rate of 5.625% and 7.75%, respectively. During April and May, the proceeds from these 2032 Senior Secured Notes were used to (i) purchase and cancel £302.9 million outstanding principal of our existing 2027 Sterling Senior Secured Notes and (ii) repay £296.1 million, £258.7 million and £236.9 million of Facility L, M and X, respectively, under the VMED O2 Credit Facilities. As per our policy, the interest and foreign currency risk of such refinancing activity is mitigated through our derivative portfolio.

On 24 May 2024, the shareholders approved a capital reduction supported by the solvency statements made by the Directors in accordance with the provisions of the Companies Act 2006, by way of a reduction to nil of the amount credited to the share premium reserves. The capital reduction is effective from 28 May 2024.

Group Strategic Report

Forward-looking Statements

Certain statements in this Quarterly Bond Report (**Quarterly Report**) constitute forward-looking statements. These forward-looking statements include, but are not limited to, statements other than statements of historical facts, including, but without limitation, those regarding VMED O2 UK Holdings Limited (**VMED O2's** or **Virgin Media O2's**) business, product, foreign currency and finance strategies, future periods, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of VMED O2's markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in VMED O2's revenue, costs or growth rates, liquidity, credit risks, foreign currency and hedging risks, interest rate risks, target leverage levels, debt covenants, VMED O2's future projected contractual commitments and cash flows and other information and statements that are not historical fact. In some cases, you can identify these statements by terminology such as "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should", and "will" and similar words used in this report.

Where, in any forward-looking statement, VMED O2 expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in our Annual Report at 31 December 2023 include those described under "Risk Factors" in our Annual Report at 31 December 2023.

The following include some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the UK;
- the competitive environment in the broadband internet, mobile, video and telecommunications industries in the UK, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues, currency instability and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt, as a result of, among other things, inflationary pressures;
- changes in consumer television viewing, mobile and broadband internet usage preferences and habits;
- consumer acceptance of our existing service offerings, including our mobile, broadband internet, video, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes, including our ability to adequately manage our legacy technologies and transformation, and the rate at which our current technology becomes obsolete;
- our ability to maintain or increase the number of subscriptions to our mobile, broadband internet, video and fixed-line telephony service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase prices to our subscribers, or to pass through increased costs to our subscribers, including with respect to our significant property, plant and equipment additions, as a result of, among other things, inflationary pressures;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital and on customer spending;
- our ability to comply with, government regulations and legislation in the UK and adverse outcomes from regulatory proceedings;
- the impact of government intervention which impairs our competitive position, including any intervention that would open our broadband or mobile distribution networks to competitors as well as any changes in our accreditations or licences;
- our ability to maintain and further develop our direct and indirect distribution channels;
- the effect of perceived health risks associated with electromagnetic radiation from base stations and associated equipment;
- changes in UK laws, monetary policies, and government regulations or other risks relating to our ability to set prices, enter new markets or control our costs;
- any failure to comply with anti-corruption laws and regulations and economic sanctions programmes;
- the effect on our business of strikes or collective action by certain of our employees that are represented by trade unions;
- any conflict of interests between our direct or indirect parent companies and our debt holders' interests;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire, form or dispose of businesses and, if acquired, to integrate, realise anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the UK and US;
- our exposure to additional tax liability and negative or unexpected tax consequences as a result of adverse changes in our financial outlook and entity structure;
- changes in laws, monetary policies and government regulations that may impact the availability or cost of capital and the derivative instruments that hedge certain of our financial risks;
- our ability to navigate the potential impacts on our business resulting from the UK's departure from the European Union (**EU**);

- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- the activities of device manufacturers and our ability to secure adequate and timely supply of handsets that experience high demand;
- the availability of, and our ability to acquire on acceptable terms, attractive programming for our video services and the costs associated with such programming;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with the network, the deployment of our 5G network and the planned programme to upgrade our existing fixed-line network to full Fibre-To-The-Premises (**FTTP**, or alternative FTTH, fibre-to-the cabinet/-building/-node referred to herein as **FTTx**) and through nexfibre, a related party to build a wholesale FTTH network in the UK;
- the availability and cost of capital for the acquisition, maintenance and/or development of telecommunications networks, products and services;
- the availability, cost and regulation of spectrum;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire (including in relation to the Joint Venture (as defined), including the failure to realise our financial and strategic goals with respect to strategic transactions;
- successfully integrating businesses or operations that we acquire or partner with on timelines or within the budgets estimated for such integrations;
- operating costs, customer loss and business disruption, including maintaining relationships with employees, customers, suppliers or vendors, may be greater than expected in connection with our acquisitions, dispositions and joint ventures;
- our ability to realise the expected synergies from our acquisitions and joint ventures in the amounts anticipated or on the anticipated timelines;
- our ability to profit from investments, such as our joint ventures, that we do not solely control;
- our ability to anticipate, protect against, mitigate and contain loss of our and our customers' data as a result of cyber attacks on us;
- the leakage of sensitive customer or company data or any failure to comply with applicable data protection laws, regulations and rules;
- a failure in our network and information systems, whether caused by a natural failure or a security breach, and unauthorised access to our networks;
- the outcome of any pending or possible litigation;
- the loss of key employees and the availability of qualified personnel;
- adverse changes in public perception of the "Virgin" brand, which we and others license from Virgin Enterprises Limited, and of the "O2" brand, which we license from O2 Worldwide Limited, and any resulting impacts on the goodwill of customers toward us;
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, armed conflicts, malicious human acts, natural disasters, epidemics, pandemics and other similar events, including the ongoing invasion of Ukraine by Russia and the Israeli-Palestinian conflict;
- the risk of default by counterparties to our cash investments, derivative and other financial instruments and undrawn debt facilities;
- changes in laws and government regulations that may impact our ability to finance expenditures as "Eligible Green Projects" under the International Capital Markets Association's (**ICMA**'s) Green Bond Principles, satisfy "green" reporting requirements or undertakings and impact the suitability of certain senior secured notes issued under ICMA's Green Bond Principles as a 'green' asset to investors;
- adverse impacts on our reputation from our sustainability programme being viewed as inadequate by customers, regulators in addition to government authorities; and
- an increase in our operational costs due to the impact of our sustainability commitments, regulatory and government action on climate change.

The broadband distribution and mobile services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this report at 31 March 2024 are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of our report, at 31 March 2024 and VMED O2 expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in VMED O2's expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

VMED O2 undertakes no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report.

VMED O2 discloses important factors that could cause VMED O2's actual results to differ materially from VMED O2's expectations in this report. These cautionary statements qualify all forward-looking statements attributable to VMED O2 or persons acting on VMED O2's behalf.

The following discussion and analysis, which should be read in conjunction with our Condensed Consolidated Financial Statements and the discussion and analysis included in our Annual Report at 31 December 2023, is intended to assist in providing an understanding of our results of operations and financial condition and is organised as follows:

- **Overview:** This section provides a general description of our business and recent events.
- **Discussion and Analysis of our Results of Operations:** This section provides an analysis of our results of operations, as applicable, for the three months ended 31 March 2024 and 2023.
- **Liquidity and Capital Resources:** This section provides an analysis of our corporate and subsidiary liquidity and our condensed consolidated statements of cash flows.
- **Quantitative and Qualitative Disclosures about Market Risk:** This section provides discussion and analysis of the foreign currency, interest rate and other market risks that our Company faces.

Certain capitalised terms used below have been defined in the Notes to the Condensed Consolidated Financial Statements included in this report. In the following text, the terms “we,” “our,” “our Company” and “us” refer to VMED O2 or, collectively, to VMED O2 and its subsidiaries.

Unless otherwise indicated, convenience translations into pound sterling are calculated as of 31 March 2024.

Overview

General

VMED O2 is an integrated communications provider of mobile, broadband internet, video and fixed-line telephony services to residential customers and organisations in the UK.

Operations

As of 31 March 2024, our fixed-line network is able to service 17.2 million homes and served 5.8 million fixed-line customers, with 5.7 million customers taking a broadband internet product. In addition, as of 31 March 2024, we served 35.4 million retail mobile connections and 9.7 million wholesale mobile connections.

Fixed

Our fixed-line network operated under the Virgin Media brand provides broadband internet, video, and fixed-line telephony services in the UK. We are one of the UK’s largest providers of residential communications services in terms of the number of customers.

Mobile

Our mobile network is a leading UK Mobile Network Operator (**MNO**) whose primary business is providing mobile telecommunications and related services. We offer a comprehensive range of mobile services and products to customers, including mobile voice, messaging and data services, and sales of handsets, tablets, wearable devices and other hardware. In addition, we offer a range of value-add services and products including digital payment services and insurance products. We operate through the O2 brand, but also seek to access additional customer groups through the giffgaff brand and MVNO partnerships.

Business and Wholesale

We provide business services to large enterprise, public sector and small & medium business customers as well as wholesale and MVNO partners. Through our converged offering we provide flexibility and choice with connectivity solutions across our award-winning fixed and mobile networks, as well as integrated voice, mobility, security, and cloud solutions. We leverage our expertise and understanding of the customer through our data assets to create customer-first solutions through 5G private networks, and Internet of Things (**IoT**) connectivity, empowering customers to solve real-time business challenges and harness innovation. Additionally, we provide a range of construction and corporate services to nexfibre.

Strategy and Management Focus

Our commercial momentum is underpinned by three growth drivers:

Integration

As part of the Joint Venture we are driving financial synergies effective integration. Significant cost savings include MVNO migration and structural right-sizing, commercial benefits include driving Fixed Mobile Convergence (**FMC**).

Digital Transformation

We aim to focus on the improvements in customer experience in the short and long-term. We have achieved an improved customer understanding, interaction and greater customer engagement. By leveraging data and analytics from our strong customer relationships, we aim to provide the best products and services to our customers. We are working towards digitalising our operations, such as transactions and back-office systems for efficiency and better organisation effectiveness, in order to deliver best-in-class experience to our customers.

Network Evolution

We are expanding our serviceable footprint and upgrading our capabilities to provide high-quality connectivity to current and potential customers. Through our fibre upgrade programme, we are upgrading our existing network to a full-fibre network in order to future-proof our long-term converged offering, including expanding our 5G mobile network which increases coverage while improving reliability and speed. Our other efforts involve providing construction and corporate services to, and wholesaling from the nexfibre FTTH network enabling us to access up to a further 7 million homes. When combined with the fibre upgrade programme we would be able to service up to 23 million homes with fibre.

Competition and Other External Factors

We are experiencing competition from incumbent telecommunications operators, direct-to-home satellite operators in addition to other providers. This competition, together with macroeconomic and regulatory factors, provides challenge in maintaining and/or growing our revenue, number of customers in addition to average monthly subscription revenue per fixed-line customer, as applicable average revenue per unit (**ARPU**).

Discussion and Analysis of our Results of Operations

The discussion presented in this section provides an analysis of our revenue and operating costs (excluding depreciation and amortisation, and share-based compensation expense) for the three months ended 31 March 2024 and 2023. Our results are set forth below:

Revenue reconciliation

We derive our revenue from residential and B2B communications services, including mobile, broadband internet, video and fixed-line telephony services.

Variances in the subscription revenue that we receive from our customers are a function of (i) changes in the number of customer relationships or mobile subscribers outstanding during the period and (ii) changes in ARPU. Changes in ARPU can be attributable to (a) changes in prices, (b) changes in bundling or promotional discounts, (c) changes in the tier of services selected, (d) variances in subscriber usage patterns and (e) the overall mix of fixed and mobile products during the period.

Our revenue by major category is set forth below:

	Three months ended 31 March		Increase (decrease)	
	2024	2023	£	%
	in millions, except percentages			
Mobile (a)	£ 1,362.7	£ 1,429.2	£ (66.5)	(4.7) %
Handset (a)	291.9	386.9	(95.0)	(24.6) %
Fixed	931.6	956.1	(24.5)	(2.6) %
Consumer fixed (b)	822.9	822.4	0.5	0.1 %
Subscription (c)	807.7	807.8	(0.1)	— %
Other (d)	15.2	14.6	0.6	4.1 %
B2B fixed (e)	108.7	133.7	(25.0)	(18.7) %
Other (f)	294.5	217.3	77.2	35.5 %
Total Revenue	**£ 2,588.8**	**£ 2,602.6**	**£ (13.8)**	**(0.5)%**

For further explanation on the revenue streams, please see note 3 of the Notes to the Condensed Consolidated Financial Statements.

(a) Mobile revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue. Mobile revenue decreased £66.5 million or 4.7% during the three months ended 31 March 2024, as compared to the corresponding period in 2023. This decrease is primarily due to a decrease in handset revenue of £95.0 million or 24.6%, offsetting another quarter of growth in mobile service revenue.

(b) Consumer fixed revenue includes subscription and other revenue for ongoing services and the recognition of deferred installation revenue over the associated contract period. Consumer fixed revenue increased £0.5 million or 0.1% during the three months ended 31 March 2024, as compared to the corresponding period in 2023. This increase is due to growth of customer base, with a stabilisation of Consumer Fixed ARPU being £46.25 and £46.35 for three months ended 31 March 2024 and 2023, respectively.

(c) Consumer fixed subscription revenue includes revenue from subscribers who purchase bundled services at a discounted rate and is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our fixed-line and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period. Additionally, we include revenue from certain SoHo subscribers who pay a premium price to receive expanded service levels that are the same or similar to the mass-marketed products offered to our residential subscribers.

(d) Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment.

(e) B2B fixed revenue includes (i) revenue from business broadband internet, video and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network. B2B fixed revenue decreased £25.0 million or 18.7% during the three months ended 31 March 2024, as compared to the corresponding period in 2023. This decrease is driven by pricing headwinds and a reduced level of revenue related to long-term leases of a portion of the fixed network.

(f) Other revenue includes primarily revenue from construction management activities provided to nexfibre, amongst other items such as, corporate activities provided to nexfibre the sale of handset insurance policies, SMIP, the provision of ICT services, associated connectivity to O2 business customers, and other services. Other revenue increased £77.2 million or 35.5% during the three months ended 31 March 2024, when compared to the corresponding period in 2023. This increase is primarily due to an increase in nexfibre construction revenue of £94.6 million, partially offset by reduced information and communication technology revenue.

Profit reconciliation

Most of our revenue is subject to VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our Adjusted EBITDA and Adjusted EBITDA margin (Adjusted EBITDA divided by revenue) to the extent of any such tax increases. As we use the term, "Adjusted EBITDA" is defined as profit (loss) from continuing operations before net income tax (expense) benefit, other non-operating income or expenses, share of results of investments accounted for by the equity method, net finance income (costs), depreciation and amortisation, share-based compensation, impairment, restructuring and other operating items and Costs to Capture (**CTC**) operating expenses. Share-based compensation for the purposes of calculating Adjusted EBITDA also includes awards granted to our employees that are settled with Liberty Global or Telefónica shares. Opex CTC generally include incremental, third-party operating costs that are directly associated with integration activities, restructuring activities and certain other costs associated with aligning our business processes to derive synergies.

We are subject to inflationary pressures with respect to certain costs. Any cost increases that we are not able to pass on to our subscribers through rate increases would result in increased pressure on our operating margins.

	Three months ended 31 March		Increase (decrease)	
	2024	2023	£	%
	in millions, except percentages			
Revenue	£ 2,588.8	£ 2,602.6	£ (13.8)	(0.5) %
Cost of sales	873.0	895.8	(22.8)	(2.5) %
Personnel expenses	188.3	187.9	0.4	0.2 %
Other expenses	601.8	590.9	10.9	1.8 %
Opex CTC included in the above	(9.7)	(20.8)	(11.1)	(53.4) %
Adjusted EBITDA	**935.4**	**948.8**	**(13.4)**	**(1.4)%**
Opex CTC	9.7	20.8	(11.1)	(53.4) %
Depreciation and amortisation	729.5	912.9	(183.4)	(20.1) %
Share-based compensation expense	(3.4)	13.6	(17.0)	(125.0) %
Restructuring and other operating	7.1	13.2	(6.1)	(46.2) %
Operating income (loss)	**192.5**	**(11.7)**	**204.2**	**1,745.3 %**
Finance income	448.6	326.8	121.8	37.3 %
Finance costs	(404.9)	(594.2)	(189.3)	(31.9) %
Share of results of equity method investments	0.7	0.7	—	— %
Other income, net	3.2	4.2	(1.0)	(23.8) %
Income tax (expense) benefit	(16.7)	83.6	(100.3)	(120.0) %
Net profit (loss)	**£ 223.4**	**£ (190.6)**	**£ 414.0**	**217.2 %**

Cost of sales

Cost of sales includes costs of mobile handsets and other devices, programming and copyright costs, interconnect and access costs, and other cost of sales related to our operations. Programming and copyright costs represent a significant portion of our operating costs and are subject to rise in future periods due to various factors, including (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (ii) rate increases.

Our cost of sales decreased £22.8 million or 2.5% during the three months ended 31 March 2024, as compared to the corresponding period in 2023, primarily due to:

- A decrease in mobile handset and other device costs of £105.3 million or 23.4% primarily driven by a reduction in handset sales; and

- An increase in other direct costs of £77.2 million or 51.0% primarily driven by construction costs associated with nexfibre.

Other expenses

Other expenses include marketing and other sales costs, network operations, customer services costs, business service costs, impairment and restructuring, share-based compensation and other general expenses.

Our other expenses (exclusive of share-based compensation expense and depreciation and amortisation) increased £14.6 million or 2.5% during the three months ended 31 March 2024, as compared to the corresponding period in 2023, primarily due to the net effect of:

- An increase in network service expenses of £28.1 million or 29.1%, primarily due to an increase in IT software costs; and

- A decrease in business service costs of £19.3 million or 11.4%, primarily driven by a decrease of £11.6 million resulting from a related-party contract change. Specifically, during the first quarter of 2024 we changed the terms such that we now procure and capitalise the combined cost of CPE and embedded essential software as property, plant and equipment. These embedded essential software costs were previously reflected within business service costs, resulting in a decrease when considering the comparative period.

Personnel expenses
Personnel expenses include salary and payroll costs, commissions, incentive compensation costs, deferred labour and contingent labour.

Our personnel expenses increased £0.4 million or 0.2% during the three months ended 31 March 2024, as compared to the corresponding period in 2023.

Adjusted EBITDA
Adjusted EBITDA decreased by 1.4% or £13.4 million to £935.4 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023 driven by the the items discussed above.

Opex CTC
Opex CTC decreased by 53.4% or £11.1 million to £9.7 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023.

Depreciation and amortisation
Depreciation and amortisation decreased by 20.1% or £183.4 million to £729.5 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023. These decreases are primarily due to assets being fully written down during June 2023.

Share-based compensation expense
Share-based compensation expense decreased by 125.0% or £17.0 million into a gain of £3.4 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023. This decrease was primarily due to aligning the position with the latest performance expectations.

Restructuring and other operating items
Restructuring and other operating items, decreased by 46.2% or £6.1 million to £7.1 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023.

Operating income (loss)
The reported operating income of £192.5 million during the three months ended 31 March 2024 (three months ended 31 March 2023 operating loss: £11.7 million) was primarily due to a decrease in depreciation and amortisation, compared to the corresponding period in 2023.

Finance income and costs
Finance income increased by 37.3% or £121.8 million to £448.6 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023. This increase is primarily due to an increase in interest income and derivative gains in the current period partially offset by foreign currency gains in the comparative period not seen in the current period.

Finance costs decreased by 31.9% or £189.3 million to £404.9 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023. This decrease is primarily due to significant derivative losses in the comparative period offset by an increase in interest expense and foreign currency losses in the current period.

Share of results of equity investments
Share of results of equity investments remained unchanged at £0.7 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023.

Other income, net
Other income decreased by 23.8% or £1.0 million to £3.2 million during the three months ended 31 March 2024, as compared to the corresponding period in 2023.

Income tax (expense) benefit
There was an income tax expense of £16.7 million during the three months ended 31 March 2024, as compared to an income tax benefit of £83.6 million in the corresponding period in 2023. The change from benefit to expense is primarily driven by the profit before tax in the current period.

Net profit (loss)
There was a net profit £223.4 million during the during the three months ended 31 March 2024, as compared to a net loss £190.6 million of in the corresponding period in 2023. The net profit in the current period was primarily due to a decrease in depreciation and amortisation compared to the corresponding period in 2023.

Liquidity and Capital Resources

a) Sources and Uses of Cash

i) Cash and cash equivalents

At 31 March 2024, we had cash and cash equivalents of £65.6 million, all of which was held by our subsidiaries. The terms of the instruments governing the indebtedness of certain of these subsidiaries may restrict our ability to access the liquidity of these subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax, legal considerations and other factors.

ii) Liquidity of VMED O2

Our sources of liquidity at the parent level include, subject to the restrictions noted above, proceeds in the form of (i) distributions or loans from our subsidiaries and (ii) contributions or loans from VMED O2 UK Limited. It is the intention of the Shareholders that the Joint Venture, and by extension VMED O2, will be a self-funding company capable of financing its activities on a stand-alone basis without recourse to either Shareholder.

The ongoing cash needs of VMED O2 include corporate general and administrative expenses and fees associated with the JV Service Agreements. From time to time, VMED O2 may also require cash in connection with (i) the repayment of outstanding debt and related-party obligations (including the repurchase or exchange of outstanding debt securities in the open market, privately-negotiated transactions, tender offers, exchange offers, redemptions or prepayments), (ii) the funding of dividends or distributions to our immediate parent, VMED O2 UK Limited, to in turn fund dividends or distributions by VMED O2 UK Limited pursuant to the Joint Venture Shareholders Agreement, (iii) the satisfaction of contingent liabilities or (iv) acquisitions and other investment opportunities.

iii) Liquidity of our subsidiaries

In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and any borrowing availability under the VMED O2 Credit Facilities. For details of the borrowing availability of the VMED O2 Credit Facilities, see note 5 of the Notes to the Condensed Consolidated Financial Statements.

The liquidity of our operating subsidiaries generally is used to fund (i) property, plant and equipment additions, (ii) debt service requirements and (iii) other liquidity requirements that may arise from time to time, as well as to settle certain obligations that are not included in our 31 March 2024 condensed consolidated statement of financial position. In this regard, we have significant commitments related to (a) purchases of customer premise and other equipment and services, (b) network and connectivity commitments and (c) programming contract and other items. These obligations are expected to represent a significant liquidity requirement of our Company, the majority of which is due over the next 12 to 24 months. For additional information regarding our commitments, see note 15 of the Notes to the Condensed Consolidated Financial Statements.

For additional information regarding our consolidated cash flows, see the discussion under consolidated statements of cash flows below.

Our subsidiaries may also require funding in connection with (i) the repayment of outstanding debt, (ii) acquisitions and other investment opportunities or (iii) distributions or loans to VMED O2 UK Limited. No assurance can be given that any external funding would be available to our subsidiaries on favourable terms, or at all.

b) Capitalisation

At 31 March 2024, the outstanding principal amount of our consolidated debt, together with of our lease obligations, aggregated £21.8 billion, including £3.4 billion that is classified as current in our condensed consolidated statement of financial position, £9.8 billion due before 2029 and £8.6 billion that is not due until 2030 or thereafter. For additional information regarding our debt and lease maturities, see notes 5 and 6, respectively, of the Notes to the Condensed Consolidated Financial Statements.

As further discussed under Quantitative and Qualitative Disclosures about Market Risk below and in notes 5 and 6 of the Notes to the Condensed Consolidated Financial Statements, we use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase our Adjusted EBITDA and to achieve adequate returns on our property, plant and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by incurrence-based leverage covenants contained in our various debt instruments. In this regard, if our Adjusted EBITDA[1] were to decline, our ability to obtain additional debt could be limited. We do not anticipate any non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity for at least 12 months.

Notwithstanding our negative working capital position at 31 March 2024, we believe that we have sufficient resources to repay or refinance the current portion of our debt and lease obligations and to fund our foreseeable liquidity requirements for at least 12 months. However, as our maturing debt grows in later years, we anticipate we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities.

All of our consolidated debt and lease obligations at 31 March 2024 have been borrowed or incurred by our subsidiaries or our joint operation, CTIL.

Condensed consolidated statements of cash flows

Summary

Our condensed consolidated statement of cash flows for 2024 and 2023 are set forth below:

	Three months ended 31 March	
	2024	2023
	in millions	in millions
Net cash provided (used) by operating activities	£ 45.1	£ (26.1)
Net cash provided (used) by investing activities	28.7	(492.8)
Net cash (used) provided by financing activities	(251.0)	518.9
Effect of exchange rate changes on cash and cash equivalents	(0.3)	(0.4)
Net decrease in cash and cash equivalents and restricted cash	**£ (177.5)**	**£ (0.4)**

Operating Activities

The net cash provided by our operating activities for the three months ended 31 March 2024 is primarily attributable to our Adjusted EBITDA[1] and related working capital items. See "Condensed consolidated statement of cash flows" on page 8 for further information.

Investing Activities

The net cash provided by our investing activities for the three months ended 31 March 2024 is primarily attributable to capital expenditures and net advances to related parties. See "Condensed consolidated statement of cash flows" on page 8 for further information.

Financing Activities

The net cash used by our financing activities during the three months ended 31 March 2024 is primarily attributable to the net effect of (i) cash received of £285.6 million related to net borrowings of third-party debt and lease obligations, (ii) net cash received of £38.7 million related to additional related-party borrowings and (iii) payment of financing costs and debt premium of £3.7 million. See the "Condensed consolidated statement of cash flows on page 8 for further information.

The capital expenditures we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or lease arrangements. Instead, these amounts are reflected as non-cash additions to our property, plant and equipment when the underlying assets are delivered and as repayments of debt when the principal is repaid. In this discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude amounts financed under capital-related vendor financing or lease arrangements, and (ii) our total property, plant and equipment and intangible asset additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or lease arrangements. For further details regarding our property, plant and equipment and intangible asset additions, see note 4 of the Notes to the Condensed Consolidated Financial Statements. A reconciliation of our consolidated property, plant and equipment and intangible asset additions to our consolidated capital expenditures, as reported in our condensed consolidated statements of cash flows set forth below:

	Three months ended 31 March	
	2024	2023
	in millions	in millions
Property, plant and equipment and intangible asset additions	£ 647.5	£ 534.5
Assets acquired under capital-related vendor financing arrangements (a)	(190.3)	(173.1)
Assets acquired under leases	(76.1)	(30.6)
Changes in current liabilities related to capital expenditures, net	34.3	99.8
Capital expenditures, net	**£ 415.4**	**£ 430.6**

Our property, plant and equipment and intangible asset additions during the three months ended 31 March 2024 includes, amongst other items (i) investments in network capacity, technology facilities and information technology-related projects, (ii) expenditures for new build and upgrade projects and (iii) baseline expenditures, including network improvements and expenditures for property and facilities and information technology.

(a) Prior year cash flows associated with certain vendor financing arrangements have been reclassified to align with classification in the 2023 Annual Bond Report. Specifically, an amount recognised within Q4 2023 has been re-phased for comparability purposes. There is no change to total Adjusted Free Cash Flow or 31 December 2023 balances.

Condensed Consolidated Financial Information — Senior Secured Notes

We present the following condensed consolidated financial information as of and for the three months ended 31 March 2024 as required by the applicable underlying indentures. For consolidated financial information as of 31 December 2023, see our 2023 Annual Report for VMED O2 UK Holdings Limited.

As of 31 March 2024, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- £457.5 million principal amount of 2027 VMED O2 Sterling Senior Secured Notes;
- $1,425.0 million (£1,128.6 million) principal amount of 2029 VMED O2 Dollar Senior Secured Notes;
- £340.0 million principal amount of 2029 VMED O2 Sterling Senior Secured Notes;
- $915.0 million (£724.7 million) principal amount of 2030 VMED O2 Dollar Senior Secured Notes;
- £480.0 million principal amount of 2030 VMED O2 4.125% Sterling Senior Secured Notes; and
- £635.0 million principal amount of 2030 VMED O2 4.25% Sterling Senior Secured Notes.

Our senior secured notes issued by Virgin Media Secured Finance outstanding as of 31 March 2024, rank pari passu with and, subject to certain exceptions, share in the same guarantees and security which have been granted in favour of our VMED O2 Credit Facilities. Our senior secured notes are guaranteed on a senior basis by:

- Virgin Media Investment Holdings Limited;
- Virgin Media Bristol LLC;
- Virgin Media Finance plc
- Virgin Media Inc;
- Virgin Media Limited;
- Virgin Media Secured Finance plc;
- Virgin Media Senior Investments Limited;
- Virgin Media SFA Finance Limited;
- Virgin Media Wholesale Limited;
- Virgin Mobile Telecoms Limited;
- VMED O2 UK Holdco 4 Limited;
- VMED O2 UK Holdco 5 Limited; and
- Telefonica UK Limited.

Statement of financial position

	31 March 2024 in millions					
	VMED O2 UK Holdings Limited	Virgin Media Secured Finance plc	Guarantors	Non-Guarantors	Eliminations	Total
Non-current assets	£ 9.9	£ 3,874.4	£ 36,410.6	£ 2,010.3	£ (907.6)	£ 41,397.6
Current assets	—	11.8	3,711.4	275.6	(338.3)	3,660.5
Total assets	**£ 9.9**	**£ 3,886.2**	**£ 40,122.0**	**£ 2,285.9**	**£ (1,245.9)**	**£ 45,058.1**
Total combined equity	**£ 9.0**	**£ (55.0)**	**£ 22,225.0**	**£ (3,341.9)**	**£ —**	**£ 18,837.1**
Total owner's equity	9.0	(55.0)	22,225.0	(3,488.6)	—	18,690.4
Non-controlling interests	—	—	—	146.7	—	146.7
Liabilities:						
Non-current liabilities	—	3,862.7	11,017.6	5,122.0	(907.6)	19,094.7
Current liabilities	0.9	78.5	6,879.4	505.8	(338.3)	7,126.3
Total liabilities	0.9	3,941.2	17,897.0	5,627.8	(1,245.9)	26,221.0
Total equity and liabilities	**£ 9.9**	**£ 3,886.2**	**£ 40,122.0**	**£ 2,285.9**	**£ (1,245.9)**	**£ 45,058.1**

Statement of profit or loss

	Three months ended 31 March 2024 in millions				
	VMED O2 UK Holdings Limited	Virgin Media Secured Finance plc	Guarantors	Non-Guarantors	Total
Revenue	£ —	£ —	£ 2,327.4	£ 261.4	£ 2,588.8
Net profit (loss) attributable to:					
Owners	0.1	(0.2)	148.9	74.5	223.3
Non-controlling interests	—	—	—	0.1	0.1
Net profit (loss)	**£ 0.1**	**£ (0.2)**	**£ 148.9**	**£ 74.6**	**£ 223.4**
Comprehensive (loss) income attributable to:					
Owners	£ 0.1	£ (0.2)	£ 151.7	£ 74.5	£ 226.1
Non-controlling interests	—	—	—	0.1	0.1
Comprehensive income (loss)	**£ 0.1**	**£ (0.2)**	**£ 151.7**	**£ 74.6**	**£ 226.2**

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk in the normal course of our business operations due to our ongoing investing and financing activities. Market risk refers to the risk of loss arising from adverse changes in foreign currency exchange rates and interest rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future profits. As further described below, we have established policies, procedures and processes governing our management of market risks and the use of derivative instruments to manage our exposure to such risks.

Cash

We invest our cash in highly liquid instruments that meet high credit quality standards. At 31 March 2024, £57.5 million or 87.7%, £5.4 million or 8.2% and £2.7 million or 4.1% of our consolidated cash balances were denominated in pounds sterling, US dollars and euros, respectively.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risk with respect to our consolidated debt in situations where our debt is denominated in US dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 March 2024 substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 7 of the Notes to the Condensed Consolidated Financial Statements.

Currently, the UK is facing various macro-economic pressures, including financial and political challenges, that have impacted the broader UK economy, valuation of the local currency, interest rates and inflationary pressures. In addition to the exposure that results from the mismatch of our borrowings and our functional currency, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our functional currency (non-functional currency risk), such as equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) and certain services provided by our Shareholders. Changes in exchange rates with respect to amounts recorded in our condensed consolidated statements of financial position related to these items will result in unrealised (based upon period-end exchange rates) or realised foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our functional currency, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. Generally, we will consider hedging non-functional currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts and the payments or receipts are not otherwise hedged. In this regard, we have entered into foreign currency forward and option contracts to hedge certain of these risks. For additional information concerning our foreign currency forward and option contracts, see note 7 of the notes to the condensed consolidated financial statements.

The relationships between (i) the euro and (ii) the US dollar and the pound sterling, which is our reporting currency, are shown below, per one pound sterling:

	31 March 2024	31 December 2023
Spot rates:		
Euro	1.1694	1.1535
US dollar	1.2626	1.2763

	Three months ended 31 March	
	2024	2023
Average rates:		
Euro	1.1680	1.1500
US dollar	1.2681	1.2438

Inflation Risk

We are subject to inflationary pressures with respect to energy, labour, programming and other costs. While we attempt to increase our revenue through price increases to customers to offset increases in costs, there is no assurance that we will be able to do so. Therefore, costs could rise faster than associated revenue, thereby resulting in a negative impact on our operating results, cash flows and liquidity. The economic environment in the UK is a function of government, economic, fiscal and monetary policies and various other factors beyond our control that could lead to inflation. We are unable to predict the extent that price levels might be impacted in future periods by the current state of the economy in the UK.

Interest Rate Risk

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include fixed-rate and variable-rate borrowings by our subsidiaries. Our primary exposure to variable-rate debt is through our SONIA-indexed, Term Secured Overnight Financing Rate (**SOFR**)-indexed and Euro Interbank Offered Rate (**EURIBOR**)-indexed VMED O2 Credit Facilities.

In general, we enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt. Accordingly, we have entered into various derivative transactions to manage exposure to increases in interest rates. We use interest rate derivative contracts to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount. We also use interest rate cap agreements and swaptions to lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Under our current guidelines, we use various interest rate derivative instruments to mitigate interest rate risk, generally for the full term of the underlying variable-rate debt. In this regard, we use judgement to determine the appropriate composition and maturity dates of our portfolios of interest rate derivative instruments, taking into account the relative costs and benefits of different maturity profiles in light of current and expected future market conditions, liquidity issues and other factors. For additional information concerning the impacts of these interest rate derivative instruments, see note 7 of the Notes to the Condensed Consolidated Financial Statements.

There have been significant changes in the benchmark interest rates used to set floating rates on our debt and derivative instruments. ICE Benchmark Administration (the entity that administers LIBOR) ceased to publish GBP LIBOR rates after 31 December 2021, and it ceased to publish USD LIBOR after 30 June 2023. EURIBOR has been reformed and has been granted regulatory approval to continue to be used.

On 6 March 2023, the European Money Markets Institute (**EMMI**) announced proposed enhancements to EURIBOR's hybrid methodology that will be phased in over six months starting mid-May 2024. Currently, the contribution made by the panel banks follows a three-level waterfall approach including transactions from the observation period, derived or historical transactions or "expert judgement" grounded on transactions from nearby markets. The new methodology will end the use of "expert judgement" to determine the EURIBOR rate and certain historical transactions will be linked to the Euro Short-Term Rate (**€STR**), bringing the risk profile of EURIBOR closer to that of €STR. While the changes are expected to reduce the risk exposure for panel banks, there is uncertainty regarding the impact on rates and money market spreads from a possible increased fixing volatility.

Weighted Average Variable Interest Rate. At 31 March 2024, the outstanding principal amount of our variable-rate indebtedness aggregated £7.4 billion and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 7.6%, excluding the effects of interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Assuming no change in the amount outstanding, and without giving effect to any interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, a hypothetical 50 basis point (0.50%) increase (decrease) in our weighted average variable interest rate would increase (decrease) our annual consolidated interest expense and cash outflows by £37.0 million. As discussed above and in note 7 of the Notes to the Condensed Consolidated Financial Statements, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

In addition to the above, we are also exposed to modest, predetermined interest rate adjustments as a result of the achievement or non-achievement of Environmental, Social and Governance (**ESG**) linked metrics contained within certain sustainability linked VMED O2 Credit Facilities. These ESG metrics are primarily related to the reduction of Scope 1 and Scope 2 emissions in line with our pathway to net zero across our operations, products and supply chain by 2040.

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments, cash holdings and undrawn debt facilities will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments and undrawn debt facilities is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under the derivative instruments. Most of our cash currently is invested in either (i) AAA credit rated money market funds, including funds that invest in government obligations, or (ii) overnight deposits with banks having a minimum credit rating of A by Standard & Poor's or an equivalent rating by Moody's Investor Service. To date, neither the access to nor the value of our cash and cash equivalent balances have been adversely impacted by liquidity problems of financial institutions.

At 31 March 2024, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £776.2

million, (ii) aggregate undrawn debt facilities of £1,478.5 million and (iii) cash and cash equivalents and restricted cash of £65.6 million.

We have entered into derivative instruments under master agreements with each counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument. The master netting arrangements are limited to the derivative instruments governed by the relevant master agreement and are independent of similar arrangements.

Under our derivative contracts, it is generally only the non-defaulting party that has a contractual option to exercise early termination rights upon the default of the other counterparty and to set off other liabilities against sums due upon such termination. However, in the event of an insolvency of a derivative counterparty, under the laws of certain jurisdictions, the defaulting counterparty or its insolvency representatives may be able to compel the termination of one or more derivative contracts and trigger early termination payment liabilities payable by us, reflecting any mark-to-market value of the contracts for the counterparty. Alternatively, or in addition, the insolvency laws of certain jurisdictions may require the mandatory set off of amounts due under such derivative contracts against present and future liabilities owed to us under other contracts between us and the relevant counterparty. Accordingly, it is possible that we may be subject to obligations to make payments, or may have present or future liabilities owed to us partially or fully discharged by set off as a result of such obligations, in the event of the insolvency of a derivative counterparty, even though it is the counterparty that is in default and not us. To the extent that we are required to make such payments, our ability to do so will depend on our liquidity and capital resources at the time. In an insolvency of a defaulting counterparty, we will be an unsecured creditor in respect of any amount owed to us by the defaulting counterparty, except to the extent of the value of any collateral we have obtained from that counterparty.

In addition, where a counterparty is in financial difficulty, under the laws of certain jurisdictions, the relevant regulators may be able to (i) compel the termination of one or more derivative instruments, determine the settlement amount and compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty.

While we currently have no specific concerns about the creditworthiness of any counterparty for which we have material credit risk exposures, we cannot rule out the possibility that one or more of our counterparties could fail or otherwise be unable to meet its obligations to us. Any such instance could have an adverse effect on our cash flows, results of operations, financial condition and or liquidity.

Although we actively monitor the creditworthiness of our key vendors, the financial failure of a key vendor could disrupt our operations and have an adverse impact on our revenue and cash flows.

Sensitivity Information

Information concerning the sensitivity of the fair value of certain of our more significant derivative instruments to changes in market conditions is set forth below. The potential changes in fair value set forth below do not include any amounts associated with the remeasurement of the derivative asset or liability into the applicable functional currency. For additional information, see notes 7 and 8 of the Notes to the Condensed Consolidated Financial Statements.

Cross-currency and Interest Rate Derivative Contracts
Holding all other factors constant at 31 March 2024:

(a) an instantaneous increase / (decrease) of 10% in the value of the pound sterling relative to the US dollar would have decreased / (increased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £1,047.8 million;

(b) an instantaneous increase / (decrease) of 10% in the value of the pound sterling relative to the euro would have decreased / (increased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £384.4 million; and

(c) an instantaneous increase / (decrease) in the relevant base rate of 50 basis points (0.50%) would have (decreased) / increased the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £147.3 million.

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