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Virgin Media Finance PLC
Reports and Financial Statements
31 December 2016

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Virgin Media Finance PLC
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Virgin Media Finance PLC

Directors and Officers

Directors

R D Dunn

M O Hifzi

T Mockridge

Company Secretary

G E James

Auditors

KPMG LLP

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Leeds

LS1 4DA

Registered Office

Bartley Wood Business Park

Hook

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RG27 9UP

Virgin Media Finance PLC
Strategic Report
for the year ended 31 December 2016

The directors present their Strategic Report on the group for the year ended 31 December 2016.

For the purposes of this Strategic Report, Directors' Report and financial statements, the Virgin Media Finance PLC group will be referred to as "the group", Virgin Media Finance PLC the entity will be referred to as "the company", the group headed by Virgin Media Inc. will be referred to as "the Virgin Media group", and the group headed by Liberty Global plc will be referred to as "the Liberty Global group".

The company is a wholly-owned subsidiary undertaking of Virgin Media Inc. ("Virgin Media") which is itself a wholly-owned subsidiary of Liberty Global plc ("Liberty Global").

The group completed the acquisition of 65% of VM Ireland ("VM Ireland Acquisition") from a fellow subsidiary of Liberty Global in February 2015 and have accounted for it as a common control transfer. As a result, all financial and operating information has been retrospectively revised to give effect to the VM Ireland Acquisition for all periods after Virgin Media became a wholly owned subsidiary of Liberty Global unless otherwise noted.

We completed two small acquisitions during 2016 and also two acquisitions during 2015 along with a small business disposal. These transactions impact the comparability of our 2016 and 2015 results of operations.

PRINCIPAL ACTIVITIES

The Virgin Media group operates under the Virgin Media brand in the United Kingdom (U.K.) and Ireland.

The group provides video, broadband internet, fixed-line telephony and mobile services in the U.K. and Ireland to both residential and business-to-business (B2B) customers. The group is one of the largest providers of video, broadband internet and fixed-line telephony services in terms of the number of customers in the U.K. and Ireland. The group believes its advanced, deep-fibre cable access network enables it to offer faster and higher quality broadband services than its digital subscriber line, or DSL, competitors. As a result, the group provides its customers with a leading, next-generation broadband service and one of the most advanced interactive television services available in the U.K. and Irish markets.

The group provides mobile services to its customers using third-party networks through mobile virtual network operators (MVNO) arrangements.

In addition, through the Virgin Media Business brand, the group offers a broad portfolio of B2B voice, data, internet, broadband and managed services solutions to small businesses, medium and large enterprises and public sector organisations in the U.K. and Ireland.

At 31 December 2016, the Virgin Media group provided services to approximately 5.7 million residential cable customers on its network. The group is also one of the largest MVNO by number of customers, providing mobile telephony services to 2.4 million contract mobile customers and 0.6 million prepaid mobile customers over third party networks. At 31 December 2016, 83% of residential customers on the group's cable network received multiple services and 62% were "triple-play" customers, receiving broadband internet, video and fixed-line telephony services from the group.

Liberty Global is the largest international cable company with operations in more than 30 countries and its market-leading triple-play services are provided through next-generation networks and innovative technology platforms that connected 25 million customers subscribing to 50 million television, broadband internet and telephony services. In addition at 31 December 2016, Liberty Global served 10 million mobile subscribers and offered WiFi service across 5 million access points.

The principal activity of the company is to facilitate the group's financing structure by implementing the group's capital management policies, making and facilitating external borrowings and holding investments in subsidiary companies. The company's investments include substantially all of the Virgin Media group's trading operating companies.

The group's reporting segments are based on its method of internal reporting to Liberty Global and the information used by its chief executive officer, who is the chief operating decision maker, or CODM, to evaluate segment performance and make capital allocation decisions.

Virgin Media Finance PLC
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REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

For the year ended 31 December 2016, revenue increased by 4.2% to £4,686.1 million from £4,496.7 million in 2015 primarily as result of an increase in cable subscription revenue, B2B revenue and other revenue partially offset by a reduction in mobile subscription revenue. See further discussion of revenue under 'Performance against Key Performance Indicators' below.

Cost of sales increased by 4.7% to £1,408.2 million for the year ended 31 December 2016, from £1,344.6 million in 2015. This has mainly been driven by an increase in programming and copyright costs primarily due to a sports programming contract entered into in August 2015 in the U.K. and along with an increase in costs attributable to the impact of acquisitions. This has been offset by a decrease in mobile access and interconnect costs.

Gross profit increased by 4.0% to £3,277.9 million for the year ended 31 December 2016, from £3,152.1 million for the year ended 31 December 2015 primarily due to the reasons detailed above. Gross margin has decreased by 0.2% to 69.9% for the year ended 31 December 2016 from 70.1% for year ended 2015.

Administrative expenses increased by 3.9% to £2,360.3 million for the year ended 31 December 2016, from £2,272.7 million for the year ended 31 December 2015. The increase was partly driven by related party fees and allocations related to corporate services performed by Liberty Global of £110.9 million and £87.6 million during 2016 and 2015 respectively. These charges generally related to management, finance, legal, technology and other corporate and administrative services provided to the group's subsidiaries. In addition there was an increase in depreciation primarily associated with property and equipment additions related to the installation of customer premises equipment and the expansion and upgrade of our networks.

Finance income increased to £846.4 million for the year ended 31 December 2016, from £451.3 million for the year ended 31 December 2015. The increase in income was primarily as a result of the increase in the fair value of derivative financial instruments mainly as result of gains associated with an increase in the value of the US dollar relative to pounds sterling. In addition there was higher interest income arising on increased related party loan receivables from other Liberty Global group undertakings.

Finance costs increased to 1,518.4 million for the year ended 31 December 2016 from £784.2 million for the year ended 31 December 2015. The increase in costs was principally driven by foreign exchange losses due to the weakening of the pound sterling to the U.S. dollar in respect of the U.S. dollar denominated debt issued by the group. In addition there was an overall increase in interest payable due to higher average outstanding third party debt along with a higher loss on debt extinguishment.

Performance against Key Performance Indicators

Revenue

Revenue includes amounts received from residential subscribers for ongoing services, as well as revenue earned from services to business customers, interconnect fees and other categories of non-subscription revenue. The use of the term "subscription revenue" in the following discussion refers to amounts received from cable and mobile residential customers for ongoing services. Other revenue includes, among other items, interconnect revenue, mobile interconnect revenue, non-cable services, mobile handset sales, installation revenue and late fees.

Revenue by major category for the years ended 31 December 2016 and 2015 was as follows:

Revenue:	2016 £ million	2015 £ million	Increase/ (decrease)
Subscription revenue:			
Cable	3,258.7	3,127.8	4.2 %
Mobile	421.0	465.0	(9.5)%
Total subscription revenue	3,679.7	3,592.8	2.4 %
Business	667.4	652.0	2.4 %
Other revenue	339.0	251.9	34.6 %
	<u>4,686.1</u>	<u>4,496.7</u>	4.2 %

Virgin Media Finance PLC
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REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

The increase in cable subscription revenue is due to an increase in both the average number of RGUs ("Revenue Generating Units") and increased ARPU ("Average Revenue per Unit"):

- Total RGUs increased due to the net effect of an increase in the average number of broadband internet and fixed-line telephony RGUs, offset by declines in the average number of video RGUs.
- The increase in ARPU is primarily attributable to the net effect of higher ARPU from broadband internet and video services, offset by lower ARPU from fixed-line telephony services and the impact of a change in the regulations governing payment handling fees that the group charges its customers.

For the year ended 31 December 2016, mobile subscription revenue decreased to £421.0 million from £465.0 million in 2015. The decrease in mobile subscription revenue relates to the net effect of lower ARPU in the U.K., including a decrease in postpaid mobile services revenue associated with the U.K. Split-contract Program and the impact of a favourable adjustment to VAT recorded during the fourth quarter of 2015. This was offset by an increase in the average number of mobile subscribers, as an increase in the average number of postpaid mobile subscribers more than offset the decrease in the average number of prepaid mobile subscribers.

The increase in other revenue is primarily due to the net effect of an increase in mobile handset sales, primarily attributable to an increase associated with the U.K. Split-contract Program, along with an increase in broadcasting revenue in Ireland and an increase in installation revenue in the U.K. This was offset by a decrease in interconnect revenue in the U.K., primarily due to a decline in mobile short message service (SMS) termination volumes and lower fixed-line telephony termination volumes.

Business revenue for the years ended 31 December 2016 and 2015 was as follows:

	2016	2015	Increase/ (decrease)
	£ million	£ million	
Business Revenue:			
Data	503.5	470.5	7.0 %
Voice	106.8	128.8	(17.1%)
Other	57.1	52.7	8.3 %
Total Business Revenue:	<u>667.4</u>	<u>652.0</u>	2.4 %

Business data revenue increased to £503.5 million for the year ended 31 December 2016 from £470.5 million for the year ended 31 December 2015. The increase in data revenue is primarily attributable to higher volumes and higher amortisation of deferred upfront fees.

Business voice revenue decreased to £106.8 million for the year ended 31 December 2016 from £128.8 million for the year ended 31 December 2015. The decrease in voice revenue is attributable to lower voice revenue in the U.K. primarily due to the impact of a favourable adjustment recorded during the fourth quarter of 2015 related to the settlement of disputes with mobile operators over amounts charged for voice traffic along with a decline in usage and lower wholesale revenue.

The increase in other revenue is primarily attributable to an increase in low-margin equipment sales in the U.K.

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REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

Summary residential cable statistics

Selected statistics for the group's residential cable customers are shown below:

	2016	2015
Total cable customers	5,553,400	5,431,200
Cable products:		
Video	3,886,100	3,944,500
Fixed-line telephone	4,578,200	4,506,400
Broadband internet	5,111,600	4,904,000
Total cable products	13,575,900	13,354,900
Cable products per customer (i)	2.4x	2.5x
Triple play penetration	62.0%	63.3%
Cable ARPU (ii)	£49.44	£48.33

(i) Each telephone, television and broadband internet subscriber directly connected to the Virgin Media group's network counts as one product. Accordingly, a subscriber who receives both telephone and television services counts as two products. Products may include subscribers receiving some services for free or at a reduced rate in connection with promotional offers.

(ii) Cable ARPU is calculated by dividing the average monthly subscription revenue (excluding installation, late fees, interconnect and mobile services revenue) for the indicated period, by the average of the opening and closing number of Customer Relationships for the period.

The total number of cable products grew to 13,575,900 at 31 December 2016 from 13,354,900 at 31 December 2015, representing a net increase in products of 221,000.

Summary mobile statistics

Selected statistics for the group's mobile customers are shown below:

	2016	2015
Postpaid mobile customers (i)	2,383,700	2,260,600
Prepaid mobile customers (i)	638,600	755,800
Total mobile customers	3,022,300	3,016,400
Mobile ARPU (ii)	£13.20	£14.71

(i) Postpaid Mobile Subscribers represent the number of active SIM cards relating to either a mobile service or a mobile broadband contract. Customers are considered as active if they have entered into a contract for a minimum 30-day period and have not been disconnected. Prepaid Mobile Subscribers are considered active if they have made an outbound call or text in the preceding 30 days.

(ii) Mobile monthly average revenue per user ("Mobile ARPU") is calculated by dividing the average monthly mobile subscription revenue (excluding handset revenue, activation and late fees) for the indicated period by the average of the opening and closing balances of total mobile subscribers in service for the period.

The group added 123,100 postpaid subscribers in 2016. Growth in postpaid subscriptions was offset by a lower prepaid base, resulting in an overall increase in our mobile base of 5,900 in 2016.

Virgin Media Finance PLC
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REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

FINANCING

As of 31 December 2016 the group had £12,749.2 million of financial liabilities compared with £10,564.0 million as at 31 December 2015. The principal changes to financial liabilities during the year are discussed below:

On 26 April 2016 Virgin Media Secured Finance issued \$750.0 million principal amount of 5.5% senior secured notes due 2026. The net proceeds were used to repay, in full, the outstanding amount under the Virgin Media Revolving Credit Facility held by a fellow group undertaking and for general corporate purposes.

In December 2016, Virgin Media Bristol LLC entered into VM Facility I for \$3,400.0 million (£2,754.1 million). VM Facility I was issued at 99.75% of par and is subject to a LIBOR floor of 0.0%. The net proceeds from VM Facility I were used to repay:

- in full the \$1,855.0 million (£1,502.6 million) outstanding principal amount under VM Facility F;
- in full the \$900.0 million (£729.0 million) outstanding principal amount under the April 2021 VM U.S. Dollar Senior Secured Notes;
- £350.0 million of the £900.0 million outstanding principal amount under the April 2021 VM Sterling Senior Secured Notes; and
- in full the £100.0 million outstanding principal amount under VM Facility D.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The group is exposed to volatility in its cash flows and earnings resulting from changes in interest rates and foreign currency exchange rates. The group has entered into various derivative instruments with a number of counterparties to manage this volatility of its cash flows and earnings.

The group has entered into cross-currency interest rate swaps to manage interest rate and foreign exchange rate currency exposures resulting from the variable and fixed rates of interest paid on dollar denominated debt obligations and movements in fair value on certain of its U.S. dollar denominated debt. Additionally, the group has entered into interest rate swaps to manage interest rate exposures resulting from the variable and fixed rates of interest paid on sterling denominated debt obligations and movements in fair value on certain of its sterling denominated debt. The group has also entered into U.S. dollar forward rate contracts to manage foreign exchange rate currency exposures related to certain committed and forecasted purchases. See note 22 to the financial statements for further information on the group's derivative instruments.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk management

Details of the financial risks and how they are managed are outlined in note 21 to the financial statements. The principal financial risks faced by the group are credit risk, interest rate risk, foreign exchange rate risk and liquidity risk.

Principal non-financial risks

Virgin Media Finance PLC is a member of the Virgin Media group, which manages the principal non-financial risks and uncertainties and is headed by Virgin Media Inc. These risks, among others, are discussed in more detail in Virgin Media Inc.'s annual report. The principal non-financial risks include the following:

- economic and business conditions and industry trends in the markets in which we operate;
- the competitive environment in the cable television, broadband and telecommunications industries in the U.K. and Ireland including competitor responses to our products and services;
- instability in global financial markets, including sovereign debt issues in the European Union (EU) and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;

Virgin Media Finance PLC
Strategic Report
for the year ended 31 December 2016

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

- consumer acceptance of our existing service offerings, including our digital cable, broadband internet, fixed-line telephone and mobile and B2B (as defined in this annual report) service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- the group's ability to manage rapid technological changes;
- the group's ability to maintain or increase the number of subscriptions to our digital video, broadband internet, fixed-line telephone and mobile service offerings and our average revenue per household;
- the group's ability to provide satisfactory customer service, including support for new and evolving products and services;
- the group's ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of the group's future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in the markets in which the group operate and adverse outcomes from regulatory proceedings;
- government intervention that impairs the group's competitive position, including any intervention that would open the group's broadband distribution networks to competitors and any adverse change in the group's accreditations or licenses;
- the group's 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;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the markets in which the group operate;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of the group's financial risks;
- the ability of suppliers and vendors (including our third-party wireless network providers under the group's mobile virtual network operator (MVNO) arrangements) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our digital video services and the costs associated with such programming;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- the group's ability to adequately forecast and plan future network requirements, including the costs and benefits associated with the Network Extension;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems the group may discover post-closing with the operations, including the internal controls and financial reporting process, businesses we acquire;
- the group's ability to successfully integrate and realise anticipated efficiencies from the VM Ireland Acquisition (as defined in this annual report) and from other businesses the group may acquire;
- leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;

Virgin Media Finance PLC
Strategic Report
for the year ended 31 December 2016

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers;
- adverse changes in public perception of the “Virgin” brand, which we and others license from Virgin Group Limited, and any resulting impacts on the goodwill of customers toward the group; and
- events that are outside of the group’s control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

EVENTS SINCE THE BALANCE SHEET DATE

In January 2017 Virgin Media Secured Finance plc, a wholly owned subsidiary of the group, issued senior secured notes with a principal amount of £675.0. The new senior secured notes rank *pari passu* with the group’s existing senior secured notes and senior secured credit facility, and subject to certain exceptions, share in the same guarantees and security granted in favour of its existing senior secured notes. The net proceeds were used to redeem in full £640.0 million outstanding principal amounts of existing senior secured notes.

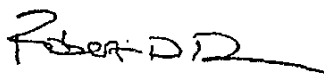
In February 2017 Virgin Media SFA Finance Limited, a wholly owned subsidiary of the group, entered into two new term loan facilities with an aggregate principal amount of £865.0 million. The new term facility will rank *pari passu* with the group’s existing senior secured notes and senior secured credit facility, and subject to certain exemptions, share in the same guarantees and security granted in favour of its existing senior secured notes. The net proceeds of the issuance of the term loan were used to redeem an equivalent aggregate amount of £849.4 million of the group’s existing senior secured credit facility.

In March 2017 Virgin Media Secured Finance plc completed an offer to exchange existing senior secured notes with an aggregate principal amount of £521.0 million due January 2021 for new senior secured notes with an aggregate principal amount of £521.0 million due January 2025. The new senior secured notes rank *pari passu* with the group’s existing senior secured notes and senior secured credit facility, and subject to certain exceptions, share in the same guarantees and security granted in favour of its existing senior secured notes.

FUTURE OUTLOOK

The directors will continue to review management policies in light of changing trading and market conditions. Further detail of the future outlook of the group, including consideration of the impact of the U.K. referendum in June 2016 and the withdrawal from the European Union, is provided in Virgin Media Inc.’s financial statements and annual report for 2016, which are available from the company secretary at Virgin Media, Bartley Wood Business Park, Hook, Hampshire, RG27 9UP.

On behalf of the board



R D Dunn
Director
27 June 2017

Virgin Media Finance PLC
Directors' Report
for the year ended 31 December 2016

The directors present their report and the financial statements for the group and company for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The group made a profit for the year, after tax, of £118.5 million (2015 – profit of £303.8 million). The directors have not recommended the payment of a dividend (2015 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and thereafter were as follows:

R D Dunn

T Mockridge

P A Buttery (resigned on 1 March 2017)

M O Hifzi

The directors of the company have been indemnified against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision is in force for directors serving during the financial year and as at the date of approving the Directors' Report.

EMPLOYMENT POLICIES AND DISABLED EMPLOYEES

Virgin Media remains committed to the continuing introduction and practice of progressive employment policies which reflect changing business, social and employee needs.

Virgin Media aims to ensure that everyone connected to it is treated fairly and equally, whether they are a current or former member of staff, job applicant, customer or supplier.

Nobody should be discriminated against, either directly or indirectly, on the grounds of gender, gender reassignment, marital status, pregnancy, race, ethnic origin, colour, nationality, national origin, disability, sexual orientation, religion or belief, age, political affiliation or trade union membership. The policy applies to anyone who works for, who has worked for or who applies to work for Virgin Media or its partners. That means permanent, temporary, casual or part-time staff, anyone on a fixed-term contract, agency staff and consultants working with Virgin Media, ex-employees and people applying for jobs. This applies to all aspects of employment, including recruitment and training.

Virgin Media gives full consideration to applications from employees with disabilities where they can adequately fulfil the requirements of the job. Depending on their skills and abilities, employees with a disability have the same opportunities for promotion, career development and training as other employees. Where existing employees become disabled, it is Virgin Media's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

In line with Liberty Global's 'Code of Business Conduct', the groups' employees and directors are expected to display responsible and ethical behaviour, to follow consistently both the meaning and intent of this Code and to act with integrity in all of the group's business dealings. Managers and supervisors are expected to take such action as is necessary and appropriate to ensure that the group's business processes and practices are in full compliance with the Code.

Employee Involvement

The Virgin Media group is dedicated to increasing the practical involvement of individuals in the running of its business. It seeks to achieve this as follows:

- all employees are encouraged to understand the aims of the Virgin Media group and of their own business area and to contribute to improving business performance through their knowledge, experience, ideas and suggestions. This requires strong communication to ensure that employees are briefed as widely as possible about activities and developments across Virgin Media. The online news channel, open forums, newsletters and team meetings play important roles in this, as do the development of people management skills and the ongoing conversations about performance and development which underpin mid-year and year-end reviews;

Virgin Media Finance PLC
Directors' Report
for the year ended 31 December 2016

EMPLOYMENT POLICIES AND DISABLED EMPLOYEES (continued)

- the Virgin Media group ensures that all employees are involved and consulted through “Voice” which operates at a national, divisional and local level. It enables employees and employers to have an open and transparent relationship with a flow of information. It is focused around sharing information, involving employees in decision making, gaining access to knowledge and experience or resolving differences of opinion. Involving employees in decision making enhances confidence and job satisfaction, creates a sense of belonging and empowerment, reduces stress and impacts positively on wellbeing.

The Virgin Media group fosters a team spirit among employees and their greater involvement by offering participation in bonus or local variable reward schemes and team development opportunities. Virgin Media also operates various recognition schemes which are designed to reward employees for behaviours which are consistent with the Virgin Media values and has a volunteering scheme which allows employees to take a day each year to volunteer with a charity or organisation of their choice.

ENVIRONMENTAL AND SUSTAINABILITY POLICIES

Virgin Media is committed to growing a responsible and sustainable business. This means ensuring that our growth and its contribution to the U.K. is delivered in a way that's good for people and the environment.

In 2016, our focus was on progressing towards our five 2020 sustainability goals. Our work included delivering a reduction in our carbon footprint of 11.9% since 2014, launching a new Virgin Media Pioneers community to provide better support to small business owners and providing disabled people and their families with access to assistive technology through our partnership with Scope, the disability charity.

In addition, we completed a materiality assessment to ensure we are managing the sustainability issues that matter the most to our stakeholders.

By 2020 Virgin Media aims to:

- Nurture an engaged workforce which represents the diversity of our customers and communities
- Improve the sustainability performance of every new product
- Grow our business without increasing our carbon footprint
- Create the opportunities for 100,000 small businesses to grow in the U.K.'s economy through digital
- Support 1 million disabled people to get into work by 2020 through digital technology

Each of the goals is owned by a member of the Virgin Media Executive Committee and we have a dedicated Sustainability team which facilitates and communicates our progress to become a more sustainable business.

Virgin Media communicates updates on performance and key highlights through its dedicated sustainability website: www.virginmedia.com/sustainability.

GOING CONCERN

As Virgin Media Finance PLC is either a direct or indirect parent of substantially all of the trading companies in the Virgin Media group, these consolidated financial statements include substantially all of the trade and assets of the overall Virgin Media group. Whilst forecasts and projections, which take account of reasonably possible changes in trading performance, have not been prepared at a Virgin Media Finance PLC group level, they have been prepared for the Virgin Media group as a whole. These forecasts and projections showed that cash on hand, together with cash from operations and the undrawn revolving credit facility, are expected to be sufficient for the Virgin Media group's and hence the group's cash requirements through to at least 30 June 2018.

Taking into account these forecasts and projections and after making enquiries, the directors have a reasonable expectation the group has adequate support and resources to continue in operational existence for the foreseeable future.

For these reasons the directors continue to adopt the going concern basis in preparing these financial statements.

Virgin Media Finance PLC
Directors' Report
for the year ended 31 December 2016

CORPORATE GOVERNANCE

The group is committed to conducting business with honesty, integrity and respect. Corporate governance affects the way the group directs its relationship with its stakeholders. The group believes that the highest standards of corporate governance are essential to the group's business integrity and performance. The group has adopted a number of policies and procedures to support solid corporate governance in every area of the group's operations.

Corporate Governance Guidelines adopted by the Liberty Global Board of Directors serve as a framework for Board governance over the affairs of the group for the benefit of its shareholders. These include Code of Business Conduct, Code of Ethics, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter and Succession Planning Committee Charter.

Further information on Corporate Governance is available to the public on Liberty Global's website at www.libertyglobal.com/cr under the heading "Corporate Responsibility". The information on the website is not part of this report.

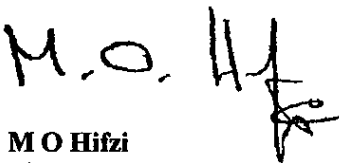
DISCLOSURE OF INFORMATION TO THE AUDITOR

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information required by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

KPMG LLP will be re-appointed under section 487(2) of the Companies Act 2006.

Signed on behalf of the board of directors

A handwritten signature in black ink, appearing to read 'M.O. Hifzi', with a stylized flourish at the end.

M O Hifzi
Director

Approved by the directors on 27 June 2017

Virgin Media Finance PLC
Statement of Directors' Responsibilities
for the year ended 31 December 2016

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

RESPONSIBILITY STATEMENTS UNDER THE DISCLOSURE AND TRANSPARENCY RULES

Each of the directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Independent Auditor's Report to the Members of Virgin Media Finance PLC

We have audited the financial statements of Virgin Media Finance PLC for the year ended 31 December 2016 set out on pages 14 to 78. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

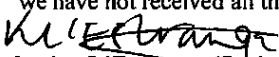
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.


Katharine L'Estrange (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street, Leeds
LS1 4DA

29 June 2017

Virgin Media Finance PLC
Group Income Statement and Statement of Comprehensive Income
for the year ended 31 December 2016

		2016	2015
	Notes	£ million	£ million
Revenue	3	4,686.1	4,496.7
Cost of sales		<u>(1,408.2)</u>	<u>(1,344.6)</u>
Gross profit		3,277.9	3,152.1
Administrative expenses		<u>(2,360.3)</u>	<u>(2,272.7)</u>
Group operating profit	4	917.6	879.4
Finance income	7	846.4	451.3
Finance costs	8	<u>(1,518.4)</u>	<u>(784.2)</u>
Net finance costs		<u>(672.0)</u>	<u>(332.9)</u>
Profit before taxation		245.6	546.5
Tax expense	9	<u>(127.1)</u>	<u>(242.7)</u>
Profit for the year		118.5	303.8
Loss for the year attributable to Non-Controlling Interests		<u>3.7</u>	<u>5.5</u>
Profit for the year attributable to equity holders of the parent		<u>122.2</u>	<u>309.3</u>
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial (losses)/gains on defined benefit pension plans	29	(2.2)	16.3
Tax on defined benefit pension plans	9	<u>(0.2)</u>	<u>0.7</u>
		<u>(2.4)</u>	<u>17.0</u>
<i>Items that will or may be subsequently reclassified to profit or loss</i>			
Impact of movements in cash flow hedges	22	14.2	14.2
Tax on cash flow hedges	9	<u>(0.2)</u>	<u>1.5</u>
Exchange differences on the retranslation of foreign operations		<u>(17.5)</u>	<u>16.5</u>
		<u>(3.5)</u>	<u>32.2</u>
Total comprehensive income for the year attributable to equity holders		<u>112.6</u>	<u>353.0</u>
Total comprehensive income attributable to:			
Owners of the parent		125.3	354.4
Non-Controlling Interests		<u>(12.7)</u>	<u>(1.4)</u>
		<u>112.6</u>	<u>353.0</u>

The notes on pages 18 to 67 form part of the financial statements.

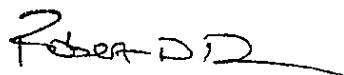
All results relate to continuing operations.

Virgin Media Finance PLC
Group Balance Sheet
as at 31 December 2016

	Notes	31 December 2016	31 December 2015
		£ million	£ million
Non-current assets			
Intangible assets	10	2,467.3	2,366.9
Property, plant and equipment	11	4,619.9	4,337.9
Financial assets	13	5,647.0	3,651.0
Trade and other receivables	14	139.6	126.6
Deferred tax assets	9	1,843.3	2,021.5
Defined benefit pension plan asset	29	37.6	35.7
		<u>14,754.7</u>	<u>12,539.6</u>
Current assets			
Financial assets	13	95.8	37.7
Trade and other receivables	14	538.4	527.5
Inventories	15	38.7	28.8
Cash and short term deposits	16	20.9	20.1
		<u>693.8</u>	<u>614.1</u>
Total assets		<u>15,448.5</u>	<u>13,153.7</u>
Current liabilities			
Trade and other payables	17	(1,620.7)	(1,578.2)
Financial liabilities	18	(1,491.1)	(1,072.5)
Provisions	20	(9.3)	(6.4)
		<u>(3,121.1)</u>	<u>(2,657.1)</u>
Non-current liabilities			
Trade and other payables	17	(60.8)	(73.8)
Financial liabilities	18	(11,258.1)	(9,491.5)
Deferred tax liabilities	9	-	(51.4)
Provisions	20	(116.0)	(84.4)
Defined benefit pension plan liability	29	(15.4)	(34.2)
		<u>(11,450.3)</u>	<u>(9,735.3)</u>
Total liabilities		<u>(14,571.4)</u>	<u>(12,392.4)</u>
Net assets		<u>877.1</u>	<u>761.3</u>
Capital and reserves			
Equity share capital	23, 25	0.1	0.1
Share premium account	25	3,323.2	3,323.2
Treasury share reserve	25	(2,880.2)	(2,880.2)
Other capital reserves	25	(1,846.6)	(1,849.1)
Unrealised gains and losses	25	(8.8)	(22.8)
Foreign currency translation reserve	25	14.4	24.1
Retained earnings		<u>2,335.0</u>	<u>2,214.6</u>
Virgin Media Finance PLC group shareholders' equity		<u>937.1</u>	<u>809.9</u>
Non-controlling interests		<u>(60.0)</u>	<u>(48.6)</u>
Total equity		<u>877.1</u>	<u>761.3</u>

The notes on pages 18 to 67 form part of the financial statements.

These financial statements were approved by the directors on 27 June 2017 and are signed on their behalf by:



R D Dunn
Director

Company Registration Number: 05061787

Virgin Media Finance PLC
Group Statement of Changes in Equity
for the year ended 31 December 2016

	Attributable to owners of the parent								Non-Controlling interest	Total equity
	Equity share capital	Share premium account	Treasury share reserve	Other capital reserves	Unrealised gains and losses	Foreign currency translation reserve	Retained earnings	Total equity		
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 December 2014	0.1	3,323.2	(2,880.2)	(1,329.4)	(38.5)	9.3	1,886.7	971.2	(49.4)	921.8
Total comprehensive income	-	-	-	-	15.7	14.8	323.9	354.4	(1.4)	353.0
Treasury shares acquired by the group	-	-	-	-	-	-	-	-	-	-
Tax on share based payments	-	-	-	-	-	-	4.0	4.0	-	4.0
Excess consideration in connection with VM Ireland Acquisition	-	-	-	(523.8)	-	-	-	(523.8)	-	(523.8)
Capital contribution	-	-	-	4.1	-	-	-	4.1	2.2	6.3
At 31 December 2015	0.1	3,323.2	(2,880.2)	(1,849.1)	(22.8)	24.1	2,214.6	809.9	(48.6)	761.3
Total comprehensive income	-	-	-	-	14.0	(9.7)	121.0	125.3	(12.7)	112.6
Treasury shares acquired by the group	-	-	-	-	-	-	-	-	-	-
Tax on share based payments	-	-	-	-	-	-	(0.6)	(0.6)	-	(0.6)
Capital contribution	-	-	-	2.5	-	-	-	2.5	1.3	3.8
At 31 December 2016	0.1	3,323.2	(2,880.2)	(1,846.6)	(8.8)	14.4	2,335.0	937.1	(60.0)	877.1

The notes on pages 18 to 67 form part of the financial statements.

See note 25 for an explanation of each reserve.

Virgin Media Finance PLC
Group Cash Flow Statement
for the year ended 31 December 2016

		2016	2015
	Notes	£ million	£ million
Operating activities			
Profit for the year		118.5	303.8
<i>Adjustments to reconcile profit for the year attributable to equity holders of the parent to net cash inflow from operating activities</i>			
Depreciation of property, plant and equipment	11	961.9	932.9
Amortisation of intangible assets	10	79.1	79.7
Net finance costs		351.3	360.0
Share-based payments		25.1	24.1
Income taxes		125.6	241.7
(Gains)/losses on disposal of property, plant and equipment		(0.3)	0.3
Unrealised gains on derivative instruments		(520.7)	(246.2)
Non-cash foreign exchange movements		915.6	199.7
Decrease in trade and other receivables		96.6	244.8
Increase in inventories		(9.9)	(16.2)
Increase in prepayments and other assets		(18.7)	(53.1)
Increase in trade and other payables		27.4	74.0
Increase in accruals, deferred income and other current liabilities		58.4	12.6
Decrease in deferred income and other long term liabilities		(13.0)	(60.0)
Increase/(decrease) in provisions		13.7	(57.9)
Net cash inflow provided by continuing operating activities		<u>2,092.1</u>	<u>1,736.4</u>
Net cash inflow from operating activities		<u>2,210.6</u>	<u>2,040.2</u>
Investing activities			
Purchase of property, plant and equipment		(539.7)	(580.2)
Loans to parent and group undertakings		(1,439.9)	(799.1)
Proceeds on sale of property, plant and equipment		0.7	9.4
Acquisition net of cash acquired		(34.1)	(1,051.0)
Change in restricted cash		-	1.1
Interest received		289.8	240.5
Net cash outflow from investing activities		<u>(1,723.2)</u>	<u>(2,179.3)</u>
Financing activities			
Interest paid		(657.9)	(557.9)
Settlement of cross currency interest rate swaps		(6.3)	(17.9)
New borrowings, net of financing fees		5,539.2	3,486.5
Repayment of borrowings		(5,313.1)	(2,693.7)
Capital lease payments		(48.4)	(72.4)
Net cash inflow/ (outflow) from financing activities		<u>(486.5)</u>	<u>144.6</u>
Effect of exchange rate changes on cash and cash equivalents		(0.1)	(0.7)
Net increase in cash and cash equivalents		0.8	4.8
Cash and cash equivalents at 1 January	16	20.1	15.3
Cash and cash equivalents at 31 December	16	<u>20.9</u>	<u>20.1</u>

The notes on pages 18 to 67 form part of the financial statements.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

1 Authorisation of financial statements and statement of compliance with IFRS

The consolidated financial statements of Virgin Media Finance PLC for the year ended 31 December 2016 were authorised for issue by the board of directors on 27 June 2017 and the Group Balance Sheet was signed on the board's behalf by R D Dunn. Virgin Media Finance PLC is a public limited company incorporated and domiciled in England & Wales. The company's shares are not publicly traded although the Senior Notes issued by the company are registered on the Luxembourg Stock Exchange.

2 Accounting policies

The principal accounting policies adopted by the group are set out below and have all been applied consistently throughout the current year and the preceding year except as discussed below.

Basis of preparation

The group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2016 and applied in accordance with the Companies Act 2006. The separate financial statements of the parent company are prepared under FRS 101.

The financial statements are prepared on the going concern basis because, after making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. As Virgin Media Finance PLC is either a direct or indirect parent of substantially all of the trading companies in the Virgin Media group, these consolidated financial statements include substantially all of the trade and assets of the overall Virgin Media group. Whilst forecasts and projections, which take account of reasonably possible changes in trading performance, have not been prepared at a Virgin Media Finance PLC group level, they have been prepared for the Virgin Media group as a whole. These forecasts and projections showed that cash on hand, together with cash from operations and the undrawn revolving credit facility, are expected to be sufficient for the Virgin Media group's and hence the group's cash requirements through to at least 30 June 2018.

The group financial statements are presented in sterling and all values are rounded to the nearest one hundred thousand pounds, except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the group's financial statements for the year ended 31 December 2016.

Foreign exchange movements have been presented within finance income and/or costs and reserves to align with the nature of how these gains and/or losses arise.

New standards, amendments and interpretations adopted by the group

In the current year, the group has reviewed the amendments to IFRSs and a new interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. This assessment has determined the effect of these new standards are not material to the company and they have not been applied.

New standards, amendments and interpretations not adopted

The following standards and interpretations have been issued with an effective date for accounting periods beginning after the date of these financial statements:

<i>International Accounting Standards (IAS/IFRSs/IFRICs)</i>		<i>Effective Date</i>
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9 Financial Instruments	Revised guidance for classification of Financial Instruments	1 January 2018
IFRS 16 Leases	Revised guidance on the recognition, measurement and disclosure of leases	1 January 2019

2 Accounting policies (continued)

The directors have assessed the impact of these standards on the financial statements as set out below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

IFRS 9, 'Financial Instruments' includes revised guidance surrounding the measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of IFRS 9.

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The group is assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

The most significant judgments and estimations used by management in the process of applying the group's accounting policies are discussed below:

Impairment of intangible assets

Goodwill and intangible assets with indefinite lives are assessed for impairment annually and when such indicators exist.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of these cash flows. Where fair value less cost to sell is used, the valuation must represent the fair value of the cash-generating unit in an orderly transaction between market participants under current market conditions, less costs to sell.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and allowances to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Details of the measurement of the group's deferred tax asset recognition and measurement are provided in note 9.

Property, plant and equipment

Depreciation is provided on all property, plant and equipment, other than freehold land, on a straight-line basis at rates calculated to write off the cost of each asset over the shorter of its leasing period or estimated useful life. Useful lives are reviewed annually and where adjustments are required, these are made prospectively.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

The nature and amount of labour and other costs to be capitalised with respect to construction and installation activities involves significant judgment. In addition to direct external and internal labour and materials, the group also capitalise other costs directly attributable to our construction and installation activities, including dispatch costs, quality-control costs, vehicle-related costs and certain warehouse-related costs. The capitalisation of these costs is based on time sheets, time studies, standard costs, call tracking systems and other verifiable means that directly link the costs incurred with the applicable capitalisable activity. The group continuously monitor the appropriateness of our capitalisation policies and update the policies when necessary to respond to changes in facts and circumstances, such as the development of new products and services, and changes in the manner that installations or construction activities are performed.

Fair value measurement of financial instruments

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument.

Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 22).

Basis of consolidation

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Acquisitions under common control

Business combinations between entities that are under common control are accounted for at book value. The assets and liabilities acquired or transferred are recognised or derecognised at the carrying amounts previously recognised in the group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the group equity and any gain/loss arising is recognised directly in equity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency translation

The group's consolidated financial statements are presented in sterling, which is also the parent company's functional currency. Transactions in foreign currencies are initially recorded in the local entity's functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange differences are included in the Group Income Statement, except where hedge-accounting is applied and for differences on monetary assets and liabilities that form part of the group's net investment in a foreign operation. These are recorded directly in equity until the disposal of the net investment, at which time they are reclassified from equity to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

Goodwill

Business combinations, other than common control business combinations, are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. The group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to acquisitions, other than those associated with the issue of debt or equity securities, are expensed as incurred.

When the excess is negative any gain on bargain purchase is recognised in profit or loss immediately.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes costs directly attributable to making the asset capable of operating as intended. Property, plant and equipment acquired through business combinations is initially recorded at fair value on acquisition.

Depreciation is provided on all property, plant and equipment, other than freehold land, on a straight-line basis at rates calculated to write off the cost of each asset over the shorter of its leasing period or estimated useful life as follows:

Network assets, cable plant and equipment

Network assets - 3 - 30 years

Network assets includes construction in progress which is not depreciated and comprises of materials, consumables and direct labour relating to network construction and is stated at the cost incurred in bringing each product to its present location and condition, as follows:

Raw materials and consumables	-	purchase cost
Work in progress	-	cost of direct materials and labour

Other fixed assets:

Property held under finance lease	-	period of lease
Freehold property, other than land	-	30 years
Leasehold improvements	-	20 years or, if less, the term of the lease
Furniture and fixtures	-	5 - 12 years
Computer equipment	-	3 - 5 years
Motor vehicles	-	5 years

Labour costs relating to the design, construction and development of the network, capital projects, and related services are capitalised and depreciated on a straight-line basis over the life of the relevant assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

Impairment of intangible assets and property, plant and equipment

In accordance with IAS 36 'Impairment of Assets', the group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the Group Income Statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed, other than on goodwill, only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Provisions for liabilities and charges

Provisions are recorded when the group has a legal or constructive obligation as a result of a past event for which it is probable that the group will be required to settle by an outflow of economic benefits and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

Leases

Assets held under finance leases, which transfer to the group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Group Income Statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are generally depreciated over the estimated useful life of the asset; certain assets held under finance leases are depreciated over the lease term where this is shorter than the estimated useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the Group Income Statement on a straight line basis over the lease term.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

Finance costs which are incurred in connection with the issuance of debt are deferred and set off against the borrowings to which they relate. Deferred finance costs are amortised over the term of the related debt using the effective interest method.

Derivative financial instruments and hedging

The group has established policies and procedures to govern the management of its exposure to interest rate and foreign currency exchange rate risks, through the use of derivative financial instruments, including interest rate swaps, cross currency interest rate swaps and foreign currency forward rate contracts.

2 Accounting policies (continued)

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date.

Derivatives are recognised as financial assets when the fair value is positive and as liabilities when the fair value is negative.

The foreign currency forward rate contracts, interest rate swaps and cross-currency interest rate swaps are valued using internal models based on observable inputs, counterparty valuations or market transactions in either the listed or over-the-counter markets, adjusted for non-performance risk. Non-performance risk is based upon quoted credit default spreads for counterparties to the contracts and swaps. Derivative contracts which are subject to master netting arrangements are not offset and have not provided, nor require, cash collateral with any counterparty.

While these instruments are subject to the risk of loss from changes in exchange rates and interest rates, these losses would generally be offset by gains in the related exposures. Financial instruments are only used to hedge underlying commercial exposures. The group does not enter into derivative financial instruments for speculative trading purposes, nor does it enter into derivative financial instruments with a level of complexity or with a risk that is greater than the exposure to be managed.

For derivatives which are designated as hedges the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

The group designates certain derivatives as either fair value hedges, when hedging exposure to variability in the fair value of recognised assets or liabilities or firm commitments, or as cashflow hedges, when hedging exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Derivatives that are not part of an effective hedging relationship, as set out in IAS 39, must be classified as held for trading and measured at fair value through profit or loss.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends upon the nature of the hedging relationship and are treated as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Group Income Statement. Amounts taken to Other Comprehensive Income are reclassified to the Group Income Statement when the hedged transaction is recognised in the Group Income Statement, such as when a forecast sale or purchase occurs, in the same line of the Group Income Statement as the recognised hedged item. Where the hedged item is the cost of a non-financial asset or liability, the gains and losses previously accumulated in equity are transferred to the initial measurement of the cost of the non-financial asset or liability. If a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the Group Income Statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in Other Comprehensive Income remain in equity until the forecast transaction occurs and are reclassified to the Group Income Statement.

Fair value hedges

For fair value hedges, the changes in the fair value of the hedging instrument are recognised in the Group Income Statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the Group Income Statement relating to the hedged item.

Virgin Media Finance PLC
Notes to the Group Financial Statements
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2 Accounting policies (continued)

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, then the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Inventories

Inventory consists of goods for resale and programing inventories which are valued at the lower of cost or net realisable value using the first-in, first-out (FIFO) method. Cost represents the invoiced purchase cost of inventory. Net realisable value is based on judgements, using currently available information about obsolete, slow moving or defective inventory. Based upon these judgements and estimates, which are applied consistently from period to period, an adjustment is made to state the carrying amount of inventory held for resale at the lower of cost and net realisable value.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made where there is objective evidence that the group will not be able to recover balances in full.

Cash and short term deposits

Cash and short-term deposits in the Group Balance Sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts.

Tax

Current income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. The directors periodically evaluate positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establish provisions where appropriate. Income tax is charged or credited to Other Comprehensive Income if it relates to items that are charged or credited to Other Comprehensive Income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2 Accounting policies (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss.

Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Pensions

The group contributes to the Virgin Media sponsored group personal pension plans for eligible employees. Contributions to these schemes are recognised in the Group Income Statement in the period in which they become payable, in accordance with the rules for each of the plans.

The group operates three defined benefit pension plans, which require contributions to be made to separately administered funds. The plans are closed to new entrants.

The regular cost of providing benefits under the defined benefit plans is attributed to individual years using the projected unit credit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related scheme assets are re-measured using the current actuarial assumptions and the resultant gain or loss recognised in the Group Income Statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit pension cost represents the change in present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on scheme assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect of fair value of the scheme assets of contributions received and benefits paid during the year. The difference between the expected return on scheme assets and the interest cost is recognised in the Group Income Statement.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

Actuarial gains and losses are recognised in full in the Group Statement of Comprehensive Income in the period in which they occur.

The defined benefit pension asset or liability in the Group Balance Sheet comprises the total for each scheme of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of scheme assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price.

Revenue recognition

Revenue is recognised to the extent that it is realised or realisable and earned. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and VAT. The following criteria must also be met before revenue is recognised:

- persuasive evidence of an arrangement exists between the group and the group's customer;
- delivery has occurred or the services have been rendered;
- the price for the service is fixed or determinable; and
- recoverability is reasonably assured.

Residential

Fixed-line telephone, mobile telephone, video and internet subscription revenues are recognised as the services are provided to customers. Adjustments are made at the end of each period to defer revenue relating to services billed in advance and to accrue for earned but unbilled services.

Revenue from prepaid mobile customers is recorded as deferred revenue prior to commencement of the services and is recognised within revenue as the services are rendered.

Rental revenue in respect of line rentals provided to customers is recognised on a straight-line basis over the term of the rental agreement.

Business

Revenues from connectivity services are recognised as services are provided. Rental revenues in respect of line rentals provided to customers are recognised on a straight-line basis over the term of the rental agreement.

Installation revenues are generally not considered to be a separable service and are recognised over the contract term.

Other income

Interest income is recognised as interest accrues according to the effective interest method which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount.

Residential installation revenues are recognised at the time the installation has been completed to the extent that those fees are less than the direct selling costs, which is generally the case. Installation fees in excess of direct selling costs are deferred and amortised over the expected life of the customer's connection.

Mobile handset and other equipment revenues are recognised when the goods have been delivered and title has passed. Equipment revenue is stated net of discounts earned through service usage.

Broadcast revenue consists primarily of the sale of airtime, including programme sponsorship and related promotional activities which is recognised at the time commercials are broadcast and over the period the promotional activities take place, net of applicable agency commissions.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

Share-based payments

The company is an indirect, wholly-owned subsidiary of Virgin Media Inc. and Liberty Global plc. The company has no share-based compensation plans. Employees render services in exchange for shares or rights over shares (equity-settled transactions) of Liberty Global plc common stock.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date which they are granted. The fair value of options and share appreciation rights are determined using the Black-Scholes model. The fair value of restricted share units is determined using either the share price at the grant date or the Monte Carlo model, depending on the conditions attached to the restricted share units being granted. These transaction costs are recognised, together with a corresponding increase in either equity or amounts owed to parent undertakings, over the service period, or, if applicable, over the period in which any performance conditions are fulfilled, which ends on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity settled transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the number of awards that are estimated to ultimately vest, in the opinion of management at that date and based on the best available information.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

3 Segment information

The principal activity of the company is to facilitate the group's financing structure by implementing the group's capital management policies, making and facilitating external borrowings and holding investments in subsidiary companies. The company's investments include substantially all of the Virgin Media group's trading operating companies.

The Virgin Media group's reporting segments are based on its method of internal reporting to the Liberty Global group and the information used by its chief executive officer, who is the chief operating decision maker, or CODM, to evaluate segment performance and make capital allocation decisions.

It has been determined that the Virgin Media group comprises a single operating segment. This reflects how the CODM reviews the results of our business based on revenue and profitability measures.

There is no material difference between the revenue presented to the CODM and the revenue of the Virgin Media Finance PLC group. Revenue for the group was £4,686.1 million (2015 - £4,496.7 million) and was entirely derived from the sale of goods and services.

Geographic Locations

The group's revenue by geographic location is set out below:

	2016 £ million	2015 £ million
U.K.	4,361.5	4,237.9
Ireland	324.6	258.8
Total	<u>4,686.1</u>	<u>4,496.7</u>

Virgin Media Finance PLC
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for the year ended 31 December 2016

4 Group operating profit

This is stated after charging/(crediting):

	2016 £ million	2015 £ million
Depreciation of property, plant and equipment	922.8	870.3
Depreciation of assets held under finance leases and hire purchase contracts	39.1	62.6
Total depreciation	<u>961.9</u>	<u>932.9</u>
Amortisation of intangible assets	<u>79.1</u>	<u>79.7</u>
Operating lease payments - minimum lease payments	15.8	18.2
- rent of premises	33.9	28.9
Total operating lease payments recognised as an expense	<u>49.7</u>	<u>47.1</u>
(Gain)/loss on disposal of property, plant and equipment	<u>(0.3)</u>	<u>0.3</u>
Gain on disposal of non-cable operations	<u>(0.3)</u>	<u>(14.6)</u>
Cost of inventories recognised within cost of sales	<u>167.2</u>	<u>159.7</u>

5 Auditor's remuneration

The group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the group.

Fees paid to the auditor for audit and other services to the company are not disclosed in its individual accounts as the group accounts are required to disclose such fees on a consolidated basis.

Fees payable to the company's auditors and their associates for other services represents fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the group's auditors.

	2016 £ '000	2015 £ '000
Audit services:		
• Statutory audit services - audit of the parent company and group financial statements	482.0	482.0
Fees payable to the company's auditors and their associates for other services:		
• Statutory audit services - statutory accounts of the company's subsidiaries	173.6	164.4
Fees in respect of pension schemes:		
• Audit	-	22.0
	<u>655.6</u>	<u>668.4</u>

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

6 Staff costs and directors' emoluments

(a) Staff costs

	2016	2015
	£ million	£ million
Wages and salaries	557.7	534.1
Social security costs	53.6	52.0
Pension (credits)/costs	-	(0.3)
	- defined benefit	
	- defined contribution	21.5
	<u>22.7</u>	<u>21.5</u>
Total staff costs	<u>634.0</u>	<u>607.3</u>

Included in wages and salaries is a total expense for share-based payments of £28.3 million (2015 - £25.7 million), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

Further information on compensation of key management personnel is disclosed in the related party transactions (note 30).

(b) Average staff numbers

The average monthly number of employees during the year was:

	2016	2015
	No.	No.
Business	1,017	883
Customer	10,052	10,145
Network & Technology	1,737	1,692
Support	831	733
Consumer	455	378
Total staff numbers	<u>14,092</u>	<u>13,831</u>

(c) Directors' emoluments

	2016	2015
	£ '000	£ '000
Directors' remuneration	2,689	3,437
Amounts receivable under long term incentive plans	4,676	4,449
Total remuneration	<u>7,365</u>	<u>7,886</u>

Company contributions paid to money purchase pension plans	<u>85</u>	<u>73</u>
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Highest paid director:

Remuneration (including awards receivable under long term incentive plans)	2,905	2,992
Company contributions paid to money purchase pension plans	18	-
	<u>2,923</u>	<u>2,992</u>

	2016	2015
	No.	No.
Number of directors accruing benefits under money purchase plans	<u>2</u>	<u>5</u>
Number of directors who exercised share options under schemes operated by ultimate parent company	<u>4</u>	<u>3</u>
Number of directors with shares received or receivable under long term incentive plans	<u>4</u>	<u>3</u>

There were no other transactions with directors during the year.

Virgin Media Finance PLC
Notes to the Group Financial Statements
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7 Finance income

	2016 £ million	2015 £ million
Interest on amounts due from group undertakings	0.4	0.3
Interest on amounts due from related parties	289.4	240.3
Gain on derivative financial instruments	555.4	210.5
Interest on pensions	0.6	-
Other finance income	0.6	0.2
Total finance income	846.4	451.3

Other finance income and interest on amounts due from group undertakings and related parties are recognised using the effective interest rate method in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

8 Finance costs

	2016 £ million	2015 £ million
Interest payable on:		
Senior credit facility and vendor financing	130.8	114.8
Senior notes	450.3	388.0
Loans from parent undertakings	8.9	12.7
Loans from related parties	-	5.6
Loss on foreign exchange	858.9	223.5
Loss on debt extinguishment	61.0	28.7
Interest payable on finance leases	6.1	7.7
Unwinding of discounts on provisions	1.5	1.4
Other interest and fees	0.9	1.8
Total finance costs	1,518.4	784.2

Interest payable is recognised using the effective interest rate method.

For the year ended 31 December 2016, loss on extinguishment of debt was £61.0 million and related to the redemption premium paid and the write off of deferred financing costs as a result of the redemption of the senior notes, senior secured notes and senior credit facilities from refinancing activities during 2016 (see note 18).

For the year ended 31 December 2015, loss on extinguishment of debt was £28.7 million and related to the redemption premium paid and the write off of deferred financing costs as a result of the redemption of the senior notes, senior secured notes and senior credit facilities from refinancing activities during 2015 (see note 18).

9 Tax

(a) Tax expense on profit before tax

	2016 £ million	2015 £ million
<i>Current income tax:</i>		
Foreign taxes	1.5	0.7
UK taxes	(0.2)	0.6
	<u>1.3</u>	<u>1.3</u>
<i>Deferred income tax:</i>		
Reduction in future tax rate	108.4	188.2
Origination and reversal of temporary differences	17.4	53.2
	<u>125.8</u>	<u>241.4</u>
Total tax expense in Group Income Statement	<u>127.1</u>	<u>242.7</u>

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

9 Tax (continued)

(b) Reconciliation of the total tax expense in the Group Income Statement

Group Income Statement tax expense reconciliation to the standard rate of corporation tax in the U.K. of 20.00% (2015 – 20.25%):

	2016 £ million	2015 £ million
Accounting profit before income tax	245.6	546.5
Accounting profit multiplied by the UK standard rate of corporation tax of 20% (2015- 20.25%)	49.1	110.7
Expenses not deductible for tax purposes	8.8	5.8
Utilisation of tax losses and other deductions	(39.0)	(53.1)
Foreign taxes	(0.2)	0.7
Other	0.2	(0.2)
Movement in deferred tax assets due to change in tax rate	108.4	188.1
Adjustment relating to prior years	(0.2)	(9.3)
Total tax expense recognised in the group income statement	127.1	242.7

(c) Reconciliation of the total tax expense

	2016 £ million	2015 £ million
Tax recognised in equity	1.0	(6.2)
Tax recognised in the Group Income Statement	127.1	242.7
Total tax expense	128.1	236.5

(d) Recognised deferred tax

Recognised deferred tax assets less deferred tax liabilities at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016		
	UK £ million	Dual resident £ million	Total £ million
Deferred tax assets:			
Net operating losses	157.3	-	157.3
Derivative instruments	4.5	-	4.5
Depreciation and amortisation	1,662.8	-	1,662.8
Other	18.7	-	18.7
Total deferred tax assets	1,843.3	-	1,843.3
Total deferred tax liabilities	-	-	-
Net deferred tax assets less deferred tax liabilities	1,843.3	-	1,843.3

Virgin Media Finance PLC
Notes to the Group Financial Statements
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9 Tax (continued)

	31 December 2015		
	UK	Dual resident	Total
	£ million	£ million	£ million
Deferred tax assets:			
Net operating losses	166.0	51.3	217.3
Derivative instruments	11.0	-	11.0
Depreciation and amortisation	1,754.0	-	1,754.0
Other	24.0	15.2	39.2
Total deferred tax assets	1,955.0	66.5	2,021.5
Deferred tax liabilities:			
Depreciation and amortisation	-	(51.4)	(51.4)
Total deferred tax liabilities	-	(51.4)	(51.4)
Net deferred tax assets less deferred tax liabilities	1,955.0	15.1	1,970.1

The group has determined it probable that in future it will generate sufficient pre-tax profits to utilise substantially all of its deferred tax assets related to unclaimed capital allowances.

(e) Unrecognised deferred tax

Deferred tax assets in respect of the following amounts have not been recognised as there is not currently persuasive evidence that there will be suitable taxable profits against which these timing differences will reverse.

	2016 £ million	2015 £ million
Net operating losses	767.8	493.2
Capital losses	12,102.9	12,096.7
Other timing differences	294.0	605.5
	<u>13,164.7</u>	<u>13,195.4</u>

A reduction in the U.K. corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September and fully enacted on 15 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets have been calculated using the now enacted rate of 17% (2015 - 18%).

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

9 Tax (continued)

(f) Movement in deferred tax balances

Movements in deferred tax during the year:

	1 January 2016 £ million	Recognised in income £ million	Recognised in equity £ million	31 December 2016 £ million
Depreciation and amortisation	1,702.6	(39.8)	-	1,662.8
Derivative instruments	11.0	(6.3)	(0.2)	4.5
Net operating losses	217.3	(60.0)	-	157.3
Other	39.2	(19.7)	(0.8)	18.7
	1,970.1	(125.8)	(1.0)	1,843.3

Movements in deferred tax during the prior year:

	1 January 2015 £ million	Recognised in income £ million	Recognised in equity £ million	31 December 2015 £ million
Depreciation and amortisation	1,821.8	(119.2)	-	1,702.6
Derivative instruments	24.4	(14.9)	1.5	11.0
Net operating losses	319.1	(101.8)	-	217.3
Other	40.0	(5.5)	4.7	39.2
	2,205.3	(241.4)	6.2	1,970.1

Virgin Media Finance PLC
Notes to the Group Financial Statements
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10 Intangible assets

(a) Summary of intangible assets

	Goodwill	IT Software	Other	Total
	£ million	£ million	£ million	£ million
Cost				
At 1 January 2015	2,219.1	282.1	2.3	2,503.5
Additions	39.6	122.8	14.8	177.2
Disposals	-	(35.5)	-	(35.5)
Effect of movement in exchange rates	(6.7)	-	-	(6.7)
At 31 December 2015 and 1 January 2016	2,252.0	369.4	17.1	2,638.5
Additions	9.3	135.2	4.6	149.1
Disposals	-	(77.8)	-	(77.8)
Effect of movement in exchange rates	30.4	-	-	30.4
At 31 December 2016	2,291.7	426.8	21.7	2,740.2
Accumulated amortisation and impairment				
At 1 January 2015	138.0	88.1	-	226.1
Amortisation charge	-	79.4	0.3	79.7
Disposals	-	(34.2)	-	(34.2)
At 31 December 2015 and 1 January 2016	138.0	133.3	0.3	271.6
Amortisation charge	-	79.0	0.1	79.1
Disposals	-	(77.8)	-	(77.8)
At 31 December 2016	138.0	134.5	0.4	272.9
Net book value				
At 31 December 2016	2,153.7	292.3	21.3	2,467.3
At 31 December 2015 and 1 January 2016	2,114.0	236.1	16.8	2,366.9
At 1 January 2015	2,081.1	194.0	2.3	2,277.4

The amortisation charge has been recognised through administrative expenses in the Group Income Statement.

(b) Impairment of goodwill and intangible assets with indefinite lives

Goodwill is not amortised, but is tested for impairment annually or more frequently if circumstances indicate a possible impairment exists in accordance with IAS 36 'Impairment of Assets'.

Goodwill is allocated to Cash Generating Units (CGUs), the assets of which are separately operated and monitored, and are judged to independently generate cash inflows. Management considers that there is only one CGU relating to the group's cable network which is the core operating asset used to deliver services.

The group comprises substantially all of the assets of the Virgin Media group. The fair value less costs to sell the Virgin Media group determined in 2013 on its acquisition by Liberty Global confirmed the recoverable amount of goodwill was in excess of its carrying value. The Virgin Media group has continued to be profitable and the likelihood of the current recoverable amount being less than the current carrying amount is considered remote. As a result, no impairment to goodwill was required for the years ended 31 December 2016 and 2015.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

11 Property, plant and equipment

	Network assets £ million	Other £ million	Total £ million
Cost			
At 1 January 2015	11,405.4	1,119.5	12,524.9
Additions	758.2	99.0	857.2
Transfers	(76.1)	76.1	-
Effect of movement in exchange rates	(23.7)	(2.6)	(26.3)
Disposals	(178.7)	(52.1)	(230.8)
At 31 December 2015 and 1 January 2016	11,885.1	1,239.9	13,125.0
Additions	993.3	200.0	1,193.3
On acquisition of subsidiary	6.0	8.1	14.1
Effect of movement in exchange rates	70.9	8.4	79.3
Disposals	(248.4)	(76.0)	(324.4)
At 31 December 2016	12,706.9	1,380.4	14,087.3
Depreciation			
At 1 January 2015	7,170.0	919.6	8,089.6
Provided during the year	848.9	84.0	932.9
Transfer	37.4	(37.4)	-
Effect of movement in exchange rates	(10.5)	(1.7)	(12.2)
Disposals	(171.4)	(51.8)	(223.2)
At 31 December 2015 and 1 January 2016	7,874.4	912.7	8,787.1
Provided during the year	867.6	94.3	961.9
Effect of movement in exchange rates	33.2	5.5	38.7
Disposals	(244.4)	(75.9)	(320.3)
At 31 December 2016	8,530.8	936.6	9,467.4
Net book value			
At 31 December 2016	4,176.1	443.8	4,619.9
At 31 December 2015 and 1 January 2016	4,010.7	327.2	4,337.9
At 1 January 2015	4,235.4	199.9	4,435.3

Assets held under finance leases

Included in the net book value of property, plant and equipment is £89.9 million (2015 - £134.6 million) in respect of assets held under finance leases and similar hire purchase contracts. Accumulated depreciation on these assets is £92.9 million (2015 - £132.1 million) and the charge for the year was £39.1 million (2015 - £62.6 million).

The group did not capitalise any borrowings costs during the year.

Included in 'Other' are the following net book values:

	2016 £ million	2015 £ million
Freehold land and buildings	72.1	79.2
Leasehold land and buildings	31.3	32.7
Leasehold improvements	87.5	66.4
	<u>190.9</u>	<u>178.3</u>

Virgin Media Finance PLC
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12 Investments

Investments in subsidiaries

Details of the investments in which the group holds at least 20% of the nominal value of any class of share capital, all of which are unlisted, are detailed in note 31.

13 Financial assets

	2016 £ million	2015 £ million
<i>Non-current</i>		
Restricted cash	0.1	0.1
Deferred financing costs	9.4	5.9
Derivative instruments (see note 22)	966.3	273.0
Amounts owed by related parties	4,671.2	3,372.0
	<u>5,647.0</u>	<u>3,651.0</u>
<i>Current</i>		
Derivative instruments (see note 22)	95.8	37.7
	<u>95.8</u>	<u>37.7</u>

Amounts owed by related parties are in respect of loan notes receivable from Liberty Global Europe 2 Limited, a wholly owned subsidiary of Liberty Global plc but sits outside of the Virgin Media group, have an aggregate principal balance of £4,671.2. These comprise of principal amount outstanding of £2,174.6 million which incur interest at a rate of 8.5% repayable in April 2023 and £2,496.6 million at a rate of 5.561% (subject to adjustment) repayable in July 2023.

14 Trade and other receivables

	2016 £ million	2015 £ million
<i>Non-current</i>		
Prepayments and accrued income	24.3	18.9
Other receivables	115.3	107.7
	<u>139.6</u>	<u>126.6</u>
<i>Current</i>		
Trade receivables	402.3	402.9
Amounts owed by related parties	51.2	45.4
Prepayments and accrued income	84.9	79.2
	<u>538.4</u>	<u>527.5</u>

Prepayments and accrued income classified as non-current include long term telecommunications contracts with terms in excess of one year.

Current amounts owed by related parties are unsecured and repayable on demand.

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14 Trade and other receivables (continued)

Trade receivables are non-interest bearing, are generally on 30-90 day terms and are stated net of provision for non-recoverability. The group's trade and other receivables have been reviewed for indicators of impairment and it was concluded that a provision for non-recoverability of £29.7 million (2015 - £22.5 million) was required. The carrying value of trade receivables is considered to be a fair approximation of fair value. Movements in the provision for impairment of receivables were as follows:

	£ million
At 1 January 2015	18.2
Charge for the year	27.9
Utilised	<u>(23.6)</u>
At 31 December 2015	22.5
Charge for the year	25.5
Utilised	<u>(18.3)</u>
At 31 December 2016	<u>29.7</u>

The ageing analysis of trade receivables is as follows:

		Neither past due nor impaired	Balances past due			
	Total £ million	£ million	<30 days £ million	30 - 60 days £ million	60 - 90 days £ million	>90 days £ million
31 December 2016	402.3	267.3	58.0	20.8	15.9	40.3
31 December 2015	402.9	281.9	62.1	25.2	12.1	21.6

15 Inventories

	2016 £ million	2015 £ million
Goods for resale	24.3	21.9
Programming inventory	<u>14.4</u>	<u>6.9</u>
Total Inventory	<u>38.7</u>	<u>28.8</u>

16 Cash and short term deposits

	2016 £ million	2015 £ million
Cash at bank and in hand	20.8	19.7
Short-term deposits	<u>0.1</u>	<u>0.4</u>
	<u>20.9</u>	<u>20.1</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents including overdrawn cash book balances at 31 December 2016 was £20.9 million (2015 - £20.1 million).

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17 Trade and other payables

	2016 £ million	2015 £ million
<i>Current</i>		
Trade payables	364.6	337.2
VAT, payroll taxes and social security costs	119.5	111.5
Interest payable to parent and group undertakings	0.5	57.9
Interest payable	187.8	183.2
Amounts owed to group undertakings	34.4	34.4
Amounts owed to related party	28.9	19.3
Accruals and deferred income	885.0	834.7
	<u>1,620.7</u>	<u>1,578.2</u>

Trade payables are non-interest bearing and generally repayable on terms of up to 60 days. Trade payables, interest payable and amounts owed to group undertakings are financial liabilities which are excluded from note 18.

Amounts owed to group undertakings and related parties are unsecured and repayable on demand.

	2016 £ million	2015 £ million
<i>Non-current</i>		
Other long term payables	60.8	73.8
	<u>60.8</u>	<u>73.8</u>

18 Financial liabilities

	2016 £ million	2015 £ million
<i>Current</i>		
Current obligations under finance lease and hire purchase contracts (see note 19)	27.3	46.9
Current instalments due on other debt	46.6	-
Current instalments due on senior credit facility	-	147.5
Loan notes due to parent and group undertakings	396.6	335.6
Derivative instruments (see note 22)	44.6	29.1
Vendor financing	976.0	513.4
	<u>1,491.1</u>	<u>1,072.5</u>
<i>Non-current</i>		
Non-current obligations under finance lease and hire purchase contracts (see note 19)	47.1	61.3
Non-current instalments due on senior credit facility	3,555.0	2,167.6
Senior notes	2,295.3	2,026.2
Senior secured notes	5,138.6	5,209.6
Non-current instalments due on other debt	28.3	-
Derivative instruments (see note 22)	193.8	26.8
	<u>11,258.1</u>	<u>9,491.5</u>
<i>Total financial liabilities</i>	<u>12,749.2</u>	<u>10,564.0</u>

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18 Financial liabilities (continued)

Borrowings at 31 December were repayable as follows:

	2016 £ million	2015 £ million
Amounts falling due:		
Within one year	1,022.6	660.9
In more than one year but not more than five years	1,786.4	-
In more than five years	9,322.0	9,493.9
	12,131.0	10,154.8
Less: issue costs	(91.2)	(90.5)
Borrowings: amounts falling due after more than one year	12,039.8	10,064.3
Financial liabilities not classed as borrowings	709.4	499.7
Total financial liabilities	12,749.2	10,564.0

Financial liabilities not classed as borrowings include amounts payable to parent and group undertakings, obligations under finance leases and hire purchase contracts, interest rate swaps and cross-currency interest rate swaps.

Loans repayable in more than five years are as follows:

	2016 £ million	2015 £ million
Senior notes	2,318.5	2,048.9
Senior secured notes	3,380.1	5,247.4
Senior credit facilities	3,595.1	2,197.6
Other debt	28.3	-
	9,322.0	9,493.9

Amounts due to parent and fellow group undertakings

Loan notes due to group undertakings are technically payable on demand as they do not include an unconditional right to defer payment and hence have been classified as current in accordance with IAS 1 'Presentation of Financial Statements'. However, the Directors are of the opinion that, in the ordinary course of business, repayment within such a time scale is unlikely to be required.

Vendor financing

The group enters into vendor financing arrangements to finance certain property and equipment additions and operating costs. The amounts owed pursuant to these arrangements are interest bearing, payable within one year, and include VAT which was paid on the group's behalf by the vendor. Repayments of vendor financing obligations are included in the repayment of borrowings in the Group Cash Flow Statement.

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18 Financial liabilities (continued)

Senior notes

	2016	2015
	£ million	£ million
<i>Senior notes consist of:</i>		
U.S. Dollar		
5.25% senior notes due 2022 (principal at maturity \$95 million)	76.9	64.5
4.875% senior notes due 2022 (principal at maturity \$119 million)	96.1	80.5
6.375% senior notes due 2023 (principal at maturity \$530 million)	429.4	359.6
6.00% senior notes due 2024 (principal at maturity \$500 million)	405.0	339.4
5.75% senior notes due 2025 (principal at maturity \$400 million)	324.0	271.5
	<u>1,331.4</u>	<u>1,115.5</u>
Sterling		
5.125% senior notes due 2022 (principal at maturity £44 million)	44.1	44.1
7.00% senior notes due 2023 (principal at maturity £250 million)	250.0	250.0
6.375% senior notes due 2024 (principal at maturity £300 million)	300.0	300.0
	<u>594.1</u>	<u>594.1</u>
Euro		
4.5% senior notes due 2025 (principal at maturity €460 million)	393.0	339.3
Less: issue costs	(23.2)	(22.7)
Total senior notes	<u>2,295.3</u>	<u>2,026.2</u>

On 28 January 2015, in connection with the VM Ireland Acquisition the company issued \$400 million principal amount of 5.75% senior notes due 2025 and €460 million principal amount of 4.5% senior notes due 2025 and Virgin Media Secured Finance issued Sterling Senior Secured Notes due 2025 (see below *senior secured notes* section).

Senior secured notes

	2016	2015
	£ million	£ million
<i>Senior secured notes consist of:</i>		
U.S. Dollar		
5.25% senior secured notes due 2021 (principal at maturity \$448 million)	405.8	338.3
5.375% senior secured notes due 2021 (principal at maturity \$900 million)	-	610.9
5.5% senior notes due 2025 (principal at maturity \$425 million)	344.3	288.5
5.25% senior notes due 2026 (principal at maturity \$1,000 million)	813.6	682.0
5.5% senior notes due 2026 (principal at maturity \$750 million)	607.5	-
	<u>2,171.2</u>	<u>1,919.7</u>
Sterling		
6.00% senior secured notes due 2021 (principal at maturity £640 million)	640.0	989.8
5.5% senior secured notes due 2021 (principal at maturity £628 million)	740.6	723.1
5.5% senior secured notes due 2025 (principal at maturity £387 million)	387.0	387.0
5.125% senior secured notes due 2025 (principal at maturity £300 million)	300.0	300.0
4.875% senior secured notes due 2027 (principal at maturity £525 million)	525.0	525.0
6.25% senior secured notes due 2029 (principal at maturity £400 million)	402.7	402.8
	<u>2,995.3</u>	<u>3,327.7</u>
Less: issue costs	(27.9)	(37.8)
Total senior secured notes	<u>5,138.6</u>	<u>5,209.6</u>

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18 Financial liabilities (continued)

On 28 January 2015, in connection with the VM Ireland acquisition Virgin Media Secured Finance issued £300 million principal amount of 5.125% senior secured notes due 2025.

On 30 March 2015 Virgin Media Secured Finance issued \$500.0 million principal amount of 5.25% senior secured notes due 2026 (the "Original 2026 VM Senior Secured Notes") and £525.0 million principal amount of 4.875% VM Senior Secured Notes due 2027. On 30 April 2015, Virgin Media Secured Finance issued \$500.0 million principal amount of 5.25% senior secured notes due 2026 (the "Additional 2026 VM Senior Secured Notes"). The Additional 2026 VM Senior Secured Notes were issued at 101% of par. The net proceeds from the 2026 VM Senior Secured Notes and the 2027 VM Senior Secured Notes were used to:

- redeem 10% of the principal amount of the 2021 VM 5.375% Sterling Senior Secured Notes, 2021 VM 6.00% Dollar Senior Secured Notes and the 2025 VM 5.5% Sterling Senior Secured Notes, each at a redemption price equal to 103% of the applicable redeemed principal amount in accordance with the indentures governing each of the notes;
- repay in full the £375.0 million outstanding principal amount of term loan A under the VM Credit Facility (as defined and described below); and
- repay \$900.0 million of the then existing \$2,755.0 million outstanding principal amount of term loan B (VM Facility B) under the VM Credit Facility, and roll the remaining outstanding term loans under VM Facility B into a new term loan VM Facility F (as described below). In connection with these transactions, we recognised a loss on debt modification and extinguishment, net, of £28.7 million (see note 8).

On 26 April 2016 Virgin Media Secured Finance issued \$750.0 million principal amount of 5.5% senior secured notes due 2026. The net proceeds were used to repay, in full, the outstanding amount under the Virgin Media Revolving Credit Facility held by a fellow group undertaking and for general corporate purposes.

Senior credit facility

	2016 £ million	2015 £ million
<i>The non-current instalments due on the senior credit facility consists of:</i>		
U.S. Dollar		
VM Facility F		
LIBOR + 2.75% senior credit facility due 2023 (principal at maturity \$1,855 million)	-	1,250.2
VM Facility I		
LIBOR + 2.75% senior credit facility due 2025 (principal at maturity \$3,400 million)	2,747.3	-
Sterling		
VM Facility D		
LIBOR+ 3.25% senior credit facility due 2022 (principal at maturity £100 million)	-	99.8
VM Facility E		
LIBOR+ 3.5% senior credit facility due 2023 (principal at maturity £849 million)	847.8	847.6
	3,595.1	2,197.6
Less: issue costs	(40.1)	(30.0)
Senior credit facility due after more than one year	<u>3,555.0</u>	<u>2,167.6</u>
<i>The current instalment of the senior credit facility consists of:</i>		
VM Revolving Facility		
LIBOR+ 2.75% revolving facility	-	147.5
Total senior credit facility	<u>3,555.0</u>	<u>2,315.1</u>

In June 2015, the then outstanding \$1,855.0 million (£1,259.0 million) of commitments under the existing VM Facility B were rolled into a new dollar denominated term loan (VM Facility F) and the group amended the terms of our VM Revolving Facility to extend the maturity to 31 December 2021, reduce the margin from 3.25% to 2.75% and increase the commitments by £15.0 million to £675 million.

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18 Financial liabilities (continued)

In December 2016, Virgin Media Bristol LLC entered into VM Facility I for \$3,400.0 million. VM Facility I was issued at 99.75% of par and is subject to a LIBOR floor of 0.0%. The net proceeds from VM Facility I were used to repay:

- in full the \$1,855.0 million (£1,502.6 million) outstanding principal amount under VM Facility F;
- in full the \$900.0 million (£729.0 million) outstanding principal amount under the April 2021 VM U.S. Dollar Senior Secured Notes;
- £350.0 million of the £900.0 million outstanding principal amount under the April 2021 VM Sterling Senior Secured Notes; and
- in full the £100.0 million outstanding principal amount under VM Facility D.

In connection with the December 2016 refinancing, the group recognised a loss on debt modification and extinguishment of £61.0 million; this includes (a) the payment of £40.9 million redemption premium, (b) the write off of £18.5 million deferred financing costs and (c) the write off of unamortised discount of £1.6 million.

The VM Credit Facility requires that certain members of the Virgin Media Borrowing Group that generate not less than 80% of such group's EBITDA (as defined in the VM Credit Facility) in any financial year, guarantee the payment of all sums payable under the VM Credit Facility and such group members are required to grant first-ranking security over all or substantially all of their assets to secure the payment of all sums payable. In addition, the holding company of each borrower must give a share pledge over its shares in such borrower.

At 31 December 2016, all term loan facilities had been drawn and the group had drawn £nil (2015 - £147.5m) of its £675.0 million revolving credit facility.

In addition to mandatory prepayments which must be made for certain disposal proceeds (subject to certain de minimis thresholds), the lenders may cancel their commitments and declare the loans due and payable after 30 business days following the occurrence of a change of control in respect of Virgin Media Investment Holdings Limited, subject to certain exceptions.

The VM Credit Facility contains certain customary events of default, the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the lenders to (i) cancel the total commitments, (ii) accelerate all outstanding loans and terminate their commitments there under and/or (iii) declare that all or part of the loans be payable on demand. The VM Credit Facility contains certain representations and warranties customary for facilities of this type, which are subject to exceptions, baskets and materiality qualifications.

The VM Credit Facility restricts the ability of certain members of the Virgin Media Borrowing Group to, among other things, (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions and (iii) create certain security interests over their assets, in each case, subject to carve-outs from such limitations.

The VM Credit Facility requires the borrowers to observe certain affirmative undertakings or covenants, which covenants are subject to materiality and other customary and agreed exceptions. In addition, the VM Credit Facility also requires compliance with various financial covenants such as Senior Net Debt to Annualised EBITDA and Total Net Debt to Annualised EBITDA, each capitalised term as defined in the VM Credit Facility.

In addition to customary default provisions, the VM Credit Facility provides that any event of default with respect to indebtedness of £50.0 million or more in the aggregate of the company, and its subsidiaries is an event of default under the VM Credit Facility.

The VM Credit Facility permits certain members of the Virgin Media Borrowing Group to make certain distributions and restricted payments to its parent company (and indirectly to Liberty Global) through loans, advances or dividends subject to compliance with applicable covenants.

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18 Financial liabilities (continued)

Restrictions

The agreements governing the senior notes and the senior credit facility significantly, and, in some cases, absolutely restrict the group's ability and the ability of most of its subsidiaries to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions, or redeem or repurchase equity interests or subordinated obligations;
- make investments;
- sell assets, including shares in subsidiaries;
- create liens;
- enter into agreements that restrict the restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- merge or consolidate or transfer substantially all of the group's assets; and
- enter into transactions with affiliates.

Financing activities after the year-end are discussed in the post balance sheet events (note 26).

19 Leases and hire purchase contracts

Obligations under finance leases and hire purchase contracts

The group uses finance leases and hire purchase contracts to acquire plant and equipment. These leases have terms of renewal but no material purchase options or escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments under finance leases and hire purchases contracts are as follows:

	2016 £ million	2015 £ million
<i>Future minimum payments due:</i>		
Not later than one year	31.4	51.9
After one year but not more than five years	24.2	38.6
After five years	136.9	139.7
	192.5	230.2
Less: finance charges allocated to future periods	(118.1)	(122.0)
Present value of minimum lease payments	74.4	108.2

The present value of minimum lease payments is analysed as follows:

	2016 £ million	2015 £ million
<i>Amounts falling due:</i>		
Not later than one year	27.3	46.9
After one year but not more than five years	12.9	27.0
After five years	34.2	34.3
	74.4	108.2

Operating lease agreements where the group is lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land & buildings		Other	
	2016 £ million	2015 £ million	2016 £ million	2015 £ million
Not later than one year	31.1	25.3	7.4	11.8
After one year but not more than five years	83.7	75.3	13.3	11.4
After five years	59.6	47.3	2.4	0.1
	174.4	147.9	23.1	23.3

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19 Leases and hire purchase contracts (continued)

The group has entered into commercial leases on certain properties, motor vehicles and items of machinery. These leases have varied durations, some can be exited with as little as two months' notice whilst the terms of some run indefinitely until notice is served.

20 Provisions

	Property related costs £ million	Other provisions £ million	Total £ million
At 31 December 2015 and 1 January 2016			
Current	1.1	5.3	6.4
Non-current	81.3	3.1	84.4
	82.4	8.4	90.8
Established during the year	0.7	20.3	21.0
Used during the year	(1.4)	(17.8)	(19.2)
Revisions in cashflow estimates	0.6	-	0.6
Movement in discount rate	32.1	-	32.1
At 31 December 2016	114.4	10.9	125.3
Analysed as:			
Current	1.0	8.3	9.3
Non-current	113.4	2.6	116.0
	114.4	10.9	125.3

Property related costs

Property related costs expected to be incurred are mainly in relation to dilapidations costs on leasehold properties. The majority of the costs are expected to be incurred over the next 25 years.

Other provisions

Other provision elements mainly consist of National Insurance contributions on share options and restricted stock unit grants and redundancy costs resulting from restructuring programmes.

21 Financial Risk Management Objectives and Policies

The group's principal financial liabilities, other than derivatives, comprise bank loans (senior credit facility), senior notes, senior secured notes, finance leases, vendor financing, trade payables, hire purchase contracts and loans made to parent and fellow group undertakings. With the exception of trade payables the main purpose of the financial liabilities is to raise finance for the Virgin Media group's operations. The group has various financial assets such as trade receivables and cash and short term deposits, which arise directly from its operations.

The group is exposed to various market risks, including credit risk, foreign exchange rate risk, liquidity risk and interest rate risk. Market risk is the potential loss arising from adverse changes in market rates and prices. As some of the group's indebtedness accrues interest at variable rates there is exposure to volatility in future cash flows and earnings associated with variable interest payments.

Interest and principal obligations on some indebtedness are in U.S. dollars and Euros. As a result the group has exposure to volatility in future cash flows and earnings associated with changes in foreign exchange rates on payments of interest and principal amounts on a portion of its indebtedness.

The group has entered into various derivative instruments to manage interest rate risk, and foreign exchange risk with respect to the U.S. dollar, comprising of interest rate swaps, cross-currency interest rate swaps and foreign currency forward contracts. The objective is to reduce the volatility of the group's cash flows and earnings caused by changes in underlying rates.

21 Financial Risk Management Objectives and Policies (continued)

The main risks arising from the group's financial liabilities are described below:

Interest rate risk

The group is subject to interest rate risk because it has substantial indebtedness at variable rates of interest. At 31 December 2016, before taking into account hedging instruments, interest is determined on a variable basis on £3,595.1 million (2015 - £2,197.6 million) or 30% (2015 - 22%) of indebtedness, relating solely to amounts drawn down on the senior credit facilities. The group aims to reduce the volatility of its cash flows and earnings as a result of fluctuations in interest rates through the use of derivative financial instruments.

Interest rate risk profile of financial assets

The group's financial assets include cash on money market deposit at call, seven day and monthly rates, and amounts owed by parent undertakings and related parties charged at variable interest rates.

Sensitivity analysis of changes in interest rates

Interest rate risks are presented by way of a sensitivity analysis in accordance with IFRS 7 '*Financial Instruments: Disclosures*'. These show the effects of changes in market interest rates on interest payments, interest income and expense, other components and, as appropriate, equity. The interest rate sensitivity analyses are based on the following assumptions:

- Changes in market interest rates of non-derivative financial instruments with fixed interest rates only affect income if measured at fair value. As such, all financial instruments with fixed interest rates that are carried at amortised cost are not subject to interest rate risk as defined by IFRS 7.
- Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of interest rate sensitivities.
- Changes in the market interest rate of interest rate derivatives (interest rate swaps and cross-currency interest rate swaps) that are not part of a hedging relationship as set out in IAS 39 '*Financial Instruments: Recognition and Measurement*' affect gains or losses on derivatives and are therefore taken into consideration in the calculation of interest rate sensitivities.
- Foreign currency forward rate contracts are not subject to interest rate risks and therefore do not affect interest rate sensitivities.

Based on debt at 31 December 2016, including amounts owed to and due from parent and group undertakings, and taking into consideration hedging instruments, a 0.25% movement in market interest rates would result in an annual increase or decrease in the gross interest expense of £6.2 million (2015 - a 0.25% movement in market interest rates would result in an annual increase or decrease in the gross interest expense of £10.7 million). Movements in gross interest expense would be recognised in finance income and finance costs in the Group Income Statement.

Foreign currency exchange rate risk

The group is also subject to foreign currency exchange risks because interest and principal obligations with respect to a portion of its indebtedness is denominated in U.S. dollars and euros. To the extent that the pound declines in value against the U.S. dollar and the euro, the effective cost of servicing U.S. dollar and euro denominated debt will be higher. Changes in the exchange rate result in foreign currency gains or losses.

As of 31 December 2016 the group had £6,249.9 million (2015 - £4,285.4 million), or 52% (2015 - 43%) of external indebtedness, denominated in U.S. dollars and £393.0 million (2015 - £339.3 million), or 3% (2015 - 3%) of external indebtedness, denominated in euros (see note 18). The group has a programme in place to mitigate the risk of losses arising from adverse changes in foreign currency exchange rates which uses a number of derivative financial instruments. When taking into consideration cross currency interest rate swaps and foreign currency forward rate contracts, the majority of external debt is hedged against foreign currency exchange rate risk.

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21 Financial Risk Management Objectives and Policies (continued)

For the year ended 31 December 2016 the group had foreign currency losses of £858.9 million (2015 – losses of £223.5 million).

The losses for the year ended 31 December 2016 and 31 December 2015 were primarily due to the weakening of the sterling pound relative to the U.S. dollar in respect of the U.S. dollar denominated debt issued by the group, partially offset by the U.S. dollar denominated debt advanced to group undertakings.

Sensitivity analysis of changes in foreign currency exchange rates

For the presentation of market risks, IFRS 7, 'Financial Instruments: Disclosures' requires sensitivity analysis that shows the effects of hypothetical changes of foreign currency exchange rates of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative of the year as a whole.

Currency risks are defined by IFRS 7 as arising on account of financial instruments being denominated in a currency other than the functional currency and being of a monetary nature. Relevant risk variables are generally all non-functional currencies in which the group has financial liabilities, excluding amounts due to parent undertakings.

The currency sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial instruments (liquid assets, receivables and finance lease liabilities) are directly denominated in the functional currency. There are therefore no foreign exchange fluctuations in respect of these instruments which have an effect on profit or loss or shareholders' equity. Interest income and expense from financial instruments are also either recorded in the functional currency or transferred to the functional currency using derivatives.

The group has a number of derivative instruments with various counterparties to manage its exposure to changes in foreign currency exchange rates. Exchange rate fluctuations, on which the financial instruments are based, affect gains or losses on derivatives in the finance income or finance costs lines, respectively, of the Group Income Statement.

The following table demonstrates the sensitivity to a reasonably possible change in the pound sterling against U.S. dollar and euro exchange rates with all other variables remaining constant, of the group's profit before tax. Due to foreign exchange translation of monetary assets and liabilities, the impact of translating the net assets of foreign operations into sterling is excluded from the sensitivity analysis:

	Increase/ decrease in exchange rates	Effect on profit/(loss) before tax £ million
2016		
Sterling/U.S. dollar	+20%	1,049.6
Sterling/U.S. dollar	-20%	(1,574.3)
Sterling/euro	+20%	66.9
Sterling/euro	-20%	(100.3)
2015		
Sterling/U.S. dollar	+20%	722.6
Sterling/U.S. dollar	-20%	(1,083.9)
Sterling/euro	+20%	82.4
Sterling/euro	-20%	(123.5)

21 Financial Risk Management Objectives and Policies (continued)

Liquidity risk and capital management

The company is a wholly owned subsidiary and its ultimate parent company is Liberty Global plc. Capital management policies are operated at a Virgin Media group level by the management of Liberty Global plc. The agreements that govern the Virgin Media group's indebtedness set out financial maintenance tests and restrictive covenants, and it is the policy of the Virgin Media group to maintain adequate headroom against these tests and covenants.

The Virgin Media group's business is capital intensive and the Virgin Media group is highly leveraged. The Virgin Media group has significant cash requirements for operating costs, capital expenditure and interest expense. The level of the Virgin Media group's capital and operating expenditures are affected by significant amounts of capital required to connect customers to the network, expand and upgrade the network and offer new services. Cash on hand, together with cash from operations and an undrawn credit facility, are expected to be sufficient for the Virgin Media group's cash requirements through to 30 June 2018. The Virgin Media group has significant scheduled repayments that may need to be financed through means other than reliance on cash flow from operations, such as raising additional debt or equity, refinancing the existing facility, possible loans from parent undertakings or related parties, sale of assets or other means. It may not be possible to obtain adequate financing, or sell assets at all, or on favourable terms, or the terms of the senior credit facility or senior notes may prevent the Virgin Media group from incurring additional indebtedness or selling assets.

As of 31 December 2016 the group had £12,114.2 million of external debt (including finance leases, vendor financing and net of deferred finance costs) outstanding, compared to £10,172.5 million as of 31 December 2015 and cash and cash equivalents of £20.9 million compared to £20.1 million at 31 December 2015.

The principal amount outstanding under the senior credit facility at 31 December 2016 was £3,595.1 million (2015 - £2,167.6 million). The senior credit facility comprises a term facility denominated in pounds sterling of £847.8 million (2015 - two term facilities of £947.4 million), one term facility denominated in U.S. dollar of £2,747.3 million (2015 - £1,250.2 million) and a revolving facility of £675.0 million (2015 - £675.0 million). At 31 December 2016, £3,555.0 million (2015 - £2,167.6 million) of the term facility had been drawn. The group had £675.0 million available of its revolving credit facility for bank guarantees and standby letters of credit.

As a result of the refinancing steps described above, and in the prior year, the group no longer has any scheduled principal payments on its senior notes and senior credit facility until 2021. However, if the group was unable to meet repayment conditions or service these obligations through cash flows from operations, then it would need to secure additional funding such as raising additional debt or equity, refinancing the existing facility, selling assets or using other means. It may not be possible to obtain financing or sell assets, at all or on favourable terms, or the group may be contractually prevented by the terms of its senior notes or senior credit facility from incurring additional indebtedness or selling assets.

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21 Financial Risk Management Objectives and Policies (continued)

A maturity analysis of financial liabilities, outstanding at 31 December, showing the remaining contractual undiscounted amounts payable, including interest commitments, is shown below:

	Less than 1 year £ million	1 to 5 years £ million	Greater than 5 years £ million	Total £ million
2016				
Senior credit facility, senior notes and senior secured notes	638.9	3,872.5	10,831.0	15,342.4
Vendor financing	976.0	-	-	976.0
Finance lease and hire purchase contracts	31.4	24.2	136.9	192.5
Derivative contracts	44.6	35.8	158.0	238.4
2015				
Senior credit facility, senior notes and senior secured notes	709.9	1,976.1	10,902.6	13,588.6
Vendor financing	513.4	-	-	513.4
Finance lease and hire purchase contracts	51.9	38.6	139.7	230.2
Derivative contracts	-	21.1	34.8	55.9

The above amounts exclude other financial liabilities, such as trade payables, which are all repayable in less than one year. Amounts owed to parent and group undertakings have also been excluded as they are repayable on demand.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, trade receivables and derivative contracts.

At 31 December 2016, the group had £20.9 million (2015 - £20.1 million) in cash and cash equivalents. These cash and cash equivalents are on deposit with a number of major financial institutions and, as part of the Virgin Media group's cash management process, regular evaluations of the credit standing of these institutions are performed using a range of metrics. The group has not experienced any losses in cash balances and management do not believe it is exposed to any significant credit risk on its cash balances.

Concentrations of credit risk with respect to trade receivables are limited because of the large number of customers and their distribution across a wide geographic area. The Virgin Media group performs credit evaluations of its business customers' financial condition and generally does not require collateral. No single group or customer represents greater than 10% of total accounts receivable.

Concentrations of credit risk with respect to derivative contracts are focused within a limited number of international financial institutions with which the Virgin Media group transacts and relate only to derivatives with recorded asset balances. The Liberty Global group performs regular reviews of the financial institutions with which it transacts as to their credit worthiness and financial condition. The group includes a credit risk adjustment based upon the credit default swap spread in the valuation of derivative instruments, however, the group does not expect there to be any significant non-performance risks associated with its counterparties.

22 Financial Instruments

Derivative Instruments and Hedging Activities - financial risk management

The company and group have obligations in a combination of U.S. dollars, euros, and pounds sterling at fixed and variable interest rates. As a result the group is exposed to variability in its cash flows and earnings resulting from changes in foreign currency exchange rates and interest rates.

The group's objective in managing its exposure to interest rates and foreign currency exchange rates is to decrease the volatility of its earnings and cash flows caused by changes in the underlying rates. The group has established policies and procedures to govern these exposures and has entered into derivative financial instruments including interest rate swaps, cross-currency interest rate swaps and foreign currency forward rate contracts. Subsidiaries of Virgin Media Finance PLC hold financial instruments which hedge the foreign currency risk of debt issued by its ultimate parent company Virgin Media Inc. It is the group's policy not to enter into derivative financial instruments for speculative trading purposes, nor to enter into derivative financial instruments with a level of complexity or with a risk that is greater than the exposure to be managed. The amounts below include amounts relating to short term as well as long term payables.

With the exception of a limited number of foreign currency forward contracts, the group has elected not to designate derivative instruments as accounting hedges, although these remain economic hedges.

The fair values of derivative financial instruments recognised in the Group Balance Sheet are as follows:

	2016	2015
	£ million	£ million
<i>Included within current assets:</i>		
<i>Fair value hedges</i>		
Interest rate swaps	19.2	18.8
Cross-currency interest rate swaps	11.6	9.1
<i>Derivatives not designated as hedges</i>		
Interest rate swaps	1.1	-
Cross-currency interest rate swaps	49.0	9.2
Foreign Currency Forward Contract	14.9	0.6
	<u>95.8</u>	<u>37.7</u>
<i>Included within non-current assets:</i>		
<i>Fair value hedges</i>		
Interest rate swaps	60.7	54.4
Cross-currency interest rate swaps	100.0	48.5
<i>Derivatives not designated as hedges</i>		
Interest rate swaps	1.7	-
Cross-currency interest rate swaps	794.2	170.1
Foreign Currency Forward Contract	9.7	-
	<u>966.3</u>	<u>273.0</u>
<i>Included within current liabilities:</i>		
<i>Derivatives not designated as hedges</i>		
Interest rate swaps	41.7	25.7
Cross-currency interest rate swaps	2.9	3.4
	<u>44.6</u>	<u>29.1</u>
<i>Included within non-current liabilities:</i>		
<i>Derivatives not designated as hedges</i>		
Interest rate swaps	137.2	26.8
Cross-currency interest rate swaps	56.5	-
Foreign Currency Forward Contract	0.1	-
	<u>193.8</u>	<u>26.8</u>

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22 Financial Instruments (continued)

Cross-currency interest rate swaps - hedging the principal and interest payments of senior notes and senior credit facility

The terms of the group's outstanding cross-currency interest rate swaps, which are used to mitigate the interest and foreign exchange rate risks relating to the pound sterling value of principal and interest payments on U.S. dollar denominated senior notes and senior secured notes at 31 December 2016, were as follows:

Final maturity date of hedges	Hedge type	Notional amount due from counterparty million	Notional amount due to counterparty million	Weighted average interest rate due from counterparty	Weighted average interest rate due to counterparty
January 2023	Not designated	\$400.0	€339.6	5.75%	4.33%
January 2025	Not designated	\$1,855.0	£1,231.6	6 month US LIBOR +2.75%	6 month US LIBOR +3.06%
January 2023	Not designated	\$1,000.0	£648.6	5.25%	5.32%
January 2025	Not designated	\$970.0	£742.6	6 month US LIBOR +2.75%	4.68%
August 2024	Not designated	\$750.0	£527.0	5.50%	5.46%
February 2022*	Not designated	\$688.6	£429.0	4.93%	5.39%
April 2023*	Not designated	\$480.0	£299.1	1.55%	1.78%
February 2022 - April 2023	Not designated	\$475.0	£295.6	4.88%	5.32%
October 2022	Not designated	\$450.0	£272.0	6.00%	6.43%
January 2021	Fair Value	\$447.9	£276.7	5.25%	6 month LIBOR + 2.06%
January 2022	Not designated	\$425.0	£255.8	5.50%	4.86%
January 2022 - January 2025	Not designated	\$425.0	£255.8	3 month US LIBOR +2.75%	4.86%
January 2025	Not designated	\$383.5	£239.5	6 month US LIBOR +2.75%	5.56%
April 2019	Not designated	\$191.5	£122.3	6 month US LIBOR +2.75%	4.45%
April 2019 - January 2025	Not designated	\$191.5	£122.3	6 month US LIBOR +2.75%	5.43%
October 2019	Not designated	\$100.0	£65.4	7.19%	7.23%
October 2019 - October 2022	Not designated	\$50.0	£30.7	6.00%	5.75%
October 2019 - April 2023	Not designated	\$50.0	£30.3	6.38%	6.84%
October 2019*	Not designated	£30.3	\$50.0	2.14%	2.00%

*Unlike the other cross currency swaps presented in this table, the identified cross currency swaps do not involve the exchange of notional amounts at inception and maturity of the instruments. Accordingly, the only cash flows associated with these derivative instruments are interest payments and receipts.

Interest rate swaps - hedging of interest rate sensitive obligations

As of 31 December 2016, the group had outstanding interest rate swap agreements to manage the exposure to variability in future cash flows on the interest payments associated with its senior credit facility which accrues at variable rates based on LIBOR. The group has also entered into interest rate swap agreements to manage its exposure to changes in the fair value of certain debt obligations due to interest rate fluctuations. The interest rate swaps allow the group to receive or pay interest based on six month LIBOR or fixed rates in exchange for payments or receipts of interest at six month LIBOR or fixed rates.

22 Financial Instruments (continued)

The terms of the group's outstanding interest rate swap contracts at 31 December 2016 were as follows:

Final maturity date of hedge	Hedge type	Notional amount million	Weighted average interest rate due from counterparty	Weighted average interest rate due to counterparty
October 2017	Not designated	\$1,855.0	1 month US LIBOR +2.75%	6 month US LIBOR +2.47%
October 2018	Not designated	£1,198.3	6 month LIBOR	1.52%
January 2021		£905.1	6 month LIBOR +0.71%	2.37%
October 2018 - January 2025	Not designated	£858.3	6 month LIBOR	2.41%
June 2023	Not designated	£849.4	6 month LIBOR	1.70%
January 2021	Fair value	£628.4	5.50%	6 month LIBOR +1.84%
October 2018 - June 2023	Not designated	£340.0	6 month LIBOR	2.43%
April 2023	Not designated	£108.9	6.85%	6 month LIBOR +5.62%
October 2022	Not designated	£51.5	6.42%	6 month LIBOR +5.23%
January 2025	Not designated	£33.3	6 month LIBOR	1.37%

The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in aggregate.

Foreign currency forward options and forward contracts

The group has entered into external foreign currency forward options and foreign currency forward contracts in order to manage foreign currency exposure risk with respect to Indian rupee (INR) and Philippine peso (PHP).

Foreign currency forward options

The following foreign currency forward options with a third party were in place at 31 December 2016:

Maturity dates	Notional amount million	Exchange currency	Weighted average strike price
January 2017 - March 2018	£7.0	Indian rupee	INR 95.28
January 2017 - September 2017	£15.7	Philippine peso	PHP 66.32

Foreign currency forward contracts

The following foreign currency forward contracts with a related party were in place at 31 December 2016:

Maturity dates	Currency purchase forward million	Currency sold forward million
January 2017 - December 2018	€126.0	£99.0
January 2017 - December 2018	\$102.5	£70.1

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22 Financial Instruments (continued)

Cash flow hedges

With the exception of a limited number of foreign currency forward contracts, the group has elected not to designate derivative instruments as accounting hedges, although these remain economic hedges. The group has recognised effective portion of gains on losses in the unrealised gains and losses in the Group Statement of Comprehensive Income as result of historic derivative instruments that were designated as cash flow hedges and hedges of commercial operational contracts.

Changes in the fair values of derivative instruments are recorded as gains or losses on derivative instruments in the Group Income Statement in the period in which they occur. The following table presents movements in Other Comprehensive Income related to cash flow hedges for the year ended 31 December 2016:

		Interest rate	Cross currency interest rate	
	Total	swaps	swaps	Tax effect
	£ million	£ million	£ million	£ million
Balance at 31 December 2015	(22.8)	-	(43.8)	21.0
Amounts recognised in Statement of				
Comprehensive Income reclassified to earnings	14.2	-	14.2	-
Tax effect recognised	(0.2)	-	-	(0.2)
Balance at 31 December 2016	<u>(8.8)</u>	<u>-</u>	<u>(29.6)</u>	<u>20.8</u>

Included within amounts reclassified to earnings is £14.2 million of net losses that have been recycled from the cash flow hedge reserve through the income statement in respect of swaps for which either designation was revoked, or the hedged instrument was settled as part of refinancing activities.

Fair value hedges

For derivative instruments that are designated and qualify as fair value accounting hedges, the gain or loss on derivatives is recognised in the Group Income Statement in the period in which they occur, together with any changes in the fair value of the hedged debt obligations due to changes in the hedged risks.

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22 Financial Instruments (continued)

Fair values of financial assets and liabilities

Set out below is a comparison by category of carrying values and fair values of the group's financial assets and financial liabilities, where different, as at 31 December:

	2016 Carrying value £ million	2016 Fair value £ million	2015 Carrying value £ million	2015 Fair value £ million
Senior credit facility	(3,555.0)	(3,624.6)	(2,345.1)	(2,317.0)
5.25% U.S. dollar senior notes due 2022	(77.4)	(68.9)	(64.9)	(60.0)
4.875% U.S. dollar senior notes due 2022	(96.7)	(85.7)	(81.1)	(73.3)
5.125% pound sterling senior notes due 2022	(44.4)	(44.8)	(44.4)	(43.1)
7.0% pound sterling senior notes due 2023	(246.8)	(271.3)	(250.0)	(263.4)
6.375% U.S. dollar senior notes due 2023	(423.7)	(447.0)	(359.7)	(366.5)
6.375% pound sterling senior notes due 2024	(297.9)	(318.4)	(300.0)	(304.7)
6% U.S. dollar senior notes due 2024	(401.3)	(415.7)	(339.4)	(338.3)
4.5% euro senior notes due 2025	(388.7)	(407.2)	(339.3)	(323.4)
5.75% U.S. dollar senior notes due 2025	(321.1)	(323.4)	(271.5)	(264.2)
6.0% pound sterling senior secured notes due 2021	(634.0)	(668.0)	(990.0)	(1,028.4)
5.50% pound sterling senior secured notes due 2021	(634.0)	(697.1)	(635.4)	(668.5)
5.375% U.S. dollar senior secured notes due 2021	-	-	(610.8)	(633.0)
5.25% U.S. dollar senior secured notes due 2021	(369.4)	(385.0)	(310.9)	(320.7)
5.5% pound sterling senior secured notes due 2025	(385.4)	(401.5)	(387.0)	(380.5)
5.5% U.S. dollar senior notes due 2025	(342.9)	(350.3)	(288.5)	(288.8)
5.125% pound sterling senior secured notes due 2025	(297.3)	(308.4)	(300.0)	(287.4)
5.25% U.S. dollar senior secured notes due 2026	(811.7)	(803.0)	(682.0)	(659.6)
4.875% pound sterling senior secured notes due 2027	(523.0)	(516.5)	(525.0)	(483.7)
6.25% pound sterling senior secured notes due 2029	(400.8)	(421.5)	(402.8)	(403.0)
5.5% U.S. dollar senior secured notes due 2026	(601.6)	(608.6)	-	-

The carrying values of amounts not listed above approximate their fair values.

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities; or
Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or
Inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Unobservable inputs for the asset or liability.

The group endeavours to utilise the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The group has determined that all of its financial assets and liabilities that are stated at fair value fall in levels 1 and 2 in the fair value hierarchy described above.

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22 Financial Instruments (continued)

As at 31 December 2016, the fair value of the financial instruments held by the group is as follows:

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
<i>Financial assets at fair value</i>				
Cash, short term deposits and restricted cash	21.0	-	-	21.0
Cross-currency interest rate swaps	-	954.8	-	954.8
Interest rate swaps	-	82.7	-	82.7
Foreign currency forward rate contracts	-	24.6	-	24.6
	<u>21.0</u>	<u>1,062.1</u>	<u>-</u>	<u>1,083.1</u>
<i>Financial liabilities at fair value</i>				
Senior credit facility	3,624.6	-	-	3,624.6
Senior notes	2,382.4	-	-	2,382.4
Senior secured notes	5,159.9	-	-	5,159.9
Cross-currency interest rate swaps	-	59.4	-	59.4
Interest rate swaps	-	178.9	-	178.9
Foreign currency forward rate contracts	-	0.1	-	0.1
	<u>11,166.9</u>	<u>238.4</u>	<u>-</u>	<u>11,405.3</u>

In estimating the fair value of other financial instruments, the group used the following methods and assumptions:

Cash and short term deposits, and restricted cash: The carrying amounts reported in the Group Balance Sheet approximate fair value due to the short maturity and nature of these financial instruments.

Derivative financial instruments: As a result of the group's financing activities, it is exposed to market risks from changes in interest and foreign currency exchange rates, which may adversely affect its operating results and financial position. When deemed appropriate, the group minimises risks from interest and foreign currency exchange rate fluctuations through the use of derivative financial instruments. The foreign currency forward rate contracts, interest rate swaps and cross-currency interest rate swaps are valued using broker quotations, or market transactions in either the listed or over-the counter markets, adjusted for non-performance risk. As such, these derivative instruments are classified within level 2 of the fair value hierarchy.

Senior notes, senior secured notes and credit facility: The fair values of the senior credit facility, senior notes and senior secured notes in the above table are based on the quoted market prices in active markets for the underlying third party debt and incorporate non-performance risk. Accordingly, the inputs used to value the senior notes and senior secured notes are classified within level 1 of the fair value hierarchy.

During the year, there were no transfers between Level 1 and Level 2 and no transfers into or out of the Level 3.

23 Equity share capital

	2016 £ '000	2015 £ '000
<i>Allotted, called up and fully paid:</i>		
92,456 ordinary shares of £1 each	<u>92</u>	<u>92</u>

24 Share-based payments

The group's employees are entitled to partake in Liberty Global plc share-based schemes. These share schemes consist of stock options and performance plans including stock appreciation rights ("SARs"), performance-based share appreciation rights ("PSARs"), restricted stock and restricted stock units ("RSUs"). The schemes provide share based compensation to individuals under the conditions describe below. The fair value of options and SARs are determined using the Black-Scholes model. The fair value of RSUs is determined using either the share price at the grant date or the Monte Carlo model, depending on the conditions attached to the RSUs being granted. The arrangements are equity settled with the employees. Liberty Global recharges the group for share schemes made available to the group employees.

The income statement charge for share based payments for the year was £28.3 million (2015 -25.7 million)

Liberty Global Share Incentive Plans

Generally, the compensation committee of Liberty Global's board of directors may grant non-qualified share options, SARs, restricted shares, RSUs, cash awards, performance awards or any combination of the foregoing (collectively, awards). Ordinary shares issuable pursuant to awards made under these incentive plans will be made available from either authorised but unissued shares or shares that have been issued but reacquired by Liberty Global. Awards may be granted at or above fair value in any class of ordinary shares. The maximum number of Liberty Global ordinary shares with respect to which awards may be issued under the Liberty Global 2014 Incentive Plan is 105 million (of which no more than 50.25 million shares may consist of Class B ordinary shares), subject to anti-dilution and other adjustment provisions in the respective plan. As of December 31, 2016, the Liberty Global 2014 Incentive Plan had 64,795,919 ordinary shares available for grant.

Awards (other than performance-based awards) issued under the (i) Liberty Global 2014 Incentive Plan, (ii) Liberty Global 2005 Incentive Plan and (iii) VM Incentive Plan after 7 June 7 2013 generally (a) vest 12.5% on the six month anniversary of the grant date and then vest at a rate of 6.25% each quarter thereafter and (b) expire seven years after the grant date. RSUs vest on the date of the first annual general meeting of Liberty Global shareholders following the grant date. These awards may be granted at or above fair value in any class of ordinary shares. No further awards will be granted under the Liberty Global 2005 Incentive Plan or the VM Incentive Plan.

Liberty Global Performance Awards

Full detailed information on the group's share based payments are disclosed in the financial statements of Virgin Media Inc. which are available on Liberty Global's website at www.libertyglobal.com.

The following is a summary of the material terms and conditions with respect to Liberty Global's performance-based awards for certain executive officers and key employees for which awards were granted under the Liberty Global Incentive Plan and the Virgin Media Incentive Plan.

Liberty Global PSUs

Equity awards are granted to executive officers and key employees based on a target annual equity value for each executive and key employee, of which approximately two-thirds would be delivered in the form of PSUs and approximately one-third in the form of an annual award of SARs. Each currently-outstanding PSU represents the right to receive one Liberty Global or LiLAC Class A or Class C ordinary share, as applicable, subject to performance and vesting. Although PSUs are generally granted on an annual basis, no PSUs will be granted in 2017 to recipients of the 2016 PSUs, as defined and described below.

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24 Share-based payments (continued)

In March 2015, Liberty Global's compensation committee approved the grant of PSUs to executive officers and key employees (the 2015 PSUs). The performance plan for the 2015 PSUs covered a two-year period ending 31 December 2016 and included a performance target based on the achievement of a specified compound annual growth rate (CAGR) in a consolidated operating cash flow metric (as defined in the applicable underlying agreement). The performance target was adjusted for events such as acquisitions, dispositions and changes in foreign currency exchange rates that affect comparability (OCF CAGR), and the participant's annual performance ratings during the two-year performance period. A performance range of 75% to 125% of the target OCF CAGR will result in award recipients earning 50% to 150% of their respective PSUs, subject to reduction or forfeiture based on individual performance. Subsequent to 31 December 2016, the compensation committee finalized and approved the percentage of the 2015 PSUs that was earned by participants at 99.5%. The 2015 PSUs will vest 50% on each of 1 April and 1 October of 2017.

In February 2016, Liberty Global's compensation committee approved the grant of PSUs to executive officers and key employees (the 2016 PSUs) pursuant to a performance plan that is based on the achievement of a specified OCF CAGR during the three-year period ended 31 December 2018. The 2016 PSUs require delivery of a compound annual growth rate of our consolidated OCF CAGR of 6.0% during the three-year performance period, with over- and under-performance payout opportunities should the OCF CAGR exceed or fail to meet the target, as applicable. The performance payout may be adjusted at the compensation committee's discretion for events that may affect comparability, such as changes in foreign currency exchange rates and accounting principles or policies. A performance range of 75% to 167.5% of the target OCF CAGR will generally result in award recipients earning 75% to 300% of their target 2016 PSUs, subject to reduction or forfeiture based on individual performance. The earned 2016 PSUs will vest 50% on each of 1 April and 1 October 2019.

Liberty Global Challenge Performance Awards

Effective 24 June 2013, Liberty Global's compensation committee approved the Challenge Performance Awards, which consisted solely of PSARs for Liberty Global's senior executive officers and a combination of PSARs and PSUs for other executive officers and key employees. Each PSU represented the right to receive one Liberty Global or LILAC Class A or Class C ordinary share, as applicable. The performance criteria for the Challenge Performance Awards was based on the participant's performance and achievement of individual goals in each of the years 2013, 2014 and 2015. As a result of satisfying performance conditions, 100% of the then outstanding Challenge Performance Awards vested and became fully exercisable on 24 June 2016. The PSARs have a term of seven years and base prices equal to the respective market closing prices of the applicable class on the grant date.

Virgin Media Stock Incentive Plans

Equity awards were granted to certain of our employees prior to the LG/VM Transaction under certain incentive plans maintained and administered by our company and no new grants will be made under these incentive plans. The equity awards granted include stock options, restricted shares, RSUs and performance awards. Awards under the VM Incentive Plan issued prior to the LG/VM Transaction have a 10-year term and become fully exercisable within five years of continued employment.

25 Reserves

Equity share capital

The balance classified as share capital represents the nominal value on issue of the company's equity share capital, comprising £1 ordinary shares.

Share premium account

Share premium represents the amount of consideration received for the company's equity share capital in excess of the nominal value of shares issued.

Treasury share reserve

The treasury share reserve was created as a result of the group wide restructure involving the company and fellow Virgin Media group companies.

Virgin Media Finance PLC
Notes to the Group Financial Statements
for the year ended 31 December 2016

25 Reserves (continued)

Other capital reserves comprising merger reserve and capital contributions

The results of subsidiary undertakings acquired through group reorganisations have given rise to the requirement to make adjustments on consolidation in the merger reserve.

Unrealised gains and losses

This reserve records the portion of gain or loss on hedging instruments that are determined to be effective hedges, and the exchange differences on retranslation of foreign operations.

Foreign currency translation reserve

This reserve records the gain or loss on the retranslation of subsidiary undertakings with functional currencies other than pound sterling.

Retained earnings

This reserve records all current and prior period retained profit and losses.

26 Post balance sheet events

In January 2017 Virgin Media Secured Finance plc, a wholly owned subsidiary of the group, issued senior secured notes with a principal amount of £675.0 million. The new senior secured notes rank pari passu with the group's existing senior secured notes and senior secured credit facility, and subject to certain exceptions, share in the same guarantees and security granted in favour of its existing senior secured notes. The net proceeds were used to redeem in full £640.0 million outstanding principal amounts of existing senior secured notes.

In February 2017 Virgin Media SFA Finance Limited, a wholly owned subsidiary of the group, entered into two new term loan facilities with an aggregate principal amount of £865.0 million. The new term facility will rank pari passu with the group's existing senior secured notes and senior secured credit facility, and subject to certain exemptions, share in the same guarantees and security granted in favour of its existing senior secured notes. The net proceeds of the issuance of the term loan were used to redeem an equivalent aggregate amount of £849.4 million of the group's existing senior secured credit facility.

In March 2017 Virgin Media Secured Finance plc completed an offer to exchange existing senior secured notes with an aggregate principal amount of £521.0 million due January 2021 for new senior secured notes with an aggregate principal amount of £521.0 million due January 2025. The new senior secured notes rank pari passu with the group's existing senior secured notes and senior secured credit facility, and subject to certain exceptions, share in the same guarantees and security granted in favour of its existing senior secured notes.

27 Capital commitments

	2016 £ million	2015 £ million
Amounts contracted for but not provided in the accounts	<u>413.9</u>	<u>211.9</u>

28 Contingent liabilities

The group's application of VAT with respect to certain revenue generating activities has been challenged by the U.K. tax authorities. The group has estimated our maximum exposure in the event of an unfavourable outcome to be £46.6 million as of 31 March 2017. No portion of this exposure has been accrued by our company as the likelihood of loss is not considered to be probable. A court hearing was held at the end of September 2014 in relation to the U.K. tax authorities' challenge and the timing of the court's decision is uncertain.

28 Contingent liabilities (continued)

On 19 March 2014, the U.K. government announced a change in legislation with respect to the charging of VAT in connection with prompt payment discounts such as those that the group offer to our fixed-line telephone customers. This change, which took effect on 1 May 2014, impacted our company and some of our competitors. The U.K. tax authority issued a decision in the fourth quarter of 2015 challenging our application of the prompt payment discount rules prior to the 1 May 2014 change in legislation. The group has appealed this decision. As part of the appeal process, the group were required to make aggregate payments of £67.0 million, which included the challenged amount of £63.7 million and related interest of £3.3 million. The aggregate amount paid does not include penalties, which could be significant in the unlikely event that penalties were to be assessed. This matter will likely be subject to court proceedings that could delay the ultimate resolution for an extended period of time. No portion of this potential exposure has been accrued by our company as the likelihood of loss is not considered to be probable.

29 Pension and other post-retirement benefits

The group operates two defined benefit schemes in the U.K., the NTL Pension Plan and the 1999 ntl Pension Scheme, and one defined benefit scheme in Ireland which provide both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service.

Defined contribution plans

The group contributes to the Virgin Media sponsored group personal pension plans of eligible employees. Contributions are charged to the Group Income Statement as they become payable, in accordance with the rules of the plans.

Contributions to the defined contribution plans during the period were £22.7 million (2015 - £21.5 million). The amount of outstanding contributions at 31 December 2016 included within current liabilities was £3.1 million (2015 - £3.0 million).

Defined benefit plans

The group recognises any actuarial gains and losses in each period in the Group Statement of Comprehensive Income.

• 1999 ntl Pension Scheme

A subsidiary, Virgin Media Limited, operates a funded pension plan providing defined benefits ("1999 ntl Pension Plan"). The plan has never been opened to new entrants except when the plan began and subsequently on 31 May 2007, on both occasions new members were transferred from other existing plans. The assets of the plan are held separately from those of the company, being invested in units of exempt unit trusts. The plan is funded by the payment of contributions to separately administered trust funds. The pension costs are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit credit method with a control period.

• NTL Pension Plan

A subsidiary, Virgin Media Limited, operates a funded pension plan providing defined benefits ("NTL Pension Plan"). The pension plan was closed to new entrants as of 6 April 1998. The Plan was closed to future accrual on 31 January 2014. The assets of the plan are held separately from those of the company, in an independently administered trust. The plan is funded by the payment of contributions to this separately administered trust. The pension costs are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit credit method.

29 Pension and other post-retirement benefits (continued)

• UPC Communications Ireland Limited Defined Benefit Plan

A subsidiary, Virgin Media Ireland Limited, operates a funded pension plan providing defined benefits ("UPC Communications Ireland Limited Defined Benefit Plan"). The Plan was closed to future accrual on 31 July 2015. The assets of the plan are held separately from those of the company, in an independently administered trust. The plan is funded by the payment of contributions to this separately administered trust. The pension costs are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit credit method.

The plans' assets are measured at fair value. The plans' liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond.

The table below provides summary information on our defined benefit plans:

	2016	2015
	£ million	£ million
Projected benefit obligation	(628.7)	(499.7)
Fair value of plan assets	650.9	501.2
Net asset	<u>22.2</u>	<u>1.5</u>
Net periodic pension cost/(credit)	(0.6)	0.4
Net defined benefit (liability)/asset represented by:		
Net defined benefit liability	(15.4)	(34.2)
Net defined benefit asset	<u>37.6</u>	<u>35.7</u>
	<u>22.2</u>	<u>1.5</u>

The group expects to contribute £25.7 million to the defined benefit pension plans in 2017.

30 Related party transactions

During the year, the group entered into transactions in the ordinary course of business with other related parties. Transactions entered into during the year, and trading balances outstanding at 31 December with other related parties, are as follows:

<i>Related party</i>	Services rendered to related party	Services rendered by related party	Interest charged to related party	Interest charged by related party	Amounts owed by related party	Amounts owed to related party
	£ million	£ million	£ million	£ million	£ million	£ million
Parent undertakings						
2016	-	-	-	(0.3)	-	(193.4)
2015	-	-	0.3	-	-	(30.1)
Fellow subsidiary undertakings						
2016	51.3	-	0.4	(8.6)	-	(238.1)
2015	50.3	-	-	(12.7)	-	(397.7)
Liberty Global group undertakings						
2016	-	(110.9)	289.4	-	51.2	(28.9)
2015	-	(87.6)	240.3	(5.6)	45.4	(19.3)

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30 Related party transactions (continued)

Parent undertakings

The group is headed by Virgin Media Inc. and has been indebted to the group, which receives interest income according to the terms of each loan agreement. The group recharges the ultimate parent company for certain costs directly attributed to the operations of that company including allocable payroll and related expenses.

Fellow subsidiary undertakings

The net recovery of debts by Virgin Media Limited relating to the customers of fellow subsidiary undertakings, namely ntl Kirklees and ntl Glasgow, through centralised debt collection and treasury operations, generates trading balances which are offset by operating expenses and capital purchases that are also recharged by Virgin Media Limited. Virgin Media Limited is an indirect subsidiary of the company whilst ntl Kirklees and ntl Glasgow are both outside the group headed by the company.

Liberty Group undertakings

The company's ultimate parent is Liberty Global plc which also controls the group and the Virgin Media group. Certain debt raised by the group has been passed up to Liberty Global entities that sit outside the Virgin Media group. The debt of £4,671.2 million (see note 13) attracts interest which Liberty Global entities pay to the group according to the terms of each loan arrangement.

Terms and conditions of transactions with related parties

The terms of the loans payable to parent undertakings are as outlined in note 18. Certain expenses are specifically attributable to each company in the group. Where costs are incurred by Virgin Media Limited on behalf of other group companies, expenses are allocated to the other group companies on a basis that, in the opinion of the directors, is reasonable.

Compensation of key management personnel (including directors)

The compensation paid or payable to key management for employee services is shown below:

	2016 £ million	2015 £ million
Short-term employee benefits	3.5	4.5
Post-employment benefits	0.1	0.3
Non-equity incentive plan	1.2	2.3
Share based payments	6.6	11.5
	<u>11.4</u>	<u>18.6</u>

Key management represents directors and members of Virgin Media's Executive Committee.

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31 Principal subsidiary undertakings

The investments in which the group held at least 20% of the nominal value of any class of share capital, all of which are unlisted, are as follows. All are registered in England and Wales unless otherwise noted.

<i>Subsidiary</i>		<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activities</i>
Direct shareholdings of Virgin Media Finance PLC				
VMFH Limited		Ordinary	100%	Holding
Virgin Media Investment Holdings Limited		Ordinary	100%	Holding
Indirect shareholdings				
Anglia Cable Communications Limited		Ordinary	100%	Telecoms
Arqiva WiFi Limited		Ordinary	100%	Telecoms
Bitbuzz UK Limited		Ordinary	89%	Telecoms
Cable Communications Limited	Φ	Ordinary	100%	Telecoms
Cambridge Holding Company Limited	Φ	Ordinary	100%	Holding
Channel 6 Broadcasting Limited	Ψ	Ordinary	100%	Telecoms
Chorus Communication Limited	Ψ Φ	Ordinary	89%	Telecoms
Crystalvision Productions Limited		Ordinary	50%	Dormant
Cullen Broadcasting Limited	Ψ	Ordinary	100%	Telecoms
East Coast Cable Limited		Ordinary	100%	Telecoms
Flextech Homeshopping Limited		Ordinary	100%	Telecoms
General Cable Investments Limited	Φ	Ordinary	100%	Holding
General Cable Group Limited	Φ	Ordinary	100%	Holding
Imminus (Ireland) Limited	Ψ	Ordinary	100%	Telecoms
Kish Media Limited	Ψ	Ordinary	100%	Telecoms
Matchco Limited		Ordinary	76%	Dormant
North CableComms Holdings, LLC	π Φ	Common stock	100%	Holding
North CableComms LLC	π Φ	Common stock	100%	Telecoms
North CableComms Management, LLC	π Φ	Common stock	100%	Telecoms
ntl (CWC) UK	Φ	Ordinary	100%	Telecoms
ntl (South London) Limited	Φ	Ordinary	100%	Telecoms
NTL (Triangle) LLC	Ξ	Common stock	100%	Holding
NTL Bromley LLC	π Φ	Common stock	100%	Telecoms
ntl Business Limited		Ordinary	100%	Holding
ntl CableComms Group Limited		Ordinary	100%	Holding
NTL CableComms Group, LLC	Ξ	Common stock	100%	Telecoms
ntl CableComms Manchester Limited	Φ	Ordinary	100%	Telecoms
NTL Chartwell Holdings 2, LLC	π Φ	Common stock	100%	Holding
NTL Chartwell Holdings, LLC	π Φ	Common stock	100%	Holding
ntl Communications (Ireland) Limited	Ψ Φ	Ordinary	89%	Telecoms
ntl Irish Networks Limited	Ψ Φ	Ordinary	89%	Telecoms
ntl Microclock Services Limited	Φ	Ordinary	100%	Dormant
NTL North CableComms Holdings, LLC	π Φ	Common stock	100%	Holding
NTL North CableComms Management, LLC	π Φ	Common stock	100%	Telecoms
ntl Partcheer Company Limited	Φ	Ordinary	100%	Dormant
ntl Pension Trustees Limited		Ordinary	100%	Dormant
ntl Sideoffer Limited	Φ	Ordinary	100%	Dormant
NTL Solent LLC	π Φ	Common stock	100%	Telecoms

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31 Principal subsidiary undertakings (continued)

<i>Subsidiary</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activities</i>
Indirect shareholdings (continued)			
NTL South CableComms Holdings, Inc	π Φ Common stock	100%	Telecoms
NTL South CableComms Management, LLC	π Φ Common stock	100%	Telecoms
ntl Streetunique Projects Limited	Ordinary	100%	Telecoms
ntl Streetunit Projects Limited	Ordinary	100%	Telecoms
ntl Streetusual Services Limited	Ordinary	100%	Telecoms
ntl Streetvision Services Limited	Φ Ordinary	100%	Telecoms
ntl Streetvital Services Limited	Ordinary	100%	Dormant
ntl Streetwarm Services Limited	Φ Ordinary	100%	Dormant
ntl Streetwide Services Limited	Ordinary	100%	Telecoms
ntl Strikeagent Trading Limited	Ordinary	100%	Telecoms
ntl Strikeamount Trading Limited	Φ Ordinary	100%	Telecoms
ntl Strikeapart Trading Limited	Φ Ordinary	100%	Dormant
NTL Surrey LLC	π Φ Common stock	100%	Telecoms
NTL Sussex LLC	π Φ Common stock	100%	Telecoms
NTL UK CableComms Holdings, LLC	Ξ Common stock	100%	Telecoms
ntl Victoria II Limited	Φ Ordinary	100%	Holding
NTL Wessex LLC	π Φ Common stock	100%	Telecoms
NTL Winston Holdings, LLC	π Φ Common stock	100%	Telecoms
NTL Wirral LLC	π Φ Common stock	100%	Telecoms
Smashedatom Limited	Ordinary	60%	Dormant
South CableComms Holdings, LLC	π Φ Common stock	100%	Holding
South CableComms LLC	π Φ Common stock	100%	Holding
South CableComms Management, LLC	π Φ Common stock	100%	Holding
Telewest Communications (North West) Limited	Ordinary	100%	Telecoms
Telewest Global Finance LLC	π Φ Common stock	100%	Telecoms
Tullamore Beta Limited	Ψ Ordinary	100%	Telecoms
TV Three Enterprises Limited	Ψ Ordinary	100%	Telecoms
TV Three Sales Limited	Ψ Ordinary	100%	Telecoms
UPC Broadband Ireland Limited	Ψ Ordinary	89%	Trading
Virgin Media Bristol LLC	Ξ Common stock	100%	Holding
Virgin Media Business Limited	Ordinary	100%	Telecoms
Virgin Media Investments Limited	Ordinary	100%	Telecoms
Virgin Media Limited	Ordinary	100%	Telecoms
Virgin Media Payments Limited	Ordinary	100%	Collections
Virgin Media Wholesale Limited	Ordinary	100%	Holding
Virgin Mobile Telecoms Limited	Ordinary	100%	Telecoms
Virgin Net Limited	Ordinary	100%	Telecoms
Virgin Media Senior Investments Limited	Ordinary	100%	Trading
Virgin Media Ireland Limited	Ψ Ordinary	89%	Trading
Virgin Media Properties Limited	Ordinary	100%	Trading
Winston Investors LLC	π Φ Common stock	100%	Telecoms

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31 Principal subsidiary undertakings (continued)

<i>Subsidiary</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activities</i>
Indirect shareholdings - guaranteed under Section 394(C) of the Companies Act 2006			
Avon Cable Investments Limited	Ordinary	100%	Dormant
Birmingham Cable Corporation Limited	Ordinary	100%	Dormant
Cable Adnet Limited	Ordinary	100%	Dormant
Cable Internet Limited	Ordinary	100%	Dormant
CableTel (UK) Limited	Ordinary	100%	Dormant
CableTel Herts and Beds Limited	Ordinary	100%	Dormant
CableTel Northern Ireland Limited	β	Ordinary 100%	Dormant
CableTel Surrey and Hampshire Limited	Ordinary	100%	Dormant
Crystal Palace Radio Limited	Ordinary	100%	Dormant
Filegale Limited	Ordinary	100%	Dormant
Jewel Holdings	Ordinary	100%	Dormant
ntl (Aylesbury and Chiltern) Limited	Ordinary	100%	Dormant
ntl (Broadland) Limited	Ordinary	100%	Dormant
ntl (CWC) Corporation Limited	Ordinary	100%	Dormant
ntl (South East) Limited	Ordinary	100%	Dormant
ntl (V)	Ordinary	100%	Dormant
ntl (YorCan) Limited	Ordinary	100%	Dormant
ntl (York) Limited	Ordinary	100%	Dormant
ntl Chartwell Holdings Limited	Ordinary	100%	Dormant
ntl Holdings (Broadland) Limited	Ordinary	100%	Dormant
ntl South Central Limited	Ordinary	100%	Dormant
ntl South Wales Limited	Ordinary	100%	Dormant
ntl Telecom Services Limited	Ordinary	100%	Dormant
ntl Trustees Limited	Ordinary	100%	Dormant
ntl Winston Holdings Limited	Ordinary	100%	Dormant
Omne Telecommunications Limited	Ordinary	100%	Dormant
Perth Cable Television Limited	Σ	Ordinary 100%	Dormant
Screenshop Limited	Ordinary	100%	Dormant
Telewest Communications (Scotland Holdings) Limited	Σ	Ordinary 100%	Dormant
Telewest Communications Cable Limited	Ordinary	100%	Dormant
Telewest Workwise Limited	Ordinary	100%	Dormant
Virgin Media Employee Medical Trust Limited	Ordinary	100%	Dormant
Virgin Mobile Group (UK) Limited	Ordinary	100%	Dormant
Virgin Mobile Holdings (UK) Limited	Ordinary	100%	Dormant
VMWH Limited	Ordinary	100%	Dormant
Indirect shareholdings - guaranteed under Section 479(C) of the Companies Act 2006			
BCMV Leasing Limited	Ordinary	100%	Leasing
BCMV Limited	Ordinary	100%	Telecoms
Birmingham Cable Limited	Ordinary	100%	Telecoms
Blue Yonder Workwise Limited	Ordinary	100%	Telecoms
Cable London Limited	Ordinary	100%	Holding
Cable on Demand Limited	Ordinary	100%	Telecoms
Diamond Cable Communications Limited	Ordinary	100%	Holding
Eurobell (Holdings) Limited	Ordinary	100%	Holding

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31 Principal subsidiary undertakings (continued)

<i>Subsidiary</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activities</i>
Indirect shareholdings - guaranteed under Section 479(C) of the Companies Act 2006 (continued)			
Eurobell (South West) Limited	Ordinary	100%	Telecoms
Flextech (1992) Limited	Ordinary	100%	Telecoms
Flextech Broadband Limited	Ordinary	100%	Holding
Flextech Interactive Limited	Ordinary	100%	Holding
Flextech Limited	Ordinary	100%	Holding
Flextech T Limited	Ordinary	100%	Telecoms
General Cable Limited	Ordinary	100%	Telecoms
General Cable Programming Limited	Ordinary	100%	Telecoms
M&NW Network II Limited	Ordinary	100%	Telecoms
M&NW Network Limited	Ordinary	100%	Telecoms
ntl (B) Limited	Ordinary	100%	Holding
ntl (CWC) Limited	Ordinary	100%	Holding
ntl (South Hertfordshire) Limited	Ordinary	100%	Telecoms
ntl Bolton Cablevision Holding Company	Ordinary	98%	Holding
ntl CableComms Bolton	Ordinary	99%	Telecoms
ntl CableComms Bolton Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Bromley	Ordinary	100%	Telecoms
ntl CableComms Bromley Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Bury and Rochdale	Ordinary	100%	Telecoms
ntl CableComms Cheshire	Ordinary	100%	Telecoms
ntl CableComms Derby	Ordinary	99%	Telecoms
ntl CableComms Derby Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Fast Lancashire	Ordinary	99%	Telecoms
ntl CableComms Greater Manchester	Ordinary	100%	Telecoms
ntl CableComms Greater Manchester Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Holdings No 1 Limited	Ordinary	100%	Holding
ntl CableComms Holdings No 2 Limited	Ordinary	98%	Holding
ntl CableComms Limited	Ordinary	100%	Telecoms
ntl CableComms Macclesfield	Ordinary	100%	Telecoms
ntl CableComms Oldham and Tameside	Ordinary	100%	Telecoms
ntl CableComms Solent	Ordinary	100%	Telecoms
ntl CableComms Staffordshire	Ordinary	100%	Telecoms
ntl CableComms Stockport	Ordinary	100%	Telecoms
ntl CableComms Surrey	Ordinary	100%	Telecoms
ntl CableComms Surrey Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Sussex	Ordinary	100%	Telecoms
ntl CableComms Sussex Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Wessex	Ordinary	100%	Telecoms
ntl CableComms Wessex Leasing Limited	Ordinary	100%	Leasing
ntl CableComms Wirral	Ordinary	100%	Telecoms
ntl CableComms Wirral Leasing Limited	Ordinary	100%	Leasing
ntl Cambridge Limited	Ordinary	100%	Telecoms
ntl Communications Services Limited	Ordinary	100%	Telecoms
ntl Derby Cablevision Holding Company	Ordinary	100%	Holding
ntl Internet Services Limited	Ordinary	100%	Telecoms

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31 Principal subsidiary undertakings (continued)

<i>Subsidiary</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activities</i>
Indirect shareholdings - guaranteed under Section 479(C) of the Companies Act 2006 (continued)			
ntl Manchester Cablevision Holding Company	Ordinary	99%	Holding
ntl Midlands Leasing Limited	Ordinary	100%	Leasing
ntl Midlands Limited	Ordinary	100%	Telecoms
ntl National Networks Limited	Ordinary	100%	Telecoms
ntl Solent Telephone and Cable TV Company Limited	Ordinary	100%	Telecoms
ntl Rectangle Limited	Ordinary	100%	Telecoms
ntl UK Telephone and Cable TV Holding Company Limited	Ordinary	100%	Holding
ntl Victoria Limited	Ordinary	100%	Telecoms
ntl Wirral Telephone and Cable TV Company	Ordinary	100%	Telecoms
ntl Wirral Telephone and Cable TV Company Leasing Limited	Ordinary	100%	Leasing
Sheffield Cable Communications Limited	Ordinary	100%	Telecoms
Smallworld Cable Limited	Ordinary	100%	Telecoms
Southwestern Bell International Holdings Limited	Ordinary	100%	Holding
Telewest Communications (Central Lancashire) Limited	Ordinary	100%	Telecoms
Telewest Communications (Cotswolds) Limited	Ordinary	100%	Telecoms
Telewest Communications (Cumbernauld) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (Dumbarton) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (Dundee & Perth) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (Falkirk) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (Fylde & Wyre) Limited	Ordinary	100%	Telecoms
Telewest Communications (Glenrothes) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (Liverpool) Limited	Ordinary	100%	Telecoms
Telewest Communications (London South) Limited	Ordinary	100%	Telecoms
Telewest Communications (Midlands and North West) Leasing	Ordinary	100%	Leasing
Telewest Communications (Midlands and North West) Limited	Ordinary	100%	Telecoms
Telewest Communications (Midlands) Limited	Ordinary	100%	Telecoms
Telewest Communications (Motherwell) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (North East) Limited	Ordinary	100%	Investment
Telewest Communications (Scotland) Limited Σ	Ordinary	100%	Telecoms
Telewest Communications (South East) Limited	Ordinary	50%	Investment
Telewest Communications (South Thames Estuary) Limited	Ordinary	50%	Telecoms
Telewest Communications (South West) Limited	Ordinary	100%	Telecoms
Telewest Communications (Southport) Limited	Ordinary	100%	Telecoms
Telewest Communications (St Helens & Knowsley) Limited	Ordinary	100%	Telecoms
Telewest Communications (Telford) Limited	Ordinary	100%	Telecoms
Telewest Communications (Tyneside) Limited	Ordinary	100%	Telecoms
Telewest Communications (Wigan) Limited	Ordinary	100%	Telecoms
Telewest Communications Holdco Limited	Ordinary	100%	Holding
Telewest Communications Holdings Limited	Ordinary	100%	Holding
Telewest Communications Networks Limited	Ordinary	100%	Holding
Telewest Limited	Ordinary	100%	Holding
The Cable Corporation Limited	Ordinary	100%	Holding
The Yorkshire Cable Group Limited	Ordinary	100%	Holding
Theseus No.1 Limited	Ordinary	100%	Telecoms
Theseus No.2 Limited	Ordinary	100%	Telecoms

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31 Principal subsidiary undertakings (continued)

<i>Subsidiary</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Principal activities</i>
Indirect shareholdings - guaranteed under Section 479(C) of the Companies Act 2006 (continued)			
Virgin Media Finco Limited	Ordinary	100%	Finance
Virgin Media Secretaries Limited	Ordinary	100%	Finance
Virgin Media Secured Finance PLC	Ordinary	100%	Finance
Virgin Media SFA Finance Limited	Ordinary	100%	Finance
VM Transfers (No 4) Limited	Ordinary	100%	Holding
VM Transfers (No 5) Limited	Ordinary	100%	Holding
VMIH Sub Limited	Ordinary	100%	Holding
W Television Leasing Limited	Ordinary	100%	Leasing
Windsor Television Limited	Ordinary	100%	Telecoms
X-TANT Limited	Ordinary	100%	Telecoms
Yorkshire Cable Communications Limited	Ordinary	100%	Telecoms

All companies are registered at Bartley Wood Business Park, Hook, Hampshire, RG27 9UP, unless otherwise noted below:

- β Unit 3, Blackstaff Road, Kennedy Way Industrial Estate, Belfast, BT11 9AP
- π 2711 Centerville Road, Suite 400, Wilmington, DE 19808
- Ψ Building P2, EastPoint Business Park, Clontarf, Dublin 3
- Σ 1 South Gyle Crescent Lane, Edinburgh, EH12 9EG
- Ξ 251 Little Falls Drive, Wilmington, DE 19808

Φ Companies dissolved post year end

The company has issued a guarantee under Section 479(C) of the Companies Act 2006 for the year ended 31 December 2016 in respect of the subsidiaries listed above in section "Indirect shareholdings – guaranteed under Section 479(C) of the Companies Act 2006". The company guarantees all outstanding liabilities to which the subsidiary company is subject to at 31 December 2016, until they are satisfied in full and the guarantee is enforceable against the company by any person to whom the subsidiary company is liable in respect of those liabilities. These active subsidiaries have taken advantage of the exemption from audit of individual accounts for the year ended 31 December 2016 by virtue of Section 479(A) of the Companies Act 2006.

The guarantee under Section 479(C) of the Companies Act 2006 is in respect of the above subsidiaries, all of which are 100% owned, either directly or indirectly.

The company will issue a guarantee under Section 394(C) of the Companies Act 2006 for the year ended 31 December 2016 in respect of the wholly owned dormant subsidiaries listed above in section "Indirect shareholdings – guaranteed under Section 394(C) of the Companies Act 2006". The company guarantees all outstanding liabilities to which the subsidiary company is subject to at 31 December 2016, until they are satisfied in full and the guarantee is enforceable against the company by any person to whom the subsidiary company is liable in respect of those liabilities. These dormant subsidiaries have taken advantage of the exemption from preparing individual accounts for the year ended 31 December 2016 by virtue of Section 394(A) of the Companies Act 2006.

The guarantee under Section 394(C) of the Companies Act 2006 is in respect of the above subsidiaries, majority of which are 100% owned, either directly or indirectly.

32 Parent undertaking and controlling party

The company's immediate parent undertaking is Virgin Media Communications Limited.

The smallest and largest group of which the company is a member and in to which the company's accounts were consolidated at 31 December 2016 are Virgin Media Inc. and Liberty Global plc, respectively.

The company's ultimate parent undertaking and controlling party at 31 December 2016 was Liberty Global plc.

Copies of the Virgin Media group accounts referred to above which include the results of the company are available from the company secretary, Virgin Media, Bartley Wood Business Park, Hook, Hampshire, RG27 9UP.

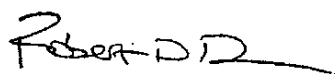
In addition copies of the consolidated Liberty Global plc accounts are available on Liberty Global's website at www.libertyglobal.com.

Virgin Media Finance PLC
Company Balance Sheet
as at 31 December 2016

	Notes	2016 £ million	2015 £ million
Fixed assets			
Investments	3	<u>4,513.6</u> 4,513.6	<u>4,513.6</u> 4,513.6
Current assets			
Debtors (due after one year)	4	1,352.9	909.2
Debtors (due within one year)	4	21.5	15.3
Cash at bank and in hand		<u>-</u>	<u>0.2</u>
		1,374.4	924.7
Creditors: amounts falling due within one year	5	<u>(5,434.5)</u>	<u>(3,623.4)</u>
Net current liabilities		<u>(4,060.1)</u>	<u>(2,698.7)</u>
Total assets less current liabilities		453.5	1,814.9
Creditors: amounts falling due after more than one year	6	<u>(2,295.3)</u>	<u>(2,026.2)</u>
Net liabilities		<u>(1,841.8)</u>	<u>(211.3)</u>
Capital and reserves			
Share capital	8	0.1	0.1
Share premium account	9	3,323.2	3,323.2
Capital contribution	9	5.0	5.0
Treasury shares reserve	9	(2,880.2)	(2,880.2)
Profit and loss account	9	<u>(2,289.9)</u>	<u>(659.4)</u>
Deficit		<u>(1,841.8)</u>	<u>(211.3)</u>

The notes on pages 70 to 78 form part of the financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 June 2017.



R D Dunn
Director

Company Registration Number: 05061787

Virgin Media Finance PLC
Company Statement of Changes in Equity
as at 31 December 2016

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £ million	Share premium account £ million	Capital contribution £ million	Treasury shares reserve £ million	Profit and loss account £ million	Total £ million
At 1 January 2016	0.1	3,323.2	5.0	(2,880.2)	(659.4)	(211.3)
Comprehensive income for the year						
Loss for the year	-	-	-	-	(1,630.5)	(1,630.5)
Total comprehensive income for the year	-	-	-	-	(1,630.5)	(1,630.5)
At 31 December 2016	0.1	3,323.2	5.0	(2,880.2)	(2,289.9)	(1,841.8)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital £ million	Share premium account £ million	Capital contribution £ million	Treasury shares reserve £ million	Profit and loss account £ million	Total £ million
At 1 January 2015	0.1	3,323.2	5.0	(2,880.2)	(254.8)	193.3
Comprehensive income for the year						
Loss for the year	-	-	-	-	(404.6)	(404.6)
Total comprehensive income for the year	-	-	-	-	(404.6)	(404.6)
As at December 2015	0.1	3,323.2	5.0	(2,880.2)	(659.4)	(211.3)

The notes on pages 70 to 78 form part of these financial statements.

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

1 Accounting policies

The company is incorporated and domiciled in the United Kingdom.

A summary of the principal accounting policies is set out below. All accounting policies have been applied consistently, unless noted below.

Basis of accounting

These financial statements were prepared on a going concern basis, and under the historical cost basis in accordance with the Companies Act 2006 and the Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

The company's ultimate parent undertaking, Liberty Global plc, includes the company in its consolidated financial statements. The consolidated financial statements of Liberty Global plc are prepared in accordance with U.S. Generally Accepted Accounting Principles and are available to the public and may be obtained from Liberty Global's website at www.libertyglobal.com.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures, where required equivalent disclosures are included within the company's consolidated financial statements:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital;
- disclosures in respect of related party transactions with fellow group undertakings;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures if transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of the company include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments; and
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

No profit and loss account is presented by the company as permitted by Section 408 of the Companies Act 2006.

Fundamental accounting concept

After making suitable enquiries and obtaining the necessary assurances from Virgin Media Inc., a wholly owned subsidiary of Liberty Global plc and the intermediate holding company which heads the Virgin Media group, that sufficient resources will be made available to meet any liabilities as they fall due should the company's income not be sufficient, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although at the date of approval of these financial statements they have no reason to believe that it will not do so. On this basis the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Accounting policies (continued)

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are taken to the profit and loss account.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

Finance costs which are incurred in connection with the issuance of debt are deferred and set off against the borrowings to which they relate. Deferred finance costs are amortised over the term of the related debt using the effective interest method.

Investments

Investments are recorded at cost, less provision for impairment as appropriate. The company assesses at each reporting date whether there is an indication that an investment may be impaired. If any such indication exists, the company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. A previously recognised impairment loss is reversed only if there was an event not foreseen in the original impairment calculations, such as a change in use of the investment or a change in economic conditions. The reversal of impairment loss would be to the extent of the lower of the recoverable amount and the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years.

Derivative financial instruments and hedging

The group has established policies and procedures to govern the management of its exposure to interest rate and foreign currency exchange rate risks, through the use of derivative financial instruments, including interest rate swaps, cross currency interest rate swaps and foreign currency forward rate contracts.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date.

Derivatives are recognised as financial assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are recognised as financial assets when the fair value is positive and as liabilities when the fair value is negative. The foreign currency forward rate contracts, interest rate swaps and cross-currency interest rate swaps are valued using internal models based on observable inputs, counterparty valuations or market transactions in either the listed or over-the-counter markets, adjusted for non-performance risk. Non-performance risk is based upon quoted credit default spreads for counterparties to the contracts and swaps. Derivative contracts which are subject to master netting arrangements are not offset and have not provided, nor require, cash collateral with any counterparty.

While these instruments are subject to the risk of loss from changes in exchange rates and interest rates, these losses would generally be offset by gains in the related exposures. Financial instruments are only used to hedge underlying commercial exposures. The group does not enter into derivative financial instruments for speculative trading purposes, nor does it enter into derivative financial instruments with a level of complexity or with a risk that is greater than the exposure to be managed.

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

Accounting policies (continued)

For derivatives which are designated as hedges the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

The group designates certain derivatives as either fair value hedges, when hedging exposure to variability in the fair value of recognised assets or liabilities or firm commitments, or as cashflow hedges, when hedging exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Derivatives that are not part of an effective hedging relationship, as set out in IAS 39, must be classified as held for trading and measured at fair value through profit or loss.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends upon the nature of the hedging relationship and are treated as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in profit or loss. Amounts taken to Other Comprehensive Income are reclassified to the profit and loss account when the hedged transaction is recognised in profit or loss, such as when a forecast sale or purchase occurs, in the same line of the profit and loss account as the recognised hedged item. Where the hedged item is the cost of a non-financial asset or liability, the gains and losses previously accumulated in equity are transferred to the initial measurement of the cost of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in Other Comprehensive Income remain in equity until the forecast transaction occurs and are reclassified to the profit and loss account.

Fair value hedges

For fair value hedges, the changes in the fair value of the hedging instrument are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the profit and loss account relating to the hedged item.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, then the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Judgements in applying accounting policies and key sources of estimation uncertainty

In the process of applying the company's accounting policies which are described above, management has not made any critical judgements that have a significant effect on the amounts recognised in the financial statement, except for:

Carrying value of investments

Investments are held at cost less any necessary provision for impairment. Where the impairment assessment did not provide any indication of impairment, no provision is required. If any such indications exist, the carrying value of an investment is written down to its recoverable amount.

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

Accounting policies (continued)

Fair value measurement of financial instruments

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument.

Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 7).

Recoverability of intercompany debtors

Intercompany debtors are stated at their recoverable amount less any necessary provision. Recoverability of intercompany debtors is assessed annually and a provision is recognised if any indications exist that the debtor is not considered recoverable.

2 Loss attributable to members of the parent company

The loss in the accounts of the parent company was £1,630.5 million (2015 - loss of £404.6 million).

3 Investments

	£ million
Cost and net book value:	
At 1 January 2016 and 31 December 2016	<u>4,513.6</u>

Details of the principal investments in which the group or the company holds at least 20% of the nominal value of any class of share capital, all of which are unlisted, can be seen in note 31 to the consolidated financial statements.

In the opinion of the directors the aggregated value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the financial statements.

4 Debtors

	2016	2015
	£ million	£ million
Due after one year		
Loan notes due from group undertakings	1,279.8	888.4
Derivative financial assets	73.1	20.8
	<u>1,352.9</u>	<u>909.2</u>
Due within one year		
Interest receivable on loan notes due from group undertakings	14.7	12.8
Derivative financial assets	6.8	2.5
	<u>21.5</u>	<u>15.3</u>

Loans advanced to group undertakings are repayable on demand but are not expected to be recovered in full within one year. The loans advanced to group undertakings include U.S. dollar denominated loans of \$827.3 million (2015 - \$826.6 million) which had a carrying value of £670.1 million (2015 - £561.0 million) at the balance sheet date.

Other amounts owed by group undertakings are interest free and are repayable on demand.

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

5 Creditors: amounts falling due within one year

	2016	2015
	£ million	£ million
Interest on loan notes due to group undertakings	88.1	68.2
Interest payable on senior notes	39.2	34.4
Amounts owed to group undertakings	162.0	167.7
Loan notes due to group undertakings	5,145.2	3,353.1
	<u>5,434.5</u>	<u>3,623.4</u>

The loan notes advanced by group undertakings comprise pound sterling denominated loans of £976.9 million (2015 - £210.5 million) and U.S. dollar denominated loans of \$5,145.8 million (2015 - \$4,360.1 million), which had a carrying value of £4,168.3 million (2015 - £3,142.6) at the balance sheet date.

Amounts owed to and loan notes due to group undertakings are payable on demand as they do not include an unconditional right to defer payment and hence are included in creditors falling due within one year.

6 Creditors: amounts falling due after more than one year

	2016	2015
	£ million	£ million
Senior notes	<u>2,295.3</u>	<u>2,026.2</u>

Borrowings are repayable as follows:

	2016	2015
	£ million	£ million
Amounts falling due:		
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	2,295.3	2,026.2
	<u>2,295.3</u>	<u>2,026.2</u>

Borrowings not wholly repayable within five years are as follows:

	2016	2015
	£ million	£ million
Senior notes	<u>2,295.3</u>	<u>2,026.2</u>

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

6 Creditors: amounts falling due after more than one year (continued)

Total borrowings comprise:

	2016 £ million	2015 £ million
5.25% U.S. dollar senior notes due 2022	76.9	64.5
4.875% U.S. dollar senior notes due 2022	96.1	80.5
5.125% Sterling senior notes due 2022	44.1	44.1
7.00% Sterling senior notes due 2023	250.0	250.0
6.375% U.S. dollar senior notes due 2023	429.3	359.7
6.00% U.S. dollar senior notes due 2024	405.0	339.4
6.375% Sterling dollar senior notes due 2024	300.0	300.0
5.75% US dollar senior notes due 2025	324.0	271.5
4.5% Euro senior notes due 2025	393.0	339.2
	<u>2,318.4</u>	<u>2,048.9</u>
Less issue costs	(23.1)	(22.7)
Total senior notes	<u>2,295.3</u>	<u>2,026.2</u>

The company has the following senior notes in issue as at 31 December 2016:

- 1) 5.25% senior notes due 15 February 2022 – the principal amount at maturity is \$95.0 million. Interest is payable semi-annually on 15 February and 15 August commencing 15 August 2012.
- 2) 4.875% senior notes due 15 February 2022 – the principal amount at maturity is \$119.0 million. Interest is payable semi-annually on 15 February and 15 August commencing 15 February 2013.
- 3) 5.125% senior notes due 15 February 2022 – the principal amount at maturity is £44.0 million. Interest is payable semi-annually on 15 February and 15 August commencing 15 February 2013.
- 4) 7.00% senior notes due 15 April 2023 - the principal amount at maturity is £250.0 million. Interest is payable semi-annually on 15 April and 15 October commencing 15 October 2013.
- 5) 6.375% senior notes due 15 April 2023 – the principal amount at maturity is \$530.0 million Interest is payable semi-annually on 15 April and 15 October commencing 15 October 2013.
- 6) 6.00% senior notes due 15 October 2024 – the principal amount at maturity is \$500.0 million. Interest is payable semi-annually on 15 April and 15 October commencing 15 April 2015.
- 7) 6.375% senior notes due 15 October 2024 – the principal amount at maturity is £300.0 million. Interest is payable semi-annually on 15 April and 15 October commencing 15 April 2015.
- 8) 5.75% senior noted due 15 January 2025 – the principal amount at maturity is \$400.0 million. Interest is payable semi-annually on 15 January and 15 July commencing 15 July 2015.
- 9) 4.5% senior notes due 15 January 2025 – the principal amount at maturity is €460.0 million. Interest is payable semi-annually on 15 January and 15 July commencing 15 July 2015.

Virgin Media Inc., a parent company of the company, and all the intermediate holding companies, guarantee the senior notes on a senior basis. Virgin Media Investment Holdings Limited, a direct wholly-owned subsidiary of the company, guarantees the senior notes on a senior subordinated basis and has no significant assets of its own other than its investments in its subsidiaries. The company has given a full and unconditional guarantee of all amounts payable under the terms of the Virgin Media group's senior secured credit facility and senior secured notes.

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

7 Financial Instruments

	2016 £ million	2015 £ million
Financial assets		
Financial assets measured at fair value through profit or loss	79.9	23.3
Financial assets that are debt instruments measured at amortised cost	1,294.5	901.2
	<u>1,374.4</u>	<u>924.5</u>
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(7,729.8)	(5,649.6)
	<u>(7,729.8)</u>	<u>(5,649.6)</u>

Financial assets measured at fair value through profit or loss comprise cash at bank and cross currency interest rate swaps.

Financial assets measured at amortised cost comprise amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise senior secured notes net of issue costs, interest payable on senior notes, amounts owed to group undertakings, accruals and deferred income.

The group manages its treasury operations on a group basis and consequently, derivative financial instruments are designed to mitigate the risks experienced by the group as a whole rather than as a specific company. The group has obligations in a combination of U.S. dollars and sterling at fixed and variable interest rates. As a result, the group is exposed to variability in its cash flows and earnings resulting from changes in foreign currency exchange rates and interest rates.

The group's objective in managing its exposure to interest rate and foreign currency exchange rates is to decrease the volatility of its earnings and cash flows caused by changes in the underlying rates. The group has established policies and procedures to govern these exposures and has entered into derivative financial instruments including interest rate swaps, cross-currency interest swaps and foreign currency forward rate contracts. It is the group's policy not to enter into derivative financial instruments for speculative trading purposes, nor to enter into derivative financial instruments with a level of complexity or with a risk that is greater than the exposure to be managed. The amounts below include amounts relating to short term as well as long term creditors.

Financial and operational risk management is undertaken as part of the group's operations as a whole. These are considered in more detail in the consolidated financial statements of the group.

The derivative financial instruments held by the company are recorded at fair value on the balance sheet in accordance with IAS39 "Financial instruments: recognition and measurement". The fair values of these derivative financial instruments are valued using internal models based on observable inputs, counterparty valuations, or market transactions in either the listed or over-the counter markets, adjusted for non-performance risk.

Cross currency interest rate swaps

The company holds the following outstanding swap agreement with another company within the Virgin Media group:

Final maturity date	Hedge type	Notional amount due from counterparty \$000	Notional amount due to counterparty £000	Weighted average interest rate due from counterparty	Weighted average interest rate due to counterparty
April 2023	Not designated	530,000	399,896	6.375%	6.000%

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

8 Share capital

	2016	2015
	£ '000	£ '000
<i>Allotted, called up and fully paid:</i>		
92,456 ordinary shares of £1 each	92	92

9 Reserves

Share capital

The balance classified as share capital represents the nominal value on issue of the company's share capital, comprising £1 ordinary shares.

Share premium account

Share premium represents the amount of consideration received for the company's share capital in excess of the nominal value of shares issued.

Capital contribution

The £5 million capital contribution was received from Virgin Media Communications Limited as part of a comprehensive group restructuring in 2006.

Treasury shares reserve

The treasury share reserve represents the amount of the company's equity share capital together with share premium held by VMFH Limited, which is a wholly owned subsidiary of Virgin Media Finance PLC. VMFH Limited acquired 19.7% of the company's shares from Virgin Media Communications Limited on 29 December 2014. The company subsequently acquired 100% of the share capital of VMFH Limited from Virgin Media Communications Limited.

Profit and loss account

Includes all current and prior period retained profits and losses.

11 Auditor's and directors' remuneration

Fees paid to KPMG LLP and its associates for non-audit services to the parent company itself are not disclosed in the individual accounts of Virgin Media Finance PLC because group financial statements are prepared which disclose such fees on a consolidated basis.

The directors received no remuneration for qualifying services as directors of this company. All directors' remuneration is paid and disclosed in the financial statements of Virgin Media Limited.

12 Contingent liabilities

The company, along with fellow group undertakings, is party to a senior secured credit facility with a syndicate of banks. As at 31 December 2016, this comprised term facilities that amounted to £3,595 million (2015 - £2,198 million) and an outstanding balance of £nil (2015 - £148 million) which was borrowed under a revolving facility of £675 million (2015 - £675 million). Borrowings under the facilities are secured against the assets of certain members of the group including those of this company.

In addition, a fellow group undertaking has issued senior secured notes which, subject to certain exceptions, share the same guarantees and security which have been granted in favour of the senior secured credit facility. The amount outstanding under the senior secured notes at 31 December 2016 amounted to £5,024 million (2015 - £5,132 million). Borrowings under the notes are secured against the assets of certain members of the group including those of this company.

In January 2017, a fellow group undertaking issued senior secured notes with a principal amount of £675 million. The new senior secured notes rank pari passu with the group's existing senior secured notes and senior secured credit facility, and subject to certain exceptions, share in the same guarantees and security granted in favour of its existing senior secured notes. The net proceeds were used to redeem in full £640 million outstanding principal amounts of existing senior secured notes.

Virgin Media Finance PLC
Notes to the Company Financial Statements
for the year ended 31 December 2016

12 Contingent liabilities (continued)

In February 2017, a fellow group undertaking entered into a new term loan facility with an aggregate principal amount of £865 million. The new term loan facility will rank pari passu with the group's existing senior secured notes and senior secured credit facility, and subject to certain exemptions, share in the same guarantees and security granted in favour of its existing senior secured notes. The net proceeds were used to repay in full £849.4 million outstanding principal amounts under the senior secured credit facility.

In March 2017, a fellow group undertaking completed an offer to exchange existing senior secured notes with an aggregate principal amount of £521 million due January 2021 for new senior secured notes with an aggregate principal amount of £521 million due January 2025. The new senior secured notes rank pari passu with the group's existing senior secured notes and senior secured credit facility, and subject to certain exceptions, share in the same guarantees and security granted in favour of its existing senior secured notes.

The company has joint and several liabilities under a group VAT registration.

13 Parent undertaking and controlling party

The company's immediate parent undertaking is Virgin Media Communications Limited.

The smallest and largest groups of which the company is a member and in to which the company's accounts were consolidated at 31 December 2016 are Virgin Media Finance PLC and Liberty Global plc, respectively.

The company's ultimate parent undertaking and controlling party at 31 December 2016 was Liberty Global plc.

Copies of group accounts referred to above which include the results of the company are available from the company secretary, Virgin Media, Bartley Wood Business Park, Hook, Hampshire, RG27 9UP.

In addition copies of the consolidated Liberty Global plc accounts are available on Liberty Global's website at www.libertyglobal.com.