

Registered Number  
05061787

Parent Company Accounts of  
3128649- NTL (County Durham) Ltd.

**Virgin Media Finance PLC**  
**Report and Financial Statements**  
**31 December 2012**

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**Virgin Media Finance PLC**  
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**Virgin Media Finance PLC**  
**Directors and Officers**  
**Registered Number**  
**5061787**

**Directors**  
R C Gale  
C B E Withers

**Company Secretary**  
G E James

**Auditors**  
Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

**Registered Office**  
Bartley Wood Business Park  
Hook  
Hampshire  
RG27 9UP

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

The directors present their report, together with the audited group financial statements and parent company financial statements for the year ended 31 December 2012

For the purposes of this 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', and the group headed by Virgin Media Inc, the ultimate parent company, will be referred to as 'the Virgin Media group'

#### **RESULTS AND DIVIDENDS**

The group made a profit for the year, after taxation, of £2,708.9 million (2011 - £173.3 million). The directors have not recommended the payment of a dividend (2011 - £nil). In addition, the agreements governing the group's senior notes and the senior credit facility, significantly, and, in some cases absolutely, restrict the company's ability to pay dividends.

#### **PRINCIPAL ACTIVITIES**

The company is a wholly-owned subsidiary undertaking of Virgin Media Inc. The Virgin Media group is a leading entertainment and communications business, being a "quad-play" provider of broadband internet, television, mobile telephony and fixed line telephony services.

As of 31 December 2012, the Virgin Media group provided services to 4.9 million residential cable customers on its network. The Virgin Media group is also one of the UK's largest mobile virtual network operators by number of customers, providing mobile telephony service to 1.7 million contract mobile customers and 1.3 million prepay mobile customers over third party networks. As of 31 December 2012, 85% of the Virgin Media group's cable customers received multiple services from it and 65% were "triple-play" customers, receiving broadband internet, television and fixed line telephony services from the Virgin Media group.

The Virgin Media group believes that its advanced, deep fibre access network enables it to offer faster and higher quality broadband services than its digital subscriber line, or DSL, competitors. As a result, the Virgin Media group provides its customers with a leading next generation broadband service and one of the most advanced TV on-demand services available in the UK market.

Through Virgin Media Business, the Virgin Media group provides a complete portfolio of voice, data and internet solutions to businesses, public sector organisations and service providers in the UK.

On 5 February 2013, the Virgin Media group entered into a Merger Agreement with Liberty Global, Inc., or "Liberty Global", and certain of its direct or indirect wholly-owned subsidiaries, or the "Merger Subsidiaries". The Merger Agreement and related transactions were approved by the shareholders of the Virgin Media group and Liberty Global on 4 June 2013 and 3 June 2013 respectively.

As set out in the Merger Agreement, the effective date of the merger is three days following these approvals, being 7 June 2013, unless otherwise agreed by the parties. Merger consideration is expected to be transferred on 7 June 2013, following which control will be considered to have passed.

As the merger is not effective at date of signature of these financial statements, they contain no accounting modifications to consider the potential effects on certain arrangements that may arise from consummation of the merger, including those relating to long term debt, derivative financial instruments and stock based compensation plans. For more information on the merger see note 28 – Post balance sheet events.

The Virgin Media group's reporting segments are based on its method of internal reporting 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. The Virgin Media group has two reporting segments, Consumer and Business, as described below.

- **Consumer (83.4% of the group's 2012 revenue):** The Consumer segment includes the distribution of television programming over the Virgin Media group's cable network and the provision of broadband and fixed line telephone services to residential consumers, both on and off the Virgin Media group's cable network. The Consumer segment also includes the group's mobile telephony and mobile broadband operations, provided through Virgin Mobile.
- **Business (16.6% of the group's 2012 revenue):** The Business segment includes the voice and data telecommunication and internet solutions services provided through Virgin Media Business to businesses, public sector organisations and service providers.

**Virgin Media Finance PLC****Statement of Directors' Responsibilities in Relation to the Group Financial Statements****REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

Revenues for the years ended 31 December 2012 and 2011 were as follows

|                   | 2012<br>£ million | 2011<br>£ million | Increase/<br>(decrease) |
|-------------------|-------------------|-------------------|-------------------------|
| Consumer revenues | 3,321.2           | 3,259.2           | 1.9 %                   |
| Business revenues | 659.5             | 630.6             | 4.6 %                   |
|                   | <u>3,980.7</u>    | <u>3,889.8</u>    | <u>2.3 %</u>            |

For the year ended 31 December 2012, revenue increased by 2.3% to £3,980.7 million from £3,889.8 million for the same period in 2011. This increase was due to higher revenue in both the Consumer and Business segments. See further discussion of the Consumer and Business segments below.

Cost of sales for the years ended 31 December 2012 and 2011 were as follows

|                        | 2012<br>£ million | 2011<br>£ million | Increase/<br>(decrease) |
|------------------------|-------------------|-------------------|-------------------------|
| Consumer cost of sales | 988.7             | 1,017.2           | (2.8) %                 |
| Business cost of sales | 219.5             | 192.4             | 14.1 %                  |
|                        | <u>1,208.2</u>    | <u>1,209.6</u>    | <u>(0.1) %</u>          |

Consumer segment cost of sales decreased principally as a result of the continued decline in fixed line and mobile telephony interconnect costs arising from lower usage and the step-down in mobile termination rates, offset by an increase in cable television costs, driven primarily by the increase in cable television customers.

Business segment cost of sales increased as a result of higher acquisition and delivery costs during the early life of certain significant contracts.

Gross profits for the years ended 31 December 2012 and 2011 were as follows

|                       | 2012<br>£ million | 2011<br>£ million | Increase/<br>(decrease) |
|-----------------------|-------------------|-------------------|-------------------------|
| Consumer gross profit | 2,332.5           | 2,242.0           | 4.0 %                   |
| Business gross profit | 440.0             | 438.2             | 0.4 %                   |
|                       | <u>2,772.5</u>    | <u>2,680.2</u>    | <u>3.4 %</u>            |

Consumer gross profits increased primarily due to the increase in revenues. Business gross profits increased primarily due to the increase in revenues, partially offset by higher acquisition and delivery costs during the early life of certain significant contracts.

Administrative expenses decreased by 4.0% to £2,051.5 million for the year ended 31 December 2012, from £2,138.0 million for the year ended 31 December 2011. The decrease was primarily due to lower amortisation expense, which fell from £118.5 million in 2011 to £nil in 2012 due to the cessation of amortisation of certain intangible assets as they had become fully amortised, as well as a decrease in property exit and redundancy related expenses, partially offset by an increase in marketing expenditure.

Foreign exchange losses for the year ended 31 December 2012 were £36.7 million, compared to gains of £2.1 million for the year ended 31 December 2011. The losses for the year ended 31 December 2012 were primarily due to foreign exchange movements between the issuance of the \$500m U.S. dollar denominated senior notes due 2022 on 13 March 2012, and the redemption of \$500m of the U.S. dollar denominated senior notes due 2016 on 28 March 2012.

The gains for the year ended 31 December 2011 were primarily due to gains on U.S. dollar denominated senior notes due 2016 repaid early in July 2011, offset by the impact of the weakening of the pound sterling relative to the value of the U.S. dollar during the year on the company's U.S. dollar denominated debt.

## Virgin Media Finance PLC

### Statement of Directors' Responsibilities in Relation to the Group Financial Statements

#### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

On September 30, 2011, the Virgin Media group completed the sale to Scripps Network Interactive, Inc ("Scripps"), of its 50% equity investment in the UKTV joint venture with BBC Worldwide Limited. After the inclusion of associated fees, this transaction resulted in a loss on disposal of £7.2 million in the year ended 31 December 2011.

Over the last two decades the group has invested over £13 billion building its cable network and has incurred losses in operating that infrastructure. For UK corporation tax purposes, certain of these investment costs and operating losses can be offset against future operating profits, giving rise to deferred tax assets. These deferred tax assets have been previously unrecognised.

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 and net operating losses. An important factor in the group's assessment was that during 2012, the Virgin Media group moved into a three year cumulative pre-tax profit position for the first time. Consequently, a non-cash income tax benefit of £2,579.3 million has been recognised for the year ended 31 December 2012. For further details of the deferred tax asset recognition please see note 11 to the financial statements.

#### Performance against Key Performance Indicators

##### Consumer

The summary combined results of operations of the Consumer segment for the years ended 31 December 2012 and 2011 were as follows:

|               | 2012<br>£ million | 2011<br>£ million |
|---------------|-------------------|-------------------|
| Revenue       | 3,321.2           | 3,259.2           |
| Cost of sales | (988.7)           | (1,017.2)         |
| Gross profit  | <u>2,332.5</u>    | <u>2,242.0</u>    |

Consumer segment revenue broken down by customer type for the years ended 31 December 2012 and 2011 was as follows:

| Revenue   | 2012<br>£ million | 2011<br>£ million | Increase/<br>(decrease) |
|-----------|-------------------|-------------------|-------------------------|
| Cable     | 2,695.0           | 2,626.6           | 2.6 %                   |
| Mobile    | 554.8             | 552.9             | 0.3 %                   |
| Non-cable | 71.4              | 79.7              | (10.4) %                |
|           | <u>3,321.2</u>    | <u>3,259.2</u>    | <u>1.9 %</u>            |

For the year ended 31 December 2012, Consumer segment revenue increased by 1.9% to £3,321.2 million from £3,259.2 million for the year ended 31 December 2011. This increase was primarily due to an increase in revenues from cable product offerings partially offset by a decline in non-cable revenue.

The increase in cable revenue was primarily due to selective price increases and successful up-selling and cross-selling to the group's existing customer base, partially offset by a continued decline in fixed line telephony usage along with higher price discounting to stimulate customer activity and retention in light of competitive factors in the marketplace.

Cable average revenue per user (ARPU) was £48.26 for the year ended 31 December 2012 and £47.42 for the year ended 31 December 2011. The increase in cable ARPU was due in part to selective price increases and successful up-selling and cross-selling to existing customers, partially offset by declining telephony usage and price discounting. Cable products per customer remained relatively flat at 2.5 as at 31 December 2012 and 2.49 as at 2011, and "triple play" penetration grew to 64.9% at 31 December 2012 from 63.7% at 31 December 2011. A triple play customer is a customer who subscribes to the group's cable television, broadband and fixed line telephony services.

## Virgin Media Finance PLC

### Statement of Directors' Responsibilities in Relation to the Group Financial Statements

#### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

For the year ended 31 December 2012, mobile revenue increased to £554.8 million from £552.9 million for the same period in 2011. The increase was primarily attributable to the increase in the proportion of contract customers which generally results in the mobile customer base becoming more profitable, partially offset by the step down in regulated mobile termination rates which reduced inbound mobile revenue by approximately £24 million during 2012 as compared to 2011.

Non-cable revenue for the year ended 31 December 2012 decreased to £71.4 million from £79.7 million for the year ended 31 December 2011. The decrease was predominantly driven by a fall in non-cable customers during 2012 due to increased competition in the market, partially offset by price rises.

#### *Summary residential cable statistics*

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

|                                 | 2012       | 2011       |
|---------------------------------|------------|------------|
| Total cable customers           | 4,714,000  | 4,626,700  |
| Cable products                  |            |            |
| Television                      | 3,641,700  | 3,609,700  |
| Telephone                       | 4,016,200  | 3,970,300  |
| Broadband                       | 4,121,300  | 3,957,100  |
| Total cable products            | 11,779,200 | 11,537,100 |
| Cable products per customer (i) | 2.50x      | 2.49x      |
| Triple play penetration         | 64.9%      | 63.7%      |
| Cable ARPU (ii)                 | £48.26     | £47.42     |

(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 service 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 average revenue per user, or Cable ARPU, is calculated for the year by dividing total revenue generated from the provision of telephone, television and internet services to customers who are directly connected to the Virgin Media group's network in the year, together with revenue generated from customers using the virginmedia.com website, exclusive of VAT, by the average number of customers directly connected to the Virgin Media group's network, divided by twelve.

The total number of cable products grew to 11,779,200 at 31 December 2012, from 11,537,100 at 31 December 2011, representing a net increase in products of 242,100. The group believes that this is mainly as a result of improved product propositions over the year.

**Virgin Media Finance PLC****Statement of Directors' Responsibilities in Relation to the Group Financial Statements  
REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)***Summary mobile statistics*

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

|                               | 2012             | 2011             |
|-------------------------------|------------------|------------------|
| Contract mobile customers (i) | 1,708,900        | 1,523,900        |
| Prepay mobile customers (i)   | 1,328,600        | 1,513,400        |
| Total mobile customers        | <u>3,037,500</u> | <u>3,037,300</u> |
| Mobile ARPU (ii)              | £14.89           | £14.91           |

(i) Mobile customer information is for active customers as at 31 December 2012 and 2011. Prepay customers are defined as active customers if they have made an outbound call or text in the preceding 30 days. Contract customers are defined as active customers if they have entered into a contract with Virgin Mobile for a minimum 30-day period and have not been disconnected. Contract mobile customers include customers who have taken either a mobile service or a mobile broadband contract.

(ii) Mobile monthly average revenue per user, or Mobile ARPU, is calculated on an annual basis by dividing mobile service revenue (contract and prepay) for the year by the average number of active customers (contract and prepay) for the period, divided by twelve.

Between 31 December 2011 and 31 December 2012, the number of mobile customers increased by a net 200 customers. Contract customer net gains of 185,000 were offset by net losses of 184,800 prepay customers. The growth in contract customers reflects the launch of new all inclusive tariffs under the "Unlimitacular" advertising campaign, coupled with the group focussing handset investment towards customer retention. The decline in prepay customers reflects the level of competition in the prepay market and the group's strategy of migrating prepay customers to contracts due to lower churn and higher overall lifetime value of contract customers.

*Summary non-cable statistics*

Selected statistics for the group's residential customers that are not connected directly through the cable network, or non-cable customers, are set forth in the table below.

|                    | 2012           | 2011           |
|--------------------|----------------|----------------|
| Non-cable products |                |                |
| Telephone          | 130,500        | 163,300        |
| Broadband          | 192,800        | 248,200        |
| Total              | <u>323,300</u> | <u>411,500</u> |

Total non-cable products decreased by 88,200 during the year ended 31 December 2012, primarily due to competition in the market which continues to increase as the group's competitors upgrade their networks to provide fibre based services in areas which are outside of the group's cable network.



**Virgin Media Finance PLC****Statement of Directors' Responsibilities in Relation to the Group Financial Statements****REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)****Business**

Business revenue for the years ended 31 December 2012 and 2011 comprised

| Revenue                 | 2012<br>£ million | 2011<br>£ million | Increase/<br>(decrease) |
|-------------------------|-------------------|-------------------|-------------------------|
| Retail                  |                   |                   |                         |
| Data                    | 299.8             | 273.4             | 9.7 %                   |
| Voice                   | 136.3             | 150.5             | (9.4) %                 |
| LAN solutions and other | 33.3              | 35.4              | (5.9) %                 |
|                         | 469.4             | 459.3             | 2.2 %                   |
| Wholesale               |                   |                   |                         |
| Data                    | 167.6             | 153.1             | 9.5 %                   |
| Voice                   | 22.5              | 18.2              | 23.6 %                  |
|                         | 190.1             | 171.3             | 11.0 %                  |
| Total revenue           | 659.5             | 630.6             | 4.6 %                   |

For the year ended 31 December 2012, revenue from business customers increased by 4.6% to £659.5 million from £630.6 million for the year ended 31 December 2011. The increase was primarily attributable to an increase in retail and wholesale data revenues, partially offset by a decrease in LAN solutions and retail voice revenues.

The group's strategy is to focus on higher margin data revenue and increasing demand for the group's data products within a growing data market. Retail data revenue represented 63.9% of the retail business revenue for the year ended 31 December 2012 compared with 59.5% for the year ended 31 December 2011, and increased as a result of strong revenues from supplying mobile backhaul solutions and major public sector contracts supported by an increase in retail volumes across key IVPN and Ethernet products.

The decrease in retail voice revenue is consistent with the trend across the industry, and the group's Consumer segment, as customers migrated from using fixed line telephony to other forms such as mobile telephony and internet based solutions, including video calling.

LAN solutions revenue in the year ended 31 December 2012 was £33.3 million compared to £35.4 million for the year ended 31 December 2011. The majority of this revenue is from infrastructure projects which are non-recurring in nature.

Wholesale revenue increased in the year ended 31 December 2012 mainly as a result of increased usage of the group's network by wholesale data customers, and increased wholesale voice revenues as the group secured traffic from operators that had been migrated to other providers in the second half of 2011.

**Future outlook**

Detail of the future outlook of the group is provided in Virgin Media Inc's financial statements and annual report for 2012, which are available from the company secretary at Virgin Media, Bartley Wood Business Park, Hook, Hampshire, RG27 9UP.

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

#### **FINANCING**

As of 31 December 2012 the group had £5,869.3 million of financial liabilities compared with £5,737.4 million at 31 December 2011. The principal components of financial liabilities are discussed below.

##### *Senior credit facility*

The group's senior credit facilities comprise a term loan, which can be used for general corporate purposes, and a revolving credit facility for the financing of ongoing working capital requirements and general corporate purposes. Since 20 May 2011, £750 million has been available under the term loan facility, and £450 million has been available under the revolving credit facility.

At 31 December 2012, £750 million (2011 - £750 million) of the term facility had been drawn and £6.4 million (2011 - £5.8 million) of the revolving credit facility had been utilised for bank guarantees and standby letters of credit.

##### *Senior notes*

At 31 December 2012, the group had issued U.S. dollar and pounds sterling denominated senior unsecured notes with a principal amount outstanding of £1,803.6 million (2011 - £1,694.4 million), net of issue costs.

On 13 March 2012 the group issued \$500 million 5.25% senior notes due 2022 at par, and the group received proceeds of £316.3 million, net of fees of £2.9 million. On 28 March 2012, the net proceeds, together with cash on the group's balance sheet, were used to redeem \$500 million of the \$1,350 million 9.50% senior notes due 2016 for £361.2 million inclusive of a redemption premium of £47.1 million.

On 30 October 2012 the group issued \$900 million 4.875% and £400 million 5.125% senior notes due 2022 at par, and the group received proceeds of £953.1 million, net of fees of £7.4 million. The net proceeds, and cash on the group's balance sheet, were used to redeem the remaining \$850 million of the \$1,350 million 9.50% senior notes due 2016, the full outstanding balance of the €180 million 9.50% senior notes due 2016, \$92.9m of the \$600 million 8.375% senior notes due 2019 and £96.5 million of the £350 million 8.875% senior notes due 2019. The group repaid these notes over the period 31 October 2012 to 30 November 2012 with cash of £930.9 million, inclusive of a redemption premium of £103.3 million.

##### *Senior secured notes*

At 31 December 2012, the group had in issue U.S. dollar and pound sterling denominated senior secured notes with a principal amount outstanding of £2,555.2 million (2011 - £2,545.3 million), net of issue costs. No senior secured notes have been issued or amended during 2012.

#### **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 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 24 to the financial statements for further information on the group's derivative instruments.

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

##### **Financial risk management**

Details of the financial risks and how they are managed is outlined in note 23 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. These risks, among others, are discussed in more detail in Virgin Media Inc's annual report, which is available to the public on its website at [www.virginmedia.com/investors](http://www.virginmedia.com/investors) under the heading "Annual Reports". The information on the website is not part of this report. The principal non-financial risks include the following:

- the effect of the merger between Liberty Global and the Virgin Media group,
- the ability to compete with a range of other communications and content providers,
- the effect of rapid and significant technological changes on the businesses,
- general economic conditions,
- the effect of a decline in fixed line telephony usage and revenues,
- the ability to maintain and upgrade the group's networks in a cost-effective and timely manner,
- possible losses of revenues or customers due to systems failures,
- the ability to control unauthorised access to the group's network,
- reliance on third-party suppliers and contractors to provide necessary hardware, software or operational support,
- reliance on the use of the "Virgin" name and logo and any adverse publicity generated by other users of the Virgin name and logo,
- the ability to manage customer churn,
- the ability to provide attractive programming at a reasonable cost,
- reliance on Everything Everywhere to carry mobile voice and non-voice services,
- changes in laws, regulations or governmental policy, and
- tax risks

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

#### **EVENTS SINCE THE BALANCE SHEET DATE**

On 5 February 2013, the Virgin Media group entered in to a Merger Agreement with Liberty Global, Inc., or "Liberty Global", and certain of its direct or indirect wholly-owned subsidiaries, or the "Merger Subsidiaries". As the merger has not yet been consummated, the Virgin Media group has not modified its accounting to consider the potential effects on certain arrangements that may arise upon consummation, including those relating to long term debt, derivative financial instruments and stock based compensation plans. For more information on the proposed merger see note 28 to the financial statements – Post balance sheet events

#### **CHARITABLE AND POLITICAL DONATIONS**

During the year various charitable donations totalling £346,900 (2011 - £702,900) were made but no political donations were made for the year (2011 - £nil)

#### **ENVIRONMENTAL POLICIES**

The Virgin Media group has a long-term commitment to growing a responsible and sustainable business. Accountability for delivering the sustainability strategy sits with its Corporate Responsibility, or CR, Committee. Chaired by the Virgin Media group's Chief Executive Officer, it is comprised of members of senior management, who represent its core business functions. Supported by the Virgin Media group's dedicated Sustainability team, the CR Committee meets quarterly to review the Virgin Media group's progress.

Following a formal stakeholder engagement program that included key opinion leaders, staff and customers, in 2012 the Virgin Media group increased its strategic focus on the positive impact of digital technology on everyday life and in communities and society at large. Alongside the Virgin Media group's longstanding program, Virgin Media Pioneers, which uses digital technology to support the next generation of entrepreneurs, the Virgin Media group launched a new program called 'Our digital future'. Taking a broad and open view from a wide spectrum of audiences, 'Our digital future' will help the Virgin Media group understand the wants and concerns of every internet user in the UK and support it in developing the services of the future that ensure everyone benefits from what digital technology has to offer.

In 2012, three areas of focus were prioritised to improve sustainability across the Virgin Media group: its products, its operations and its people. Targets for improved performance were set across each of these areas, in addition to the Virgin Media group's long-term target of reducing its 2007 carbon footprint by 15% by 2015.

The Virgin Media group will continue to share updates on its performance and key highlights on its progress through its award winning sustainability website <http://www.virginmedia.com/sustainability>

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

#### **EMPLOYMENT POLICIES AND DISABLED EMPLOYEES**

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

The Virgin Media group 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 the Virgin Media group, ex-employees and people applying for jobs. This applies to all aspects of employment, including recruitment and training.

The Virgin Media group gives full and fair 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 the Virgin Media group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

#### **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 in two ways, as follows:

- All employees are encouraged to understand the aims of the overall Virgin Media group and their own business segment 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 the Virgin Media group. 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, and
- The Virgin Media group ensures that all employees are involved and consulted with through local involvement and consultation forums.

The Virgin Media group fosters a team spirit among employees and their greater involvement by offering participation in bonus or local variable reward schemes, the opportunity to invest in the Virgin Media Sharesave Plan and Virgin Media Partnership Plan which are designed to encourage Virgin Media Inc share ownership, and team development opportunities. The Virgin Media group also operates a recognition scheme, designed to reward employees for behaviours which are consistent with the Virgin Media group's values and has launched a volunteering scheme which allows employees to take a day each year to volunteer with a charity or organisation of their choice.

#### **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 management report, which is incorporated into the directors' 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.

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

#### **DIRECTORS AND THEIR INTERESTS**

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

R C Gale

C B E Withers (appointed 31 December 2012)

J C Tillbrook (resigned 31 December 2012)

Virgin Media Inc has indemnified the directors of the company 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 as at the date of approving the directors' report.

#### **SUPPLIER PAYMENT POLICY AND PRACTICE**

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2012, the group had an average of 40 days purchases outstanding in trade creditors. The company had no trade creditors, as its function 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.

#### **GOING CONCERN**

The group only prepares consolidated financial statements to meet statutory requirements. 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 a large proportion 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 cash requirements through to 30 June 2014.

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.

#### **CORPORATE GOVERNANCE**

Virgin Media Finance PLC is part of the Virgin Media group. The Virgin Media group is committed to maintaining high standards of corporate governance and complies with the corporate governance regime of the US State of Delaware, the NASDAQ Listing Rules and the applicable US Securities and Exchange Commission rules and regulations and applicable London Stock Exchange Listing Rules. Virgin Media group's corporate governance statement is available to the public on its website at [www.virginmedia.com/investors](http://www.virginmedia.com/investors) under the heading "Corporate Governance". The information on the website is not part of this report.

#### **DISCLOSURE OF INFORMATION TO THE AUDITORS**

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.

On behalf of the board



C B E Withers  
Director  
6 June 2013

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## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Group Financial Statements**

The directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group financial statements for each financial year. Under that law, the directors are required to prepare group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under Company Law the directors must not approve the group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing the group financial statements the directors are required to

- Present fairly the financial position, financial performance and cash flows of the group,
- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- make judgements that are reasonable,
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance, and
- state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the group financial statements of Virgin Media Finance PLC for the year ended 31 December 2012, which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement, and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the directors are responsible for the preparation of the group 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 group 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the group Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

### **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:

- 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.

### **Other matter**

We have reported separately on the parent company financial statements of Virgin Media Finance PLC for the year ended 31 December 2012.

*Ernst & Young LLP*

Michael Rudberg (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
6 June 2013



**Virgin Media Finance PLC**  
**Group Income Statement**  
for the year ended 31 December 2012

|  | Notes | 2012<br>£ million | 2011<br>£ million |
|--|-------|-------------------|-------------------|
| <b>Revenue</b>   | 3,4   | 3,980 7           | 3,889 8           |
| <b>Cost of sales</b>   |       | <u>(1,208 2)</u>  | <u>(1,209 6)</u>  |
| <b>Gross profit</b>  |       | 2,772 5           | 2,680 2           |
| <b>Administrative expenses</b>   |       | <u>(2,051 5)</u>  | <u>(2,138 0)</u>  |
| <b>Group trading profit</b>  |       | 721 0             | 542 2             |
| <b>Share of post tax profits of joint ventures accounted for using the equity method</b> | 14    | -                 | 18 6              |
| <b>Group operating profit</b>  | 5     | 721 0             | 560 8             |
| <b>Loss on disposal of joint ventures</b>  | 14    | -                 | (7 2)             |
| <b>Other income</b>  | 10    | -                 | 75 1              |
| <b>Profit before net finance costs and tax</b>   |       | 721 0             | 628 7             |
| <b>Finance revenue</b>   | 8     | 62 9              | 24 4              |
| <b>Finance costs</b>   | 9     | (610 6)           | (462 3)           |
| <b>Other finance costs - pensions</b>  | 31    | <u>(1 2)</u>      | <u>0 7</u>        |
|  |       | (548 9)           | (437 2)           |
| <b>Profit before taxation</b>  |       | 172 1             | 191 5             |
| <b>Tax credit/(expense)</b>  | 11    | <u>2,536 8</u>    | <u>(18 2)</u>     |
| <b>Profit for the year</b>   |       | <u>2,708 9</u>    | <u>173 3</u>      |
| <i>Attributable to</i>   |       |                   |                   |
| Equity holders of the parent   |       | 2,708 9           | 172 4             |
| Non-controlling interests  |       | -                 | 0 9               |
|  |       | <u>2,708 9</u>    | <u>173 3</u>      |

**Virgin Media Finance PLC**  
**Group Statement of Comprehensive Income**  
**for the year ended 31 December 2012**

|   | Notes | 2012<br>£ million     | 2011<br>£ million   |
|---|-------|-----------------------|---------------------|
| <b>Profit for the year</b>                              |       | <b>2,708.9</b>        | <b>173.3</b>        |
| <b>Other comprehensive income</b>                       |       |                       |                     |
| Impact of movements in cash flow hedges                 | 24    | (47.7)                | (46.5)              |
| Tax on cash flow hedges                                 | 24    | 15.7                  | 23.3                |
| Actuarial losses on defined benefit pension plans       | 31    | (17.5)                | (24.2)              |
| Tax on defined benefit pension plans                    | 11    | 10.7                  | -                   |
| <b>Total comprehensive profit for the year</b>          |       | <b><u>2,670.1</u></b> | <b><u>125.9</u></b> |
| Total comprehensive profit for the year attributable to |       |                       |                     |
| Equity holders of the parent                            |       | 2,670.1               | 125.0               |
| Non-controlling interests                               |       | -                     | 0.9                 |
|   |       | <b><u>2,670.1</u></b> | <b><u>125.9</u></b> |

**Virgin Media Finance PLC**  
**Group Balance Sheet**  
as at 31 December 2012

|                                      | Notes  | 31 December<br>2012<br>£ million | 31 December<br>2011<br>£ million |
|--------------------------------------|--------|----------------------------------|----------------------------------|
| <b>Non-current assets</b>            |        |                                  |                                  |
| Intangible assets                    | 12     | 1,941 2                          | 1,941 2                          |
| Property, plant and equipment        | 13     | 4,541 6                          | 4,601 9                          |
| Investments                          | 14     | -                                | -                                |
| Financial assets                     | 15     | 161 1                            | 211 5                            |
| Trade and other receivables          | 16     | 51 2                             | 50 8                             |
| Deferred tax assets                  | 11     | 2,579 3                          | -                                |
|                                      |        | <u>9,274 4</u>                   | <u>6,805 4</u>                   |
| <b>Current assets</b>                |        |                                  |                                  |
| Financial assets                     | 15     | 6 1                              | 9 5                              |
| Trade and other receivables          | 16     | 1,463 1                          | 1,049 8                          |
| Inventories                          | 17     | 17 5                             | 13 1                             |
| Cash and short term deposits         | 18     | 195 9                            | 283 9                            |
|                                      |        | <u>1,682 6</u>                   | <u>1,356 3</u>                   |
| <b>Total assets</b>                  |        | <u>10,957 0</u>                  | <u>8,161 7</u>                   |
| <b>Current liabilities</b>           |        |                                  |                                  |
| Trade and other payables             | 19     | (1,333 5)                        | (1,307 2)                        |
| Financial liabilities                | 20     | (518 0)                          | (528 3)                          |
| Provisions                           | 22     | (16 9)                           | (15 5)                           |
|                                      |        | <u>(1,868 4)</u>                 | <u>(1,851 0)</u>                 |
| <b>Non-current liabilities</b>       |        |                                  |                                  |
| Trade and other payables             | 19     | (64 1)                           | (84 8)                           |
| Financial liabilities                | 20     | (5,351 3)                        | (5,209 1)                        |
| Provisions                           | 22     | (121 4)                          | (152 5)                          |
| Defined benefit pension plan deficit | 31     | (46 5)                           | (43 6)                           |
|                                      |        | <u>(5,583 3)</u>                 | <u>(5,490 0)</u>                 |
| <b>Total liabilities</b>             |        | <u>(7,451 7)</u>                 | <u>(7,341 0)</u>                 |
| <b>Net assets</b>                    |        | <u>3,505 3</u>                   | <u>820 7</u>                     |
| <b>Capital and reserves</b>          |        |                                  |                                  |
| Equity share capital                 | 25, 27 | 0 1                              | 0 1                              |
| Share premium account                | 27     | 3,323 2                          | 3,323 2                          |
| Other capital reserves               | 27     | (1,337 6)                        | (1,336 7)                        |
| Unrealised gains and losses          | 27     | (64 4)                           | (32 4)                           |
| Retained earnings/(deficit)          |        | 1,584 0                          | (1,133 5)                        |
| <b>Total equity</b>                  |        | <u>3,505 3</u>                   | <u>820 7</u>                     |

*R. C. Gale*

R C Gale  
Director  
6 June 2013

Company Registration Number 5061787

**Virgin Media Finance PLC**  
**Group Statement of Changes in Equity**  
**for the year ended 31 December 2012**

|   | Equity<br>share<br>capital<br>£ million | Share<br>premium<br>account<br>£ million | Other<br>capital<br>reserves<br>£ million | Unrealised<br>gains and<br>losses<br>£ million |
|---|---|--|---|--|
| At 31 December 2010                     | 0.1                                     | 3,323.2                                  | (1,328.1)                                 | (9.2)  |
| Total comprehensive income/(loss)       | -                                       | -  | -   | (23.2)   |
| Acquisition of non-controlling interest | -                                       | -  | (8.6)                                     | -  |
| At 31 December 2011                     | 0.1                                     | 3,323.2                                  | (1,336.7)                                 | (32.4)   |
| Total comprehensive income/(loss)       | -                                       | -  | -   | (32.0)   |
| Acquisition of non-controlling interest | -                                       | -  | (0.9)                                     | -  |
| Tax on share based payments             | -                                       | -  | -   | -  |
| At 31 December 2012                     | 0.1                                     | 3,323.2                                  | (1,337.6)                                 | (64.4)   |

|   | Retained<br>earnings/<br>(deficit)<br>£ million | Non-<br>controlling<br>interests<br>£ million | Total equity<br>£ million |
|---|---|---|---------------------------|
| At 31 December 2010                     | (1,281.7)                                       | 4.8   | 709.1                     |
| Total comprehensive income/(loss)       | 148.2   | 0.9   | 125.9                     |
| Acquisition of non-controlling interest | -   | (5.7)   | (14.3)                    |
| At 31 December 2011                     | (1,133.5)                                       | -   | 820.7                     |
| Total comprehensive income/(loss)       | 2,702.1   | -   | 2,670.1                   |
| Acquisition of non-controlling interest | -   | -   | (0.9)                     |
| Tax on share based payments             | 15.4  | -   | 15.4                      |
| At 31 December 2012                     | 1,584.0   | -   | 3,505.3                   |

See note 27 for an explanation of each reserve

**Virgin Media Finance PLC**  
**Group Cash Flow Statement**  
**for the year ended 31 December 2012**

|   | Notes | 2012<br>£ million | 2011<br>£ million |
|---|-------|-------------------|-------------------|
| <b>Operating activities</b>   |       |                   |                   |
| <b>Profit for the year</b>  |       | 2,708.9           | 173.3             |
| <i>Adjustments to reconcile net profit to net cash inflow from operating activities</i> |       |                   |                   |
| Depreciation of property, plant and equipment   |       | 928.1             | 894.6             |
| Amortisation of intangible assets   | 12    | -                 | 118.5             |
| Net finance costs   |       | 513.2             | 477.0             |
| Share-based payments  | 26    | 17.7              | 20.0              |
| Income taxes  |       | (2,535.0)         | 23.4              |
| (Profit)/loss on disposal of property, plant & equipment                                |       | (11.9)            | 3.1               |
| Loss on disposal of investments   |       | -                 | 7.2               |
| Income from equity accounted investments  | 14    | -                 | (18.1)            |
| Unrealised losses/(gains) on derivative instruments                                     |       | 13.6              | (31.0)            |
| Non-cash foreign exchange movements   |       | 0.6               | 2.1               |
| Decrease/(increase) in trade and other receivables                                      |       | 3.5               | (13.8)            |
| (Increase)/decrease in inventories  |       | (4.4)             | 13.3              |
| (Increase)/decrease in prepayments and other assets                                     |       | (18.2)            | 23.2              |
| Increase in trade and other payables  |       | 30.1              | 8.2               |
| Decrease in accruals, deferred income and other current liabilities                     |       | (12.4)            | (6.9)             |
| Decrease in deferred income and other long term liabilities                             |       | (19.4)            | (24.3)            |
| Movement in provisions  |       | (41.9)            | (55.4)            |
| <b>Net cash inflow provided by continuing operating activities</b>                      |       | <u>1,572.5</u>    | <u>1,614.4</u>    |
| Net cash outflow from discontinued operating activities                                 |       | -                 | (10.4)            |
| <b>Net cash inflow from total operating activities</b>                                  |       | <u>1,572.5</u>    | <u>1,604.0</u>    |
| <b>Investing activities</b>   |       |                   |                   |
| Purchase of property, plant and equipment   |       | (770.2)           | (645.8)           |
| Loans to parent and group undertakings  |       | (399.0)           | (618.8)           |
| Loan repayments by joint venture  |       | -                 | 108.2             |
| Proceeds on sale of property, plant and equipment                                       |       | 2.6               | 2.2               |
| Disposal of equity investments, net   |       | (2.5)             | 243.6             |
| Acquisition of subsidiary undertakings, net of cash acquired                            |       | (0.6)             | (14.6)            |
| Disposal of subsidiary undertakings   |       | -                 | 2.3               |
| Dividends received from equity undertakings   |       | -                 | 17.5              |
| Interest received   |       | 57.4              | 22.3              |
| <b>Net cash outflow from investing activities</b>                                       |       | <u>(1,112.3)</u>  | <u>(883.1)</u>    |
| <b>Financing activities</b>   |       |                   |                   |
| Interest paid   |       | (571.8)           | (462.3)           |
| Settlement of cross currency interest rate swaps  |       | (26.0)            | 65.5              |
| New borrowings (net of financing fees)  |       | 1,441.7           | 977.0             |
| Repayment of borrowings   |       | (1,294.3)         | (1,315.7)         |
| Capital lease payments  |       | (97.8)            | (79.3)            |
| <b>Net cash outflow from financing activities</b>                                       |       | <u>(548.2)</u>    | <u>(814.8)</u>    |
| <b>Net decrease in cash and cash equivalents</b>  |       | <u>(88.0)</u>     | <u>(93.9)</u>     |
| Cash and cash equivalents at 1 January  | 18    | <u>283.9</u>      | <u>377.8</u>      |
| <b>Cash and cash equivalents at 31 December</b>   | 18    | <u>195.9</u>      | <u>283.9</u>      |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**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 2012 were authorised for issue by the board of directors on 6 June 2013 and the Group Balance Sheet was signed on the board's behalf by R C Gale. 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.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 as they apply to the financial statements of the group for the year ended 31 December 2012. The group's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board (IASB). The principal accounting policies adopted by the group are set out below in note 2.

**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.

***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 2012 and applied in accordance with the Companies Act 2006. The separate financial statements of the parent company are prepared under UK GAAP.

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. Further detail is contained in the Directors' Report on page 12.

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 2012.

The prior period information has been presented on a consistent basis with the current year presentation. Foreign exchange movements have been presented within Finance revenue and/or costs to align with the nature of how these gains and/or losses arise (see notes 8 and 9).

***New standards and interpretations not applied***

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

| <b><i>International Accounting Standards (IAS/IFRSs/IFRICs)</i></b> |   | <b><i>Effective date</i></b> |
|---|---|------------------------------|
| IFRS 7  | Amendment to IFRS 7 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities | 1 January 2013               |
| IFRS 9  | Financial Instruments   | 1 January 2015               |
| IFRS 10   | Consolidated Financial Statements   | 1 January 2013               |
| IFRS 11   | Joint Arrangements  | 1 January 2013               |
| IFRS 12   | Disclosure of Interests in Other Entities   | 1 January 2013               |
| IFRS 13   | Fair Value Measurement  | 1 January 2013               |
| IAS 1   | Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income                    | 1 July 2012                  |
| IAS 19  | Revision to IAS 19 Employee Benefits  | 1 January 2013               |
| IAS 27  | Revision to IAS 27 Separate Financial Statements  | 1 January 2013               |
| IAS 28  | Revision to IAS 28 Investments in Associates and Joint Ventures   | 1 January 2013               |
| IAS 32  | Amendment to IAS 32 Financial Instruments Presentation  | 1 January 2014               |
|   | - Offsetting of Financial Assets and Financial Liabilities  | 1 January 2014               |
|   | Improvements to IFRSs 2009-2011   | 1 January 2013               |
|   | IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendment)   | 1 January 2014               |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

The effective dates are for accounting periods beginning on or after the dates stated. The effective dates are those given in the original IASB/IFRIC standards and interpretations. As the group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion to early adopt standards.

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

***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***

The group assesses whether there are any indicators of impairment for intangible assets at each reporting date. Goodwill and intangible assets with indefinite lives are tested for impairment annually and at the reporting date 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. Further details of the key assumptions are given in note 12.

***Share-based payments***

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires a determination of the most appropriate valuation model for the grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires a determination of the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The model used and assumptions made are disclosed in note 26.

***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 group's deferred tax asset initial recognition and measurement are provided in note 11.

***Pension plans***

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation is based on assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

*Provision for asset retirement obligation*

The group recognises a provision for liabilities associated with participation in the market for Waste Electrical and Electronic Equipment ('WEEE') in accordance with the accounting policy stated below. The group has made assumptions in relation to historical waste regarding the number of units of equipment purchased, the number subsequently disposed of and the expected cost of disposal. In relation to future waste, the group has made assumptions about the age profile of the equipment distributed and the cost of disposal.

*Restructuring provisions*

Amounts provided for in relation to restructuring programmes include amounts expected to be settled in relation to vacant leased properties and redundancy costs. These provisions are based on the best estimates of factors such as the number of people expected to be made redundant, their length of service and remuneration, the cost of exiting a leased property and the discount rate applied to those specific costs. Further details are contained in note 22.

*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.

Overheads, including staff 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.

*Basis of consolidation*

The group accounts consolidate the financial statements of Virgin Media Finance PLC and the entities it controls (its subsidiaries) drawn up to 31 December each year.

*Subsidiaries*

Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control is defined as the power to govern the financial and operational policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated in full.

*Interests in joint ventures*

The group recognises its interest in the assets and liabilities of its joint ventures using the equity method of accounting. Under the equity method, the interest in joint ventures is carried in the Group Balance Sheet at cost plus post-acquisition changes in the group's share of its net assets, less distributions received and less impairment in the value of individual investments. The Group Income Statement reflects the share of the jointly controlled entities' results after tax.

Financial statements of the jointly controlled entities are prepared for the same reporting period as the group.

The group disposed of its joint venture interest in the UKTV group of companies on 30 September 2011 and from this date the group no longer held any interests in joint ventures. Further details are contained in note 14.



**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

***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 taken to 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 taken directly to 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.

***Goodwill***

Business combinations are accounted for using the purchase method. Any excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Group Balance Sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the Group Income Statement. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and at the reporting date when such indicators exist.

For the purpose of impairment testing, goodwill is allocated to cash generating units which are no larger than a reporting segment and represent the level at which results are monitored by management. Where the recoverable amount of a cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Group Income Statement.

When goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

***Intangible Assets***

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, excluding development costs, is reflected in the Group Income Statement in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated.

Intangible assets are amortised on a straight line basis over their expected useful lives, as follows:

Customer lists - over their useful economic lives up to a maximum of 6 years.

The group has no intangible assets with finite lives as at 31 December 2012.

***Property, plant and equipment***

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset. Property, plant and equipment acquired through business combinations is initially recorded at fair value on acquisition.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

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

*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

*Construction in progress*

Construction in progress comprising materials, consumables and direct labour relating to network construction has been included in property, plant and equipment and is stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows

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

Construction in progress is not depreciated

Overheads, including staff 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.

*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 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.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

***Provisions for liabilities and charges***

***General***

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.

***Asset retirement obligation***

The group is a provider of electrical equipment that falls under the EU directive on Waste Electrical and Electronic Equipment. The group has deemed all equipment purchased prior to the date that the law came into effect (2 January 2007) to be historical waste and all equipment purchased after that date to be new waste.

A provision for the expected cost of disposal is recognised when products that fall within the EU directive are purchased and the disposal costs can be reliably measured. The expected costs are capitalised within Property, Plant and Equipment and depreciated over the useful economic life of the asset. The provision is utilised when the asset is retired or disposed of.

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.

If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

***Leases***

***Group as a lessee***

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 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 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 revenue 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.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

***Derivative financial instruments and hedging***

The group has established policies and procedures to govern the management of risks associated with fluctuating interest rates and foreign currency exchange rates through the use of derivative financial instruments, including interest rate swaps, cross-currency interest rate swaps and foreign currency forward 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 financial liabilities when the fair value is negative. Derivatives are presented as non-current assets or non-current liabilities if the remaining maturity of the instrument is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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 as other comprehensive income in the net unrealised gains and losses reserve, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income and accumulated in equity are reclassified to the Group Income Statement 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 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, amounts previously recognised in equity are reclassified to 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 Group Income Statement or to the initial carrying amount of the non-financial asset or liability above. If the related transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

*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 income statement 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.

*Inventories*

Inventory consists of goods for resale 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. Balances are written off when the probability of recovery is assessed as being remote.

*Cash and cash equivalents*

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 cash equivalents 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.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**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 two defined benefit pension plans, both of which require contributions to be made to separately administered funds and 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 profit or loss 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.

## **2 Accounting policies (continued)**

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.

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.

### ***Consumer***

*Fixed line telephone, cable television and internet 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.

*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.

*Bundled installation and service revenue* is recognised where the components of these arrangements represent separate units of accounting and the revenue from bundled components should be recognised separately. For bundled packages that have separately identifiable units of accounting, the total consideration is allocated to the different components based on their relative fair values. The group's bundled arrangements for its residential customers do not generally have separately identifiable units of accounting.

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

*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.

*Mobile service revenues include airtime, data, roaming, and long distance revenues* and are invoiced and recorded as part of a periodic billing cycle. Service revenues are recognised as the services are provided. Adjustments are recorded at the end of each period to defer revenue billed in advance and accrue for earned but unbilled services. Contract customers are billed in arrears based on usage and revenue is recognised when the service is rendered and recoverability is reasonably assured. Revenue from non-contract pre-pay customers is recorded as deferred revenue prior to commencement of the services and is rendered as the services are rendered or usage expires.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**2 Accounting policies (continued)**

***Business***

*Rental revenues* in respect of line rentals and rental of equipment provided to customers are recognised on a straight-line basis over the term of the rental agreement

*Installation revenues* are recognised when the contracted service has been delivered, which is generally when a customer is connected to the network and has acknowledged acceptance

***Other income***

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

*Dividend revenue* is recognised when the group's right to receive payment is established

***Share-based payments***

The company is an indirect, wholly-owned subsidiary of Virgin Media Inc. Accordingly, the company has no share-based compensation plans of its own. Certain of the group's employees participate in the share-based compensation plans of Virgin Media Inc, which are described in Virgin Media Inc's Annual Report and summarised in note 26 below, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) of Virgin Media Inc common stock.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of options is determined using the Black-Scholes model. The fair value of restricted stock 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 stock 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 will ultimately vest, in the opinion of management at that date and based on the best available estimates.

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.



**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**3 Revenue**

Revenue is analysed as follows

|                                    | 2012<br>£ million | 2011<br>£ million |
|------------------------------------|-------------------|-------------------|
| <i>Sales of goods and services</i> |                   |                   |
| Consumer                           | 3,321.2           | 3,259.2           |
| Business                           | 659.5             | 630.6             |
| Revenue                            | 3,980.7           | 3,889.8           |
| Finance revenue (note 8)           | 62.9              | 24.4              |
| Total revenue                      | 4,043.6           | 3,912.1           |

Revenue, excluding finance revenue, is derived from goods and services provided through the following reporting segments

- Consumer the distribution of television programming over the group's cable network and the provision of broadband and fixed line telephone services to residential consumers, both on and off the group's cable network. Consumer also includes the group's mobile telephony and mobile broadband operations, provided through Virgin Mobile
- Business the provision of voice and data telecommunication and internet solutions services provided through Virgin Media Business to businesses, public sector organisations and service providers

**4 Segment information**

Virgin Media Finance PLC's function is to facilitate the Virgin Media group's financing structure by implementing the Virgin Media group's capital management policies, making and facilitating external borrowings and holding investments in subsidiary companies. These consolidated financial statements are only prepared to meet statutory requirements and do not affect the way in which the overall Virgin Media group is managed.

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

Whilst the group has operating segments, consisting of Consumer and Business, which are consistent with the Virgin Media group's segments, financial information is only prepared for and reviewed by the CODM at the Virgin Media group level. As such there are no separable reportable segments for the group. The revenue and operating profit or loss of companies not within the group, but included in the financial information reviewed by the CODM are shown for the years ended 31 December 2012 and 31 December 2011 below.

The Virgin Media group's Consumer segment is its primary segment, consisting of the distribution of television programming, broadband and fixed line telephone services to residential customers on its cable network, the provision of broadband and fixed line telephone services to residential customers outside of its cable network, and the provision of mobile telephony and broadband to residential customers.

The Virgin Media group's Business segment comprises its operations carried out through Virgin Media Business, which provides a complete portfolio of voice, data and internet solutions to businesses, public sector organisations and service providers in the UK.

Segment contribution, which is operating profit or loss before network operating costs, corporate costs, depreciation, amortisation, goodwill and intangible asset impairments and restructuring charges, is management's measure of segment profit. Segment contribution excludes the impact of certain costs and expenses that are not directly attributable to the reporting segments, such as the costs of operating the network, corporate costs, depreciation and amortisation. Restructuring charges, goodwill and intangible asset impairments are excluded from segment contribution as management believes they are not characteristic of the groups underlying business operations. Assets are reviewed on a consolidated basis and are not allocated to segments for management reporting purposes, since the primary asset of the business is the cable network infrastructure which is shared by the Virgin Media group's Consumer and Business segments.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**4 Segment information (continued)**

Liabilities are also reviewed on a consolidated basis since they are mainly comprised of the group's long-term debt in the form of its senior credit facility, senior notes and senior secured notes, which are not allocated to segments for management reporting

Segment information for the group, which operates entirely within the United Kingdom, is presented below

**Year ended 31 December 2012**

|   | <b>Consumer<br/>£ million</b> | <b>Business<br/>£ million</b> | <b>Total<br/>£ million</b> |
|---|-------------------------------|-------------------------------|----------------------------|
| <b>Revenue of the Virgin Media group</b>                    |                               |                               |                            |
| Sales to external customers                                 | 3,430 2                       | 670 3                         | 4,100 5                    |
| <b>Total revenue reported to CODM</b>                       | <u>3,430 2</u>                | <u>670 3</u>                  | <u>4,100 5</u>             |
| Revenue of companies outside Virgin Media Finance PLC group | (109 0)                       | (10 8)                        | (119 8)                    |
| <b>Revenue</b>  | <u>3,321 2</u>                | <u>659 5</u>                  | <u>3,980 7</u>             |
| <b>Segment contribution reported to CODM</b>                | <u>2,053 2</u>                | <u>380 8</u>                  | <u>2,434 0</u>             |

**Amounts not allocated to segments for management's measure of segment reporting.**

|  |              |
|--|--------------|
| Other costs not attributed to segments                               | (770 4)      |
| Depreciation   | (927 8)      |
| Operating profit of companies outside Virgin Media Finance PLC group | (14 8)       |
| <b>Group operating profit</b>  | <u>721 0</u> |

**Year ended 31 December 2011**

|   | <b>Consumer<br/>£ million</b> | <b>Business<br/>£ million</b> | <b>Total<br/>£ million</b> |
|---|-------------------------------|-------------------------------|----------------------------|
| <b>Revenue of the Virgin Media group</b>                    |                               |                               |                            |
| Sales to external customers                                 | 3,354 4                       | 637 4                         | 3,991 8                    |
| <b>Total revenue reported to CODM</b>                       | <u>3,354 4</u>                | <u>637 4</u>                  | <u>3,991 8</u>             |
| Revenue of companies outside Virgin Media Finance PLC group | (95 2)                        | (6 8)                         | (102 0)                    |
| <b>Revenue</b>  | <u>3,259 2</u>                | <u>630 6</u>                  | <u>3,889 8</u>             |
| <b>Segment contribution reported to CODM</b>                | <u>1,991 5</u>                | <u>377 4</u>                  | <u>2,368 9</u>             |

**Amounts not allocated to segments for management's measure of segment reporting:**

|  |              |
|--|--------------|
| Other costs not attributed to segments                               | (800 5)      |
| Depreciation   | (894 6)      |
| Amortisation   | (118 5)      |
| Share of post tax profits of joint ventures                          | 18 6         |
| Operating profit of companies outside Virgin Media Finance PLC group | (13 1)       |
| <b>Group operating profit</b>  | <u>560 8</u> |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**5 Group operating profit**

This is stated after charging/(crediting)

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| Depreciation of property, plant and equipment                                | 851.1             | 837.8             |
| Depreciation of assets held under finance leases and hire purchase contracts | 76.7              | 56.8              |
| Amortisation of intangible assets  | -                 | 118.5             |
| Total depreciation and amortisation expense                                  | <u>927.8</u>      | <u>1,013.1</u>    |
| Operating lease payments - minimum lease payments                            | 23.5              | 25.9              |
| - rent of commercial premises  | 26.2              | 21.1              |
| Total lease payments recognised as an expense                                | <u>49.7</u>       | <u>47.0</u>       |
| (Gain)/loss on disposal of property, plant and equipment                     | <u>(11.9)</u>     | <u>3.1</u>        |
| Cost of inventories recognised within cost of sales                          | 124.6             | 122.6             |
| Write downs of inventories to net realisable value                           | 1.1               | 7.1               |
|  | <u>125.7</u>      | <u>129.7</u>      |

**6 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

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Audit services  |               |               |
| • Statutory audit services - audit of the parent company and group financial statements | 507           | 543           |
| Fees payable to the company's auditors and their associates for other services          |               |               |
| • Statutory audit services - statutory accounts of the company's subsidiaries           | 362           | 426           |
| • Tax services  | 387           | -             |
| • All other services  | 8             | 8             |
| Fees in respect of pension schemes  |               |               |
| • Audit   | 22            | 22            |
|   | <u>1,286</u>  | <u>999</u>    |

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

Tax services represents fees payable for tax compliance and advisory services

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**7 Staff costs and directors' emoluments**

(a) Staff costs

|                                   | 2012<br>£ million              | 2011<br>£ million |
|-----------------------------------|--------------------------------|-------------------|
| Wages and salaries                | 516.9                          | 499.4             |
| Social security costs             | 62.8                           | 48.6              |
| Other pension costs (see note 31) | - defined benefit<br>1.8       | (1.3)             |
|                                   | - defined contribution<br>13.7 | 13.6              |
| <b>Total staff costs</b>          | <b>595.2</b>                   | <b>560.3</b>      |

Included in wages and salaries is a total expense for share-based payments of £17.7 million (2011 - £20.0 million) all of which arises from transactions accounted for as equity-settled share-based payment transactions

(b) Average staff numbers

The average monthly number of employees during the year was

|   | 2012<br>No.   | 2011<br>No.   |
|---|---------------|---------------|
| <i>Employees attributed to reporting segments</i>     |               |               |
| Consumer  | 4,527         | 4,592         |
| Business  | 807           | 811           |
|   | <u>5,334</u>  | <u>5,403</u>  |
| <i>Employees not attributed to reporting segments</i> |               |               |
| Access and networks                                   | 5,986         | 5,501         |
| Technology  | 818           | 862           |
| Corporate   | 1,214         | 1,321         |
| <b>Total staff numbers</b>                            | <b>13,352</b> | <b>13,087</b> |

(c) Directors' emoluments

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| Directors' emoluments   | 458           | 493           |
| Company contributions paid to money purchase pension plans  | 41            | 38            |
| Highest paid director   |               |               |
| Emoluments  | 319           | 313           |
| Company contributions paid to money purchase pension plans  | 31            | 31            |
|   | <u>350</u>    | <u>344</u>    |
|   | 2012<br>No.   | 2011<br>No.   |
| Number of directors accruing benefits under money purchase plans                                  | 3             | 2             |
| Number of directors who exercised share options under schemes operated by ultimate parent company | 1             | 2             |
| Number of directors with shares received or receivable under long term incentive plans **         | 3             | 3             |

\*\* In 2011, one director, who had received shares under a long-term incentive plan, left the company and the shares were subsequently cancelled

The highest paid director exercised share options in the ultimate parent company during the year

There were no other transactions during the year with any of the directors

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**8 Finance revenue**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Bank interest receivable                        | 13                | 22                |
| Interest on loans to joint ventures             | -                 | 33                |
| Interest on amounts due from group undertakings | 561               | 132               |
| Gains on foreign exchange                       | -                 | 21                |
| Other finance income                            | 55                | 36                |
| Total finance revenue                           | <u>629</u>        | <u>244</u>        |

Bank interest receivable, interest on loans to joint ventures and interest on amounts due from group undertakings are recognised using the effective interest rate method in accordance with IAS 39 'Financial Instruments Recognition and Measurement'

**9 Finance costs**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Interest payable on                       |                   |                   |
| Senior credit facility and mortgage loans | 238               | 407               |
| Senior notes                              | 2985              | 3241              |
| Loans from parent undertakings            | 157               | 195               |
| Loss on derivative financial instruments  | 261               | 74                |
| Loss on debt extinguishment               | 1898              | 472               |
| Interest payable on finance leases        | 161               | 146               |
| Other interest and fees                   | 18                | 48                |
| Loss on foreign exchange                  | 367               | -                 |
| Unwinding of discounts on provisions      | 21                | 40                |
| Total finance costs                       | <u>6106</u>       | <u>4623</u>       |

Interest payable is recognised using the effective interest rate method

For the year ended 31 December 2012, loss on extinguishment of debt was £189.8 million which related to the redemption premia paid and the write off of deferred financing costs as a result of the redemption of the senior notes on 28 March 2012, and the redemption of the senior notes over the period 31 October 2012 to 30 November 2012

For the year ended 31 December 2011, loss on extinguishment of debt was £47.2 million which related to the write off of deferred financing costs as a result of the repayments of the senior credit facility from the net proceeds of the senior secured notes issued on 3 March 2011, the refinancing of the senior credit facility on 20 May 2011 and the redemption of the senior notes on 26 July 2011

**10 Other income**

During the year ended 31 December 2011, the group reached an agreement with HM Revenue & Customs (HMRC) regarding the VAT treatment of certain revenue generating activities, HMRC provided the group with a refund of £75.1 million

**Virgin Media Finance PLC**  
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**11 Taxation**

**Overview**

For the year ended 31 December 2012 the group recognised an income tax benefit of £2,536.8 million compared to an expense of £18.2 million in the year ended 31 December 2011

**Deferred tax**

As of 31 December 2012 the group had gross deferred tax assets of £5,548.9 million of which £5,362.3 million related to the UK and which principally comprised capital allowances, net operating losses, or NOLs, and capital losses. The group accumulated these assets over the last two decades as it made significant investments in building its network infrastructure and incurred significant losses as it operated that network. These assets represent amounts the group, in common with other companies in the UK, are able to use to reduce its future taxable profits in the UK. The group has historically not recognised either its UK or US deferred tax assets.

The assessment of the amount of deferred tax asset the group recognises under the applicable accounting rules is highly judgmental. The group is required to consider all available positive and negative evidence in evaluating the likelihood that it will be able to realise the benefit of its deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is significant judgment involved, and the group's conclusion could be materially different should certain of its expectations not transpire.

When assessing all available evidence, the group considers an important piece of objective evidence is the extent to which it has made pre-tax income or losses over recent periods. Historically, the Virgin Media group has not recognised its deferred tax assets principally because the Virgin Media group has been in a cumulative pre-tax loss position over the most recent two year period. While there has been a trend of positive evidence that has been strengthening in recent years, it was not sufficiently persuasive to outweigh the negative evidence provided by the group's cumulative pre-tax loss position. During the year ended 31 December 2012, the group emerged from a cumulative pre-tax loss position in the UK for the first time, which removed this important piece of negative evidence from its evaluation.

The group's deferred tax asset recognition assessment for the year ended 31 December 2012 considered the following positive and negative evidence in respect of the Virgin Media group. Based on this evidence, the group concluded that it was probable that in future periods it will generate sufficient pre-tax profits to utilise substantially all of its UK deferred tax assets relating to capital allowances and NOLs.

*Positive evidence*

- The Virgin Media group has now generated pre-tax profit in the UK of more than £150 million for two consecutive years and has utilised some of its available tax assets to reduce the tax liabilities that would have otherwise arisen in those periods.
- The Virgin Media group's UK capital allowances and NOLs do not have an expiration date.
- The Virgin Media group's financial performance has continued to improve despite challenging macroeconomic conditions. Steady growth in revenue and operating income has been maintained for three years, and the group believes that financial performance will continue to improve even if the current economic conditions persist.
- The Virgin Media group's forecasts of future taxable profits indicate that its pre-tax profit and taxable profit will increase in the future.
- The Virgin Media group has re-financed a significant portion of its high-coupon debt into lower-coupon, longer duration debt in recent years.

**Virgin Media Finance PLC**  
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**11 Taxation (continued)**

*Negative evidence*

In the absence of a cumulative loss within the Virgin Media group in the last two years, the remaining negative evidence consists solely of the Virgin Media group's long history of significant pre-tax losses prior to 2011, dating back many years prior to the merger with Telewest in 2006. In total, The Virgin Media group's UK group companies have approximately £384.5 million of deferred tax assets on £1,671.6 million of NOLs, of which £346.7 million has been recognised and which has accumulated over many years. The group believes that the combined impact of a number of company specific and industry specific developments over recent years makes it unlikely that those historic losses will be repeated in the future. These include:

*Company specific factors*

- The significant investment associated with building the Virgin Media group's unique cable network does not need to be replicated. Instead, the Virgin Media group is able to spend relatively more modest sums to gradually upgrade and improve that network.
- The Virgin Media group has established itself as one of the major telecommunication service providers in the UK, offering leading next generation broadband and television services, which has enabled them to steadily and economically grow revenues.
- Significant restructuring and rationalisation activities subsequent to the Telewest merger have reduced the Virgin Media group's cost base and focused the business on its core activities. This allowed the Virgin Media group to leverage its network into financial returns and generate consistently improving operating margins.
- There has been a material improvement in the Virgin Media group's credit standing in recent years, including certain of the Virgin Media group's debt being rated investment grade, which has allowed them to reduce and lock-in lower interest rates.

*Industry specific factors*

- The cable and telecommunications markets have matured since the late 1990s and early 2000s.
- There is only one competitor in the UK with a substantial fibre network.
- Pricing in the UK telecommunications market in recent years is considerably more rational than in the early to mid portion of the previous decade. The Virgin Media group expects that trend to continue given a) the increase in demand for data traffic that requires a high speed delivery mechanism like the group's fibre network and b) the structure of the UK market.
- Consolidation in the industry has reduced the number of competitors since the years in which the Virgin Media group incurred significant losses.
- The industry is capital intensive and barriers to entry are high, therefore, the Virgin Media group does not envisage uneconomic competition from new entrants.

After consideration of these factors, the group determined that it was unlikely that the losses incurred prior to the year ended 31 December 2011 would be repeated and as a result, the group did not place significant weight on the negative evidence provided by its long history of losses.

The group believes that its positive evidence is strong. The improving financial performance in recent years is an objectively verifiable piece of positive evidence and is the result of a number of factors which have been present to a greater or lesser extent in prior years but have only recently gathered sufficient weight to deliver objectively verifiable, consistent taxable profits.

A key consideration in the group's analysis was that the unlimited carryforward periods of its UK tax assets make the realisation of those assets less sensitive to variations in its projections of future taxable income than would otherwise be the case if the carryforward periods were time limited. In performing its analysis, the group used the most updated plans and estimates that it currently uses to manage the underlying business and calculated the utilisation of its deferred tax assets under a number of scenarios. The group does not require material increases in the current levels of cash flows, book income, or taxable income to recover the value of its deferred tax assets other than capital losses.

**Virgin Media Finance PLC**  
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**11 Taxation (continued)**

The emergence of the Virgin Media group from a cumulative loss position in the UK during 2012 was an important consideration in the assessment and changed the balance of the remaining available evidence. Therefore, the group determined that it was appropriate to recognise substantially all of its deferred tax assets other than capital losses. The recognition of the group's deferred tax assets resulted in an income tax benefit of £2,537.5 million, during the year ended 31 December 2012, and an increase in non-current deferred tax assets on the Group Balance Sheet for the year ended 31 December 2012. Beginning in 2013, the group expects its net profit to be impacted to a greater degree by income tax expense, which may fluctuate from period to period. However, this recognition will not result in any change to the amount of cash payments to the UK tax authorities for income taxes.

Realisation of the group's deferred tax assets is dependent on generating sufficient taxable profit in future periods. Although the group believes it is probable that future taxable profit will be sufficient to allow it to recover substantially all of the value of its UK deferred tax assets other than capital losses, realisation is not assured and future events could cause the group to change its judgment. If future events cause the group to conclude that it is not probable that it will be able to recover all of the value of its deferred tax assets the group would be required to derecognise its deferred tax assets at that time, which would result in a charge to income tax expense and a material decrease in net profit in the period in which the group changes its judgment.

During 2012, the group also recognised US deferred tax assets relating to certain of its subsidiaries that are considered dual resident in the UK and US for tax purposes, and recognised a benefit of £40.7 million. The assets in these companies are principally comprised of NOLs. The companies have emerged from a cumulative loss position and after consideration of all available positive and negative evidence the group believes it is probable that the deferred tax assets will be utilised. Because those companies have emerged from a cumulative loss position, significant negative evidence no longer exists. Positive evidence exists in the form of recent profitability, forecasts for continued profitability, and long expiration periods for the NOLs. The group does not require significant improvements in the level of profitability to utilise the deferred tax assets prior to their expiration.

The group has not recognised its deferred tax assets relating to capital losses, which totalled approximately £2,786.0 million as of 31 December 2012. The group does not expect to realise any significant benefit from these capital losses because they can only be used to the extent the group generates future UK taxable capital gains from assets held by subsidiaries owned prior to 2006.

The group has considered the implications of the proposed merger of the Virgin Media group with Liberty Global, as discussed in Post balance sheet events in note 28, on its accounting for deferred tax assets. The group notes that a change in judgment that results in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period shall be recognised as a discrete item in the period in which the change occurs. The group is therefore not permitted to consider the impact of the proposed business combination until 2013 and the recognition of the deferred tax asset discussed above therefore remains appropriate.

It has been announced that the UK corporation tax rates will be decreasing to 21% from 1st April 2014 with a further 1% decrease to 20% from 1st April 2015. None of these rate reductions have been substantively enacted at the balance sheet date and therefore their effect is not included in these accounts. The impact of a 3% reduction of the corporation tax rate to 20% at the balance sheet date would result in a reduction in the value of recognised deferred tax assets of £332.9m and a reduction in the unrecognised deferred tax assets of £368.3m.



**Virgin Media Finance PLC**  
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**11 Taxation (continued)**

*(a) Tax (credit)/expense on profit on ordinary activities*

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Current income tax                          |                   |                   |
| UK Corporation tax                          | -                 | (5 1)             |
| Foreign taxes                               | 0 7               | -                 |
| Deferred income tax - temporary differences | (2,537 5)         | 23 3              |
|   | <u>(2,536 8)</u>  | <u>18 2</u>       |

*(b) Reconciliation of the total tax (credit)/expense*

The tax (credit)/expense in the Group Income Statement is lower than the standard rate of corporation tax in the UK of 24 5% (2011 - 26 5%) The differences are reconciled below

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Profit before taxation  | 172 1             | 191 5             |
| Accounting profit before income tax   | <u>172 1</u>      | <u>191 5</u>      |
| Accounting profit multiplied by the UK standard rate of corporation tax of 24 5% (2011 - 26 5%) | 42 2              | 50 7              |
| Expenses not deductible for tax purposes  | 1 9               | 10 0              |
| Utilisation of tax losses and other deductions  | (88 6)            | (84 7)            |
| Tax losses surrendered at less than the standard rate   | -                 | (5 1)             |
| Decelerated capital allowances  | 44 5              | 24 0              |
| Foreign taxes   | 0 7               | -                 |
| Movement in deferred tax assets to offset deferred tax liabilities                              | (2,537 5)         | 23 3              |
| Total tax (credit)/expense recognised in the group income statement                             | <u>(2,536 8)</u>  | <u>18 2</u>       |
|   | 2012<br>£ million | 2011<br>£ million |
| Deferred tax relating to items credited to equity   | (15 4)            | -                 |
| Deferred tax relating to items credited to other comprehensive income                           | (26 4)            | (23 3)            |
| Tax (credit)/expense in the Group Income Statement  | <u>(2,536 8)</u>  | <u>18 2</u>       |
|   | <u>(2,578 6)</u>  | <u>(5 1)</u>      |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
for the year ended 31 December 2012

**11 Taxation (continued)**

*(c) Recognised deferred tax*

Recognised deferred tax assets less deferred tax liabilities are as follows

|   | 31 December 2012 |                               |                    |
|---|------------------|-------------------------------|--------------------|
|   | UK<br>£ million  | Dual<br>resident<br>£ million | Total<br>£ million |
| Deferred tax assets                                   |                  |                               |                    |
| Net operating losses                                  | 346 7            | 185 9                         | 532 6              |
| Derivative instruments                                | 15 8             | -                             | 15 8               |
| Depreciation and amortisation                         | 2,056 6          | -                             | 2,056 6            |
| Accrued expenses                                      | 47 4             | -                             | 47 4               |
| Other   | 61 3             | -                             | 61 3               |
| Pensions  | 10 7             | 0 7                           | 11 4               |
| Total deferred tax assets                             | 2,538 5          | 186 6                         | 2,725 1            |
| Deferred tax liabilities                              |                  |                               |                    |
| Depreciation and amortisation                         | -                | (145 9)                       | (145 9)            |
| Total deferred tax liabilities                        | -                | (145 9)                       | (145 9)            |
| Net deferred tax assets less deferred tax liabilities | 2,538 5          | 40 7                          | 2,579 2            |

There was no deferred tax asset recognised at 31 December 2011

See above for further discussion on recognition of the deferred tax asset

*(c) Unrecognised deferred tax*

Deferred tax assets in respect of the following amounts have not been recognised as there is currently no persuasive evidence that there will be suitable taxable profits against which these timing differences will reverse

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| Tax losses                                   | 38 0              | 543 0             |
| Capital losses                               | 2,786 0           | 3,026 0           |
| Depreciation in excess of capital allowances | -                 | 2,113 0           |
|  | <u>2,824 0</u>    | <u>5,682 0</u>    |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
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**11 Taxation (continued)**

As at 31 December 2012 the UK corporation tax rate was 24%. A rate reduction to 23% was substantively enacted under the Finance 2012 with effect from 1 April 2013, and further rate reductions were announced to be introduced in annual decrements to reduce the rate to 20%. In addition, changes to the capital allowances regime, including a reduction in the rate of capital allowances on plant and machinery additions from 20% to 18% with effect from 1 April 2012. These rate changes will affect the amount of future tax payments to be made by the company. The unprovided deferred tax assets have been calculated using the enacted rates as at 31 December 2012.

**12 Intangible assets**

*(a) Summary of intangible assets*

|  | Goodwill<br>£ million | Customer<br>lists<br>£ million | Total<br>£ million |
|--|-----------------------|--------------------------------|--------------------|
| <b>Cost</b>                            |                       |                                |                    |
| At 1 January 2011                      | 2,079.2               | 754.6                          | 2,833.8            |
| Amounts written off                    | -                     | (754.6)                        | (754.6)            |
| At 31 December 2011 and 1 January 2012 | 2,079.2               | -                              | 2,079.2            |
| Amounts written off                    | -                     | -                              | -                  |
| At 31 December 2012                    | 2,079.2               | -                              | 2,079.2            |
| <b>Amortisation</b>                    |                       |                                |                    |
| At 1 January 2011                      | 138.0                 | 636.1                          | 774.1              |
| Disposals                              | -                     | -                              | -                  |
| Amortisation charge for the year       | -                     | 118.5                          | 118.5              |
| Amounts written off                    | -                     | (754.6)                        | (754.6)            |
| At 31 December 2011 and 1 January 2012 | 138.0                 | -                              | 138.0              |
| Amortisation charge for the year       | -                     | -                              | -                  |
| Amounts written off                    | -                     | -                              | -                  |
| At 31 December 2012                    | 138.0                 | -                              | 138.0              |
| <b>Net book value</b>                  |                       |                                |                    |
| At 31 December 2012                    | 1,941.2               | -                              | 1,941.2            |
| At 31 December 2011 and 1 January 2012 | 1,941.2               | -                              | 1,941.2            |
| At 1 January 2011                      | 1,941.2               | 118.5                          | 2,059.7            |

Amortisation expense is included within administrative expenses in the Group Income Statement.

**Virgin Media Finance PLC**  
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**12 Intangible assets (continued)**

*(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 various Cash Generating Units (CGUs), which are the same as the reportable segments of the group

The Virgin Media group's internal reporting structure and the related financial information is utilised by its CODM to assess the performance of the business. At 31 December 2012 there were two operating segments, Consumer and Business, as detailed in note 4

These operating segments represent the lowest level at which the Virgin Media group monitors goodwill for internal management purposes. The Consumer and Business CGUs are evaluated for possible impairment as at 1 October each year

At 1 January and 31 December 2011 and 1 January and 31 December 2012 goodwill was allocated as follows

|          | £ million      |
|----------|----------------|
| Consumer | 1,743.2        |
| Business | 198.0          |
| Total    | <u>1,941.2</u> |

*Consumer and Business – year ended 31 December 2012*

On 5 February 2013, the Virgin Media group entered into a Merger Agreement with Liberty Global, Inc., or "Liberty Global", pursuant to which Liberty Global will acquire the Virgin Media group in a stock and cash merger valued at approximately \$23.3 billion, or £14.8 billion as at 5 February 2013. The Merger Agreement and related transactions were approved by the shareholders of Virgin Media group and Liberty Global on 4 June 2013 and 3 June 2013, respectively.

The Directors consider this valuation represents the fair value less costs to sell of the Virgin Media group, and is a relevant valuation of the Consumer and Business CGUs in the Virgin Media Finance PLC group at 31 December 2012, given the Virgin Media Finance PLC group comprises substantially all of the trade and assets of the Virgin Media group. The Directors also considered the relative fair value less costs to sell for each of the CGUs in the context of the allocation of the overall valuation of the Virgin Media group.

On the basis of the level by which the fair value less costs to sell exceed the carrying value of the units, indications are that the likelihood of the current recoverable amount determination being less than the current carrying amount of the units would be remote, given

- the assets and liabilities making up the units have not changed significantly since the date of the value in use calculation from 2011,
- the substantial margin by which the recoverable amount exceeds the carrying value in the 2011 valuation, and
- the analysis of events that have occurred since the date of the merger announcement

See Note 28 for further information in respect of the Merger of the Virgin Media group and Liberty Global

*Assumptions used in discounted cash flow projections for 2011 impairment assessment*

In estimating cash flows the group uses operating and financial assumptions in its internal forecasting model, such as projected customer numbers, projected product sales mix and price changes, projected changes in prices paid for purchases of fixed assets and services, as well as projected employee costs. Considerable management judgment is necessary to estimate discounted future cash flows and those estimates include inherent uncertainties, including those relating to the timing and amount of future cash flows and the discount rate used in the calculation.

**Virgin Media Finance PLC**  
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**12 Intangible assets (continued)**

Assumptions used in these cash flow projections are consistent with internal forecasts, which are created to reflect both historical trends and also analysis of anticipated market changes. If actual results differ from the assumptions used in the impairment review, additional impairment charges may arise in the future. Assumptions made about levels of competition and rates of growth (or decline) in the economy on a longer term basis could impact the valuation to be used in future annual impairment testing.

*Consumer – year ended 31 December 2011*

The recoverable amount of the Consumer CGU at 1 October 2011 was based upon management's assessment of the value in use, derived from discounted cash flows using internal cash flow projections consistent with internal forecasts.

The key assumptions to which the value-in-use calculation is most sensitive are the pre-tax discount rate and the long-term growth rate. The discounted cash flow was performed using a financial forecast for the period up to 31 December 2014 approved by management, and discounted at a pre-tax rate of 9.28%. After that period cash flows were forecast to grow in perpetuity by 1.0%.

*Business – year ended 31 December 2011*

The recoverable amount of the Business CGU at 1 October 2011 was based upon management's assessment of the value in use, derived from discounted cash flows using internal cash flow projections consistent with internal forecasts.

The key assumptions to which the value-in-use calculation is most sensitive are the pre-tax discount rate and the long-term growth rate. The discounted cash flow was performed using a financial forecast for the period up to 31 December 2014 approved by management, and discounted at a pre-tax rate of 12.71%. After that period cash flows were forecast to grow in perpetuity by 2.0%.

Management believes that no reasonable possible change in any of the above key assumptions would cause the recoverable amount to be below the carrying value. It was concluded as a result of these valuation exercises that no impairment to either the Consumer CGU's goodwill or the Business CGU's goodwill was required for either year ended 31 December 2012 or 2011.

**Virgin Media Finance PLC**  
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**13 Property, plant and equipment**

|  | <b>Network</b>   | <b>Construction</b> | <b>Other</b>     | <b>Total</b>     |
|--|------------------|---------------------|------------------|------------------|
|  | <b>£ million</b> | <b>in progress</b>  | <b>£ million</b> | <b>£ million</b> |
| <b>Cost</b>                            |                  | <b>£ million</b>    |                  |                  |
| At 1 January 2011                      | 9,209 1          | 115 8               | 1,252 2          | 10,577 1         |
| Additions                              | 4 1              | 766 7               | 26 2             | 797 0            |
| Transfers                              | 632 5            | (759 3)             | 126 8            | -                |
| Disposals                              | (436 9)          | -                   | (118 6)          | (555 5)          |
| At 31 December 2011 and 1 January 2012 | 9,408 8          | 123 2               | 1,286 6          | 10,818 6         |
| Additions                              | -                | 880 5               | 11 0             | 891 5            |
| Transfers                              | 777 7            | (913 6)             | 135 9            | -                |
| Disposals                              | (515 8)          | -                   | (188 2)          | (704 0)          |
| At 31 December 2012                    | 9,670 7          | 90 1                | 1,245 3          | 11,006 1         |
| <b>Depreciation</b>                    |                  |                     |                  |                  |
| At 1 January 2011                      | 4,911 1          | -                   | 951 3            | 5,862 4          |
| Provided during the year               | 748 3            | -                   | 146 3            | 894 6            |
| Disposals                              | (422 3)          | -                   | (118 0)          | (540 3)          |
| At 31 December 2011 and 1 January 2012 | 5,237 1          | -                   | 979 6            | 6,216 7          |
| Provided during the year               | 792 8            | -                   | 138 9            | 931 7            |
| Disposals                              | (499 1)          | -                   | (184 8)          | (683 9)          |
| At 31 December 2012                    | 5,530 8          | -                   | 933 7            | 6,464 5          |
| <b>Net book value</b>                  |                  |                     |                  |                  |
| At 31 December 2012                    | 4,139 9          | 90 1                | 311 6            | 4,541 6          |
| At 31 December 2011 and 1 January 2012 | 4,171 7          | 123 2               | 307 0            | 4,601 9          |
| At 1 January 2011                      | 4,298 0          | 115 8               | 300 9            | 4,714 7          |

**Assets held under finance leases**

Included in the net book value of property, plant and equipment is £242 7 million (2011 - £239 9 million) in respect of assets held under finance leases and similar hire purchase contracts. Accumulated depreciation on these assets is £167 1 million (2011 - £151 2 million) and the charge for the year is £76 7 million (2011 - £56 8 million).

Included in 'Other' are the following net book values of freehold and leasehold land and buildings

|                        | <b>2012</b>      | <b>2011</b>      |
|------------------------|------------------|------------------|
|                        | <b>£ million</b> | <b>£ million</b> |
| Freehold               | 50 7             | 53 0             |
| Leasehold              | 34 6             | 34 8             |
| Leasehold improvements | 22 2             | 29 5             |
|                        | <u>107 5</u>     | <u>117 3</u>     |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**14 Investments**

**(a) Investments in joint ventures**

On 30 September 2011, the group completed the sale to Scripps Network Interactive, Inc ("Scripps") of its equity investment in the UKTV joint ventures which was held through its wholly owned subsidiary Flextech Broadband Limited. The aggregate consideration was £349.9 million, which included £98.1 million for Scripps's acquisition of preferred equity, loan stock and other debt. After the inclusion of associated fees, this transaction resulted in a loss on disposal of £7.2 million in the Group Income Statement.

The share of income, expenses and net profit for the period 1 January 2011 to 30 September 2011 of joint ventures accounted for using the equity method, were as follows:

|   | Period ended<br>30 September<br>2011<br>£ million |
|---|---|
| <i>Share of the joint ventures' income statements</i> |   |
| Revenue   | 90.8  |
| Cost of sales   | (46.3)  |
| Administrative expenses                               | (20.0)  |
| Finance costs   | -   |
| Profit before tax                                     | 24.5  |
| Tax expense   | (5.9)   |
| Net profit  | 18.6  |

**(b) Investments in subsidiaries**

Details of the principal 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 33 to the group financial statements.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
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**15 Financial assets**

|   | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
|   | <b>£ million</b> | <b>£ million</b> |
| <i><b>Non-current</b></i>               |                  |                  |
| Restricted cash                         | 19               | 19               |
| Cross-currency interest rate swaps      | 53.3             | 128.5            |
| Interest rate swaps                     | 105.9            | 81.1             |
|   | <u>161.1</u>     | <u>211.5</u>     |
| <i><b>Current</b></i>                   |                  |                  |
| Foreign currency forward rate contracts | -                | 1.7              |
| Cross-currency interest rate swaps      | 4.7              | 7.6              |
| Interest rate swaps                     | 1.4              | 0.2              |
|   | <u>6.1</u>       | <u>9.5</u>       |

**16 Trade and other receivables**

|   | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
|   | <b>£ million</b> | <b>£ million</b> |
| <i><b>Non-current</b></i>                           |                  |                  |
| Prepayments and accrued income                      | 51.2             | 50.8             |
|   | <u>51.2</u>      | <u>50.8</u>      |
| <i><b>Current</b></i>                               |                  |                  |
| Trade receivables                                   | 385.5            | 389.0            |
| Amounts owed by parent undertakings                 | 933.9            | 531.8            |
| Prepayments and accrued income                      | 143.7            | 126.4            |
| Consortium relief due from joint venture investment | -                | 2.6              |
|   | <u>1,463.1</u>   | <u>1,049.8</u>   |

Amounts owed by parent undertakings are unsecured and repayable on demand

Prepayments and accrued income classified as non-current include long term telecommunications contracts falling due after more than one year

Trade receivables are non-interest bearing and 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 £9.0 million (2011 - £10.9 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

|                     | <b>£ million</b> |
|---------------------|------------------|
| At 1 January 2011   | 6.4              |
| Charge for the year | 32.6             |
| Utilised            | <u>(28.1)</u>    |
| At 31 December 2011 | 10.9             |
| Charge for the year | 30.2             |
| Utilised            | <u>(32.1)</u>    |
| At 31 December 2012 | <u>9.0</u>       |



**Virgin Media Finance PLC**  
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**16 Trade and other receivables (continued)**

The ageing analysis of trade receivables is as follows

|                  | Total<br>£ million | Neither<br>past due nor<br>impaired<br>£ million | Balances past due     |                           |                           |                       |
|------------------|--------------------|--|-----------------------|---------------------------|---------------------------|-----------------------|
|                  |                    |  | <30 days<br>£ million | 30 - 60 days<br>£ million | 60 - 90 days<br>£ million | >90 days<br>£ million |
| 31 December 2012 | 385.5              | 252.4  | 64.1                  | 27.4                      | 14.1                      | 27.5                  |
| 31 December 2011 | 389.0              | 276.8  | 48.7                  | 26.3                      | 10.3                      | 26.9                  |

**17 Inventories**

|                  | 2012<br>£ million | 2011<br>£ million |
|------------------|-------------------|-------------------|
| Goods for resale | 17.5              | 13.1              |
|                  | <u>17.5</u>       | <u>13.1</u>       |

**18 Cash and short term deposits**

|                          | 2012<br>£ million | 2011<br>£ million |
|--------------------------|-------------------|-------------------|
| Cash at bank and in hand | 17.0              | 39.9              |
| Short-term deposits      | 178.9             | 244.0             |
|                          | <u>195.9</u>      | <u>283.9</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 2012 was £195.9 million (2011 - £283.9 million).

**19 Trade and other payables**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| <i>Current</i>                                    |                   |                   |
| Trade payables                                    | 349.3             | 304.3             |
| VAT, payroll taxes and social security costs      | 85.5              | 88.4              |
| Interest payable to parent and group undertakings | 90.9              | 86.8              |
| Interest payable                                  | 62.5              | 101.4             |
| Amounts owed to group undertakings                | 114.9             | 81.8              |
| Accruals and deferred income                      | 630.4             | 644.5             |
|   | <u>1,333.5</u>    | <u>1,307.2</u>    |

Trade payables are non-interest bearing and normally repayable on terms of up to 120 days. Trade payables, interest payable and amounts owed to group undertakings are financial liabilities which are excluded from note 20.

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

**Virgin Media Finance PLC**  
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**19 Trade and other payables (continued)**

|                           | 2012<br>£ million | 2011<br>£ million |
|---------------------------|-------------------|-------------------|
| <i>Non-current</i>        |                   |                   |
| Other long term creditors | 64 1              | 84 8              |
|                           | <u>64 1</u>       | <u>84 8</u>       |

**20 Financial liabilities**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| <i>Current</i>  |                   |                   |
| Current obligations under finance lease and hire purchase contracts (see note 21)     | 77 1              | 76 3              |
| Current instalments due on mortgage loan  | -                 | 0 3               |
| Loan notes due to parent undertakings   | 262 0             | 264 2             |
| Loan notes due to group undertakings  | 170 8             | 170 8             |
| Interest rate swaps   | 2 1               | 7 5               |
| Cross-currency interest rate swaps  | 6 0               | 9 2               |
|   | <u>518 0</u>      | <u>528 3</u>      |
| <i>Non-current</i>  |                   |                   |
| Non-current obligations under finance lease and hire purchase contracts (see note 21) | 151 9             | 181 7             |
| Non-current instalments due on mortgage loan  | -                 | 0 1               |
| Non-current instalments due on senior credit facility                                 | 738 7             | 734 2             |
| Senior notes  | 1,803 6           | 1,694 4           |
| Senior secured notes  | 2,555 2           | 2,545 3           |
| Cross-currency interest rate swaps  | 62 3              | 45 7              |
| Interest rate swaps   | 39 6              | 7 7               |
|   | <u>5,351 3</u>    | <u>5,209 1</u>    |
| <b>Total financial liabilities</b>  | <u>5,869 3</u>    | <u>5,737 4</u>    |

Borrowings at 31 December were repayable as follows

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Amounts falling due                                     |                   |                   |
| Within one year   | 432 8             | 435 3             |
| In more than one year but not more than two years       | -                 | 750 1             |
| In more than two years but not more than five years     | 750 0             | 994 5             |
| In more than five years                                 | 4,406 1           | 3,301 2           |
|   | <u>5,588 9</u>    | <u>5,481 1</u>    |
| Less issue costs  | (58 6)            | (71 8)            |
| Borrowings amounts falling due after more than one year | 5,530 3           | 5,409 3           |
| Financial liabilities not classed as borrowings         | 339 0             | 328 1             |
| <b>Total financial liabilities (above)</b>              | <u>5,869 3</u>    | <u>5,737 4</u>    |

Financial liabilities not classed as borrowings include obligations under finance leases and hire purchase contracts, interest rate swaps and cross-currency interest rate swaps

Loans not wholly repayable within five years are as follows

**Virgin Media Finance PLC**  
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**20 Financial liabilities (continued)**

|                      | 2012<br>£ million | 2011<br>£ million |
|----------------------|-------------------|-------------------|
| Senior notes         | 1,824 4           | 725 8             |
| Senior secured notes | 2,581 7           | 2,575 4           |
|                      | <u>4,406 1</u>    | <u>3,301 2</u>    |

***Amounts due to parent and fellow group undertakings***

Loan notes due to parent and 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.

***Senior notes***

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| <i>Senior notes consist of</i>   |                   |                   |
| <b><i>U.S. Dollar</i></b>  |                   |                   |
| 9 50% senior notes due 2016 (principal at maturity \$1,350 million)      | -                 | 849 2             |
| 8 375% senior notes due 2019 (principal at maturity \$507 1 million)     | 309 3             | 380 6             |
| 5 25% senior notes due 2022 (principal at maturity \$500 million)        | 308 9             | -                 |
| 4 875% senior notes due 2022 (principal at maturity \$900 million)       | 555 9             | -                 |
|  | <u>1,174 1</u>    | <u>1,229 8</u>    |
| <b><i>Euro</i></b>   |                   |                   |
| 9 50% senior loan notes due 2016 (principal at maturity €180 million)    | -                 | 145 3             |
|  | -                 | <u>145 3</u>      |
| <b><i>Sterling</i></b>   |                   |                   |
| 8 875% senior loan notes due 2019 (principal at maturity £253 5 million) | 250 3             | 345 2             |
| 5 125% senior notes due 2022 (principal at maturity £400 million)        | 400 0             | -                 |
|  | <u>650 3</u>      | <u>345 2</u>      |
| Less issue costs   | (20 8)            | (25 9)            |
| Total Senior notes   | <u>1,803 6</u>    | <u>1,694 4</u>    |

In July 2006 Virgin Media Finance PLC issued dollar denominated 9 125% senior notes due 2016, with a principal amount outstanding of \$550 million. The 9 125% senior notes due 2016 were unsecured senior obligations of Virgin Media Finance PLC and ranked pari passu with Virgin Media Finance PLC's 9 50% senior notes due 2016 and its senior notes due 2019. Interest on the 9 125% senior notes due 2016 was payable on 15 February and 15 August of each year. The 9 125% senior notes due 2016 had a maturity date of 15 August 2016 and were guaranteed on a senior basis by Virgin Media Inc, Virgin Media Group LLC, Virgin Media Holdings Inc, Virgin Media (UK) Group, Inc and Virgin Media Communications Limited, and on a senior subordinated basis by Virgin Media Investment Holdings and Virgin Media Investments Limited. On 26 July 2011 the 9 125% senior notes due 2016 were redeemed by paying £355 8 million from the group's balance sheet.

On 3 June 2009 Virgin Media Finance PLC issued dollar denominated 9 50% senior notes due 2016 with a principal amount outstanding of \$750 million and euro denominated 9 50% senior notes due 2016 with a principal amount outstanding of €180 million. These notes were unsecured senior obligations of the company and ranked pari passu with Virgin Media Finance PLC's outstanding senior notes due 2019. Interest was payable semi-annually on 15 February and 15 August each year. On 21 July 2009 Virgin Media Finance PLC issued an additional \$600 million aggregate principal amount of 9 50% senior notes due 2016 under the same terms as the notes issued on 3 June 2009. On 28 March 2012, \$500 million of the principal amount outstanding of the \$1,350 million 9 50% senior notes due 2016 were redeemed by paying £361 2 million, using the net proceeds from the issue of the \$500 million senior notes due 2022, and cash on the group's balance sheet. Over the period 31 October 2012 to 30 November 2012 the remaining \$850 million principal amount outstanding of the \$1,350 million 9 50% senior notes due 2016 and the €180 million 9 50% senior notes due 2016 were redeemed by paying £751 6 million, using the net proceeds from the issue of the \$900 million and £400 million senior notes due 2022, and cash on the group's balance sheet.

**Virgin Media Finance PLC**  
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**20 Financial liabilities (continued)**

During November 2009 Virgin Media Finance PLC issued \$600 million aggregate principal amount of 8.375% senior notes due 2019 and £350 million aggregate principal amount of 8.875% senior notes due 2019. The senior notes due 2019 are unsecured senior obligations and rank pari passu with Virgin Media Finance PLC's outstanding senior notes due 2022. Interest is payable on 15 April and 15 October each year. On 9 November 2012, \$92.9 million of the principal amount of the \$600 million 8.375% senior notes due 2019 and £96.5 million of the principal amount of the £350 million 8.875% senior notes due 2019 were redeemed by paying £179.4 million, using the net proceeds from the issue of the \$900 million and £400 million senior notes due 2022, and cash on the group's balance sheet.

On 13 March 2012 Virgin Media Finance PLC issued dollar denominated 5.25% senior notes due 2022 with a principal amount outstanding of \$500 million. The 5.25% senior notes are unsecured senior obligations of the company and rank pari passu with Virgin Media Finance PLC's outstanding senior notes due 2019 and 2022. Interest is payable semi-annually on 15 February and 15 August each year.

On 30 October 2012 Virgin Media Finance PLC issued dollar denominated 4.875% senior notes due 2022 with a principal amount outstanding of \$900 million, and sterling 5.125% senior notes due 2022 with a principal amount outstanding of £400 million. The 4.875% and 5.125% senior notes due 2022 are unsecured senior obligations of the company and rank pari passu with Virgin Media Finance PLC's outstanding senior notes due 2019 and 2022. Interest is payable semi-annually on 15 February and 15 August each year.

Virgin Media Inc., the company's ultimate parent company, and all the intermediate parent undertakings of the company, guarantee the senior notes on a senior basis. Virgin Media Investment Holdings Limited, referred to as VMIH, 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 senior credit facility.

**Senior secured notes**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| <i>Senior secured notes consist of</i>  |                   |                   |
| <i>U.S. Dollar</i>  |                   |                   |
| 6.50% senior secured notes due 2018 (principal at maturity \$1,000 million)   | 611.2             | 635.4             |
| 5.25% senior secured notes due 2021 (principal at maturity \$500 million)     | 350.5             | 353.1             |
|   | <u>961.7</u>      | <u>988.5</u>      |
| <i>Sterling</i>   |                   |                   |
| 7.00% senior secured loan notes due 2018 (principal at maturity £875 million) | 865.9             | 864.5             |
| 5.50% senior secured loan notes due 2021 (principal at maturity £650 million) | 754.1             | 722.4             |
|   | <u>1,620.0</u>    | <u>1,586.9</u>    |
| Less: issue costs   | (26.5)            | (30.1)            |
| Total Senior secured notes  | <u>2,555.2</u>    | <u>2,545.3</u>    |

On 19 January 2010, a wholly owned subsidiary, Virgin Media Secured Finance PLC, issued \$1.0 billion aggregate principal amount of 6.50% senior secured notes due 2018 and £875 million aggregate principal amount of 7.00% senior secured notes due 2018. Interest is payable semi-annually on 15 June and 15 December each year, beginning 15 June 2010. The senior secured notes due 2018 rank pari passu with the senior credit facility and, subject to certain exemptions, share in the same guarantees and security which has been granted in favour of the senior credit facility.

On 3 March 2011, Virgin Media Secured Finance PLC issued \$500 million aggregate principal amount of 5.25% senior secured notes due 2021 and £650 million aggregate principal amount of 5.50% senior secured notes due 2021. Interest is payable on 15 January and 15 July each year, beginning on 15 July 2011. The senior secured notes due 2021 rank pari passu with and, subject to certain exceptions, share in the same guarantees and security which have been granted in favour of the senior credit facility and senior secured notes due 2018.

**Virgin Media Finance PLC**  
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**20 Financial liabilities (continued)**

*Senior credit facility*

|   | 2012         | 2011         |
|---|--------------|--------------|
|   | £ million    | £ million    |
| The senior credit facility consists of              |              |              |
| Sterling  | 750 0        | 750 0        |
|   | <u>750 0</u> | <u>750 0</u> |
| Less current portion                                | -            | -            |
|   | <u>750 0</u> | <u>750 0</u> |
| Less issue costs                                    | (11 3)       | (15 8)       |
| Senior credit facility due after more than one year | <u>738 7</u> | <u>734 2</u> |

The principal amount outstanding under the senior credit facility at 31 December 2012 and 31 December 2011 was £750 0 million. The senior credit facility comprises a term facility denominated in pounds sterling of £750 0 million and a revolving facility of £450 0 million.

At 31 December 2012, £750 0 million (2011 - £750 million) of the term facility had been drawn and £6 4 million (2011 - £5 8 million) of the revolving credit facility had been utilised for bank guarantees and standby letters of credit.

The term credit facility bears interest at LIBOR, plus a margin currently ranging from 1.625% to 2.125% based on leverage ratios. The margins on the revolving credit facility range from 1.325% to 2.125% based on leverage ratios. Interest is payable at least semi-annually. The term credit facility and the revolving credit facility are repayable in full on their maturity date, which is 30 June 2015.

The effective interest rate on the senior credit facility was 2.4% and 3.3% as at 31 December 2012 and 2011 respectively.

On 15 February 2011, the senior credit facility was amended to increase operational flexibility including, among other things, changing the required level of total net leverage ratio, increasing financial indebtedness baskets, and eliminating certain restrictions on the use of proceeds of secured indebtedness. This amendment did not have an impact on the amount of debt included on the Group Balance Sheet, but did serve to modify the amortisation schedule by extending £192.5 million of the 30 June 2014 scheduled amortisation payment to 30 June 2015.

In March 2011, the net proceeds from the senior secured notes due 2021 were used to prepay £532.5 million of the Tranche A outstanding under the senior credit facility, thus eliminating scheduled amortisations in 2011 through 2014, and £367.5 million of the Tranche B outstanding under the senior credit facility that were scheduled for payment in 2015, with the remainder being used for general corporate purposes.

On 20 May 2011, two new additional facilities under the senior credit facility were entered into, comprising an additional revolving facility with total commitments of £450 0 million, which replaced the previous £250 0 million revolving facility, and an additional term facility with commitments of £750 0 million. The new term facility of £750 0 million and £25 0 million of cash was used to repay the loan balance from the previous term loan, which was comprised of a £467.5 million Tranche A and a £307.5 million Tranche B. The maturity date of the facilities remains at 30 June 2015. Further changes to senior credit facility to increase operational flexibility were also effected on 27 May 2011.

On 12 September 2011 the group borrowed £50 0 million under the revolving facility. This was repaid in full on 12 October 2011. On 28 June 2012 the group borrowed a further £100 0 million under the revolving credit facility. This was repaid in full on 28 September 2012. On 30 November 2012 the group borrowed a further £75 0 million under the revolving credit facility. This was repaid in full on 31 December 2012.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
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**20 Financial liabilities (continued)**

The company has given a full and unconditional guarantee of all amounts payable under the terms of the senior credit facility. In addition the bulk of the facility is secured through guarantees and first priority pledges over the shares and assets of substantially all of the group's operating subsidiaries and of receivables arising under any inter-company loans to those subsidiaries. The Virgin Media group is subject to financial maintenance tests under the facility, including a test of interest coverage and leverage ratios applied to the group and certain of its subsidiaries. The coverage ratio is defined as consolidated operating cashflow to consolidated total net interest payable and the leverage ratio is consolidated net debt to consolidated operating cashflow. Both tests are applied to consolidated financial statements of the ultimate parent company, Virgin Media Inc. As of 31 December 2012 the Virgin Media group was in compliance with these covenants.

***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

**Virgin Media Finance PLC**  
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**21 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

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| <i>Future minimum payments due</i>               |                   |                   |
| Not later than one year                          | 87.6              | 91.8              |
| After one year but not more than five years      | 132.0             | 147.5             |
| After five years                                 | 152.5             | 240.8             |
|  | <u>372.1</u>      | <u>480.1</u>      |
| Less finance charges allocated to future periods | (143.1)           | (222.1)           |
| Present value of minimum lease payments          | <u>229.0</u>      | <u>258.0</u>      |

The present value of minimum lease payments is analysed as follows

|   |              |              |
|---|--------------|--------------|
| <i>Amounts falling due</i>                  |              |              |
| Not later than one year                     | 77.1         | 76.3         |
| After one year but not more than five years | 113.8        | 113.9        |
| After five years                            | 38.1         | 67.8         |
|   | <u>229.0</u> | <u>258.0</u> |

***Operating lease agreements where the group is lessee***

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

|   | Land & buildings  |                   | Other             |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2012<br>£ million | 2011<br>£ million | 2012<br>£ million | 2011<br>£ million |
| Not later than one year                     | 27.2              | 35.6              | 13.1              | 17.0              |
| After one year but not more than five years | 62.8              | 84.4              | 29.4              | 25.6              |
| After five years                            | 40.2              | 26.4              | 19.6              | 22.0              |
|   | <u>130.2</u>      | <u>146.4</u>      | <u>62.1</u>       | <u>64.6</u>       |

The group has entered into commercial leases on certain properties, motor vehicles and items of machinery. These leases have varied durations as some can be exited with as little as two months notice whilst the terms of some run indefinitely until notice is served. In respect of property leases the Landlord & Tenants Acts provides, under most normal circumstance, automatic rights for the tenant to renew their lease at expiry at the current market rent.

**Virgin Media Finance PLC**  
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**22 Provisions**

|                                      | Redundancy<br>costs<br>£ million | Property & contract exit<br>costs<br>£ million | Waste Electrical<br>and Electronic<br>Equipment<br>£ million | National<br>Insurance<br>£ million | Total<br>£ million |
|--------------------------------------|----------------------------------|--|--|------------------------------------|--------------------|
| At 31 December 2011 & 1 January 2012 |                                  |  |  |                                    |                    |
| Current                              | 2 0                              | 2 9  | 5 0  | 5 6                                | 15 5               |
| Non-current                          | -                                | 104 1  | 44 6   | 3 8                                | 152 5              |
|                                      | 2 0                              | 107 0  | 49 6   | 9 4                                | 168 0              |
| Established during the year          | 0 1                              | 1 8  | 12 3   | 12 9                               | 27 1               |
| Used during the year                 | (2 0)                            | (4 9)  | -  | (4 9)                              | (11 8)             |
| Revisions in cashflow estimates      | -                                | (37 2)   | (14 9)   | -                                  | (52 1)             |
| Movement in discount rate            | -                                | 5 1  | 2 0  | -                                  | 7 1                |
| At 31 December 2012                  | 0 1                              | 71 8   | 49 0   | 17 4                               | 138 3              |
| Analysed as                          |                                  |  |  |                                    |                    |
| Current                              | 0 1                              | 0 1  | 3 3  | 13 4                               | 16 9               |
| Non-current                          | -                                | 71 7   | 45 7   | 4 0                                | 121 4              |
|                                      | 0 1                              | 71 8   | 49 0   | 17 4                               | 138 3              |

*Redundancy costs*

During 2008 the Virgin Media group commenced the implementation of a restructuring plan aimed at driving further improvements in operational performance and eliminating inefficiencies in order to create a fully-integrated, customer focused organisation

*Property & contract exit costs*

Property and contract exit costs relate primarily to the restructuring plan described above. There are a large number of properties to which the provision relates, with a wide range of remaining lease terms. The majority of the costs are expected to be incurred over the next 25 years.

*Waste Electrical & Electronic Equipment (WEEE)*

The provision for the asset retirement obligation in respect of WEEE is calculated based on the total equipment purchased, its expected useful economic life and the anticipated cost of disposal. Costs in relation to disposal of WEEE are expected to be incurred over the next 5 years.

*National Insurance*

Provision has been made for National Insurance contributions on share options and restricted stock unit grants, which are expected to be exercised. The provision has been calculated based on Virgin Media Inc's closing share price at 31 December 2012 and the exercise price of the options and is being allocated over the date of the award to the date that the employee will become unconditionally entitled to the options, which is expected to be the next 5 years.

**23 Financial Risk Management Objectives and Policies**

The group's principal financial liabilities, other than derivatives, comprise bank loans (senior credit facility), mortgage loans, senior notes, senior secured notes, finance leases, 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.



## **23 Financial Risk Management Objectives and Policies (continued)**

Also, substantially all of the group revenues and costs (excluding interest) are earned and paid in pounds sterling, but interest and principal obligations on some indebtedness are in US 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.

To mitigate the risk from these exposures the group has implemented a cash flow hedging programme. The objective is to reduce the volatility of the group's cash flows and earnings caused by changes in underlying rates. To achieve this objective the group has entered into a number of derivative financial instruments which comprise interest rate swaps, cross-currency interest rate swaps and foreign currency forward contracts. The group has not entered into any derivatives for trading or speculative purposes.

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 2012, before taking into account hedging instruments, interest is determined on a variable basis on £750 million (2011 - £750 million) or 14% (2011 - 14%) of indebtedness, relating solely to amounts drawn down on the senior credit facility. 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 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, shareholders' 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 2012, 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 £3.1 million (2011 - a 0.25% change would have resulted in a movement of £4.6 million). Movements in gross interest expense would be recognised in finance revenue and finance costs in the Group Income Statement.

## **23 Financial Risk Management Objectives and Policies (continued)**

### *Foreign currency exchange rate risk*

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

As of 31 December 2012 the group had £2,135.8 million, or 41% of external indebtedness, denominated in U S dollars (see note 20). 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 foreign currency forward rate contracts, all external debt is hedged against foreign currency exchange rate risk.

For the year ended 31 December 2012 the group had foreign currency losses of £36.7 million (2011 – gains of £2.1 million). The losses for the year ended 31 December 2012 were primarily due to foreign exchange movements between the issuance of the \$500m U S dollar denominated senior notes due 2022 on 13 March 2012, and the redemption of \$500m of the U S dollar denominated senior notes due 2016 on 28 March 2012.

It is the Virgin Media group's policy not to hedge against inter-company debt using derivative financial instruments. At 31 December 2012 the group had £94.2 million of euro denominated inter-company liabilities (2011 – £96.3 million). The group also had £908.3 million of U S dollar denominated inter-company receivables (2011 – £522.7 million).

### *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. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging transactions. Exchange rate fluctuations, on which the financial instruments are based, affect gains or losses on derivatives in the finance revenue or finance costs lines, respectively, of the Group Income Statement.

**Virgin Media Finance PLC**  
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**23 Financial Risk Management Objectives and Policies (continued)**

The following table demonstrates the sensitivity to a reasonably possible change in the 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 and the fair value movements on cash flow hedges) and the group's equity (due to changes in the fair value of cash flow hedges)

|                     | Increase/<br>decrease in<br>Sterling US<br>dollar/Euro rate | Effect on<br>profit/(loss)<br>before tax<br>£ million | Effect<br>on Equity<br>£ million |
|---------------------|---|---|----------------------------------|
| <b>2012</b>         |   |   |                                  |
| Sterling/U S dollar | +20%  | 356 0   | (486 3)                          |
| Sterling/U S dollar | -20%  | (533 9)   | 726 5                            |
| <b>2011</b>         |   |   |                                  |
| Sterling/U S dollar | +20%  | 369 7   | (493 7)                          |
| Sterling/U S dollar | -20%  | (554 6)   | 743 4                            |
| Sterling/euro       | +20%  | 24 2  | (36 8)                           |
| Sterling/euro       | -20%  | (36 3)  | 55 0                             |

*Liquidity risk and capital management*

The company is a wholly owned subsidiary and its ultimate parent company is Virgin Media Inc. Capital management policies are operated at a Virgin Media group level by the management of Virgin Media Inc. 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.

As of 31 December 2012 the group had £5,326.5 million of external debt (including finance leases and net of deferred finance costs) outstanding, compared to £5,232.3 million as of 31 December 2011 and cash and cash equivalents of £195.9 million compared to £283.9 million at 31 December 2011.

The principal amount outstanding under the senior credit facility at 31 December 2012 and 31 December 2011 was £750.0 million. The senior credit facility comprises a term facility denominated in pounds sterling of £750.0 million and a revolving facility of £450.0 million. At 31 December 2012, £750.0 million (2011 - £750 million) of the term facility had been drawn and £6.4 million (2011 - £5.8 million) of the revolving credit facility had been utilised for bank guarantees and standby letters of credit.

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 2014. 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 sale of assets or other means. It may not be possible to obtain 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. However, significant steps have been taken to defer repayments or make additional prepayments as described below.

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**23 Financial Risk Management Objectives and Policies (continued)**

On 13 March 2012 Virgin Media Finance PLC, issued \$500 million aggregate principal amount of 5.25% senior notes due 2022 at par. The proceeds of \$495.5 million, net of fees, were received on 13 March 2012. Interest is payable on 15 February and 15 August each year, beginning on 15 August 2012. The senior notes due 2022 rank pari passu with Virgin Media Finance PLC's outstanding senior notes due 2019 and 2022. On 28 March 2012, the group used the net proceeds from these new senior notes, and cash on its balance sheet, to redeem \$500 million of the principal amount of the \$1,350 million 9.50% senior notes due 2016. The group recognised a loss on extinguishment of debt of £59.1 million as a result of this redemption, which represented the difference between the consideration paid to redeem \$500 million of the 9.50% senior notes due 2016 and the carrying value of those notes, and the write-off of associated deferred finance costs.

On 30 October 2012, Virgin Media Finance PLC, issued \$900 million aggregate principal amount of 4.875% senior notes due 2022 at par and £400 million aggregate principal amount of 5.125% senior notes due 2022, at par. The proceeds of \$893.0 million and £396.9 million, net of fees, were received on 30 October 2012. Interest is payable on 15 February and 15 August each year, beginning on 15 February 2013. The senior notes due 2022 rank pari passu with Virgin Media Finance PLC's outstanding senior notes due 2019 and 2022. The group used the net proceeds to redeem in full the outstanding \$850 million and €180 million 9.50% senior notes due 2016 and to redeem \$92.9 million of the principal amount of the \$600 million 8.375% senior notes due 2019 and £96.5 million of the principal amount of the £350 million 8.875% senior notes due 2019. The group recognised a loss on extinguishment of debt of £130.7 million as a result of these redemptions, which represented the difference between the consideration paid to redeem the respective notes and the carrying value of those notes, and the write-off of associated deferred finance costs.

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 2015. However, if the group was unable to meet the prepayment condition 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.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**23 Financial Risk Management Objectives and Policies (continued)**

A maturity analysis of financial liabilities, outstanding at 31 December 2012, showing the remaining contractual undiscounted amounts payable, including interest commitments, is shown below

|   | Less<br>than 1 year<br>£ million | 1 to 5 years<br>£ million | Greater than<br>5 years<br>£ million | Total<br>£ million |
|---|----------------------------------|---------------------------|--------------------------------------|--------------------|
| <b>2012</b>   |                                  |                           |                                      |                    |
| Senior credit facility, senior notes, senior secured notes and mortgage loans | 279.7                            | 1,798.6                   | 4,746.1                              | 6,824.4            |
| Finance lease and hire purchase contracts                                     | 87.6                             | 132.0                     | 152.5                                | 372.1              |
| Derivative contracts  | 8.1                              | 39.9                      | 62.0                                 | 110.0              |
| <b>2011</b>   |                                  |                           |                                      |                    |
| Senior credit facility, senior notes, senior secured notes and mortgage loans | 331.3                            | 2,969.2                   | 3,706.0                              | 7,006.5            |
| Finance lease and hire purchase contracts                                     | 91.8                             | 147.5                     | 240.8                                | 480.1              |
| Derivative contracts  | 16.7                             | 53.4                      | -                                    | 70.1               |

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 2012, the group had £195.9 million (2011 - £283.9 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 periodic 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 Virgin Media 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.

**Virgin Media Finance PLC**  
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**24 Financial Instruments**

**Derivative Instruments and Hedging Activities - financial risk management**

The company and group have 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 hedge against inter-company debt denominated in foreign currencies, however, 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 creditors.

The fair values of derivative financial instruments recorded in the Group Balance Sheet are shown in notes 15 (Financial assets) and 20 (Financial liabilities).

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

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| <i>Included within current assets</i>          |                   |                   |
| <i>Cash flow hedges</i>                        |                   |                   |
| Foreign currency forward rate contracts        | -                 | 0.1               |
| <i>Derivatives not designated as hedges</i>    |                   |                   |
| Foreign currency forward rate contracts        | -                 | 1.6               |
| Interest rate swaps                            | 1.4               | 0.2               |
| Cross-currency interest rate swaps             | 4.7               | 7.6               |
|  | <u>6.1</u>        | <u>9.5</u>        |
| <i>Included within non-current assets</i>      |                   |                   |
| <i>Cash flow hedges</i>                        |                   |                   |
| Interest rate swaps                            | 105.9             | 78.0              |
| Cross-currency interest rate swaps             | 36.3              | 94.2              |
| <i>Derivatives not designated as hedges</i>    |                   |                   |
| Interest rate swaps                            | -                 | 3.1               |
| Cross-currency interest rate swaps             | 17.0              | 34.3              |
|  | <u>159.2</u>      | <u>209.6</u>      |
| <i>Included within current liabilities</i>     |                   |                   |
| <i>Derivatives not designated as hedges</i>    |                   |                   |
| Interest rate swaps                            | 2.1               | 7.5               |
| Cross-currency interest rate swaps             | 6.0               | 9.2               |
|  | <u>8.1</u>        | <u>16.7</u>       |
| <i>Included within non-current liabilities</i> |                   |                   |
| <i>Cash flow hedges</i>                        |                   |                   |
| Cross-currency interest rate swaps             | 62.0              | 7.3               |
| <i>Derivatives not designated as hedges</i>    |                   |                   |
| Interest rate swaps                            | 39.6              | 38.4              |
| Cross-currency interest rate swaps             | 0.3               | 7.7               |
|  | <u>101.9</u>      | <u>53.4</u>       |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
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**24 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, 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 2012, were as follows

| Hedged item                                   | Maturity date of hedge       | Hedge type     | Notional amount due from counterparty<br>\$ million | Notional amount due to counterparty<br>£ million | Weighted average interest rate due from counterparty | Weighted average interest rate due to counterparty |
|---|------------------------------|----------------|---|--|--|--|
| <i>Notional amount due in US dollars</i>      |                              |                |   |  |  |  |
| \$1,000m senior notes due 2016                | November 2016                | Not designated | 1,000 0   | 516 9  | 6 50%  | 6 91%  |
| \$507 1m senior notes due 2019                | October 2019                 | Cash flow      | 264 3   | 159 8  | 8 38%  | 9 03%  |
| \$507 1m senior notes due 2019                | October 2011 to October 2019 | Cash flow      | 235 7   | 142 5  | 8 38%  | 9 03%  |
| \$1,000m senior secured notes due 2018        | January 2018                 | Cash flow      | 1,000 0   | 615 7  | 6 50%  | 7 02%  |
| \$500m senior secured notes due 2021          | January 2021                 | Fair value     | 500 0   | 308 9  | 5 25%  | 6 month LIBOR +1 94%                               |
| \$500m senior notes due 2022                  | February 2022                | Cash flow      | 500 0   | 313 6  | 5 25%  | 5 80%  |
| \$900m senior notes due 2022                  | February 2022                | Cash flow      | 900 0   | 560 0  | 4 88%  | 5 11%  |
|   |                              |                | <u>4,400 0</u>                                      | <u>2,617 4</u>                                   |  |  |
| <i>Notional amount due in euros</i>           |                              |                |   |  |  |  |
| Other   | December 2013                | Not designated | € million<br>43 3                                   | £ million<br>30 8                                | 3 month EURIBOR +2 88%                               | 3 month LIBOR +3 26%                               |
|   |                              |                | <u>43 3</u>   | <u>30 8</u>                                      |  |  |
| <i>Notional amount due in pounds sterling</i> |                              |                |   |  |  |  |
| Other   | December 2013                | Not designated | £ million<br>29 7                                   | € million<br>43 3                                | 3 month LIBOR +2 90%                                 | 3 month EURIBOR +2 88%                             |
|   |                              |                | <u>29 7</u>   | <u>43 3</u>                                      |  |  |

All of the cross-currency interest rate swaps include exchanges of the notional amount at the start and end of the contract except for the contracts maturing in November 2016 hedging the \$1,000 million senior notes due 2016

On 29 March 2012, the cross-currency interest rate swaps hedging the \$500 million 9 50% senior notes due 2016 were settled, and the group received net cash of £2 3 million. The group also entered into new cross-currency interest rate swaps to mitigate the foreign exchange rate risk associated with the \$500 million 5 25% senior notes due 2022

Over the period 31 October 2012 to 30 November 2012, the cross-currency interest rate swaps on the \$850 million 9 50% senior notes due 2016, the €180 million 9 5% senior notes due 2016, and \$100 million of the \$600 million principal 8 375% senior notes due 2019 were settled, and the group made net payments of cash of £28 3 million. The group also entered into new cross-currency interest rate swaps to mitigate the foreign exchange rate risk associated with the \$900 million 4 875% senior notes due 2022

**Interest rate swaps - hedging of interest rate sensitive obligations**

As of 31 December 2012, 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 three or six month LIBOR in exchange for payments or receipts of interest at fixed rates

**Virgin Media Finance PLC**  
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**24 Financial Instruments (continued)**

The terms of the group's outstanding interest rate swap contracts at 31 December 2012 were as follows

| Hedged item                         | Maturity date of hedge     | Hedge type     | Notional amount<br>£ million | Weighted average interest rate due from counterparty | Weighted average interest rate due to counterparty |
|-------------------------------------|----------------------------|----------------|------------------------------|--|--|
| Senior credit facility              | July 2012 to December 2015 | Not designated | 600.0                        | 6 month LIBOR  | 2.86%  |
| £650m senior secured notes due 2021 | January 2021               | Fair value     | 650.0                        | 5.50%  | 6 month LIBOR +1.84%                               |
| Other                               | March 2013                 | Not designated | 300.0                        | 3 month LIBOR  | 3.28%  |
| Other                               | March 2013                 | Not designated | 300.0                        | 1.86%  | 3 month LIBOR                                      |

**Foreign Currency Forward Rate Contracts - hedging of committed and forecast transactions**

At 31 December 2012 the group had outstanding foreign currency forward rate contracts to purchase US dollars to hedge committed and forecast purchases. The terms of the group's outstanding foreign currency forward rate contracts at 31 December 2012 were follows

| Hedged item                      | Maturity date of hedge    | Hedge type     | Notional amount due from counterparty<br>\$ million | Weighted average interest rate due from counterparty<br>£ million | Weighted average exchange rate |
|----------------------------------|---------------------------|----------------|---|---|--------------------------------|
| Committed and forecast purchases | January 2013 to June 2013 | Not designated | 72.0  | 44.5  | 1.6177                         |

**Cash flow hedges**

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on derivatives is reported as unrealised gains and losses in the Group Statement of Comprehensive Income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

Gains or losses representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognised as gains or losses on derivative instruments in the Group Income Statement in the period in which they occur. During the year ended 31 December 2012 no gain or loss relating to ineffectiveness was recognised (2011 – no gain or loss).

The following table presents the effective amount of gain or loss recognised in other comprehensive income and amounts reclassified to earnings during the year ended 31 December 2012

|   | Total<br>£ million | Interest rate swaps<br>£ million | Cross currency interest rate swaps<br>£ million | Forward foreign exchange contracts<br>£ million | Tax effect<br>£ million |
|---|--------------------|----------------------------------|---|---|-------------------------|
| Balance at 31 December 2011                             | (32.4)             | 3.3                              | (25.2)  | 0.1   | (10.6)                  |
| Amounts recognised in Statement of Comprehensive Income | (141.9)            | -                                | (141.9)   | -   | -                       |
| Amounts reclassified to earnings impacting:             |                    |                                  |   |   |                         |
| Foreign exchange losses                                 | 85.3               | -                                | 85.3  | -   | -                       |
| Interest expense  | 9.0                | -                                | 9.0   | -   | -                       |
| Operating costs   | (0.1)              | -                                | -   | (0.1)   | -                       |
|   | (47.7)             | -                                | (47.6)  | (0.1)   | -                       |
| Tax effect recognised                                   | 15.7               | -                                | -   | -   | 15.7                    |
| Balance at 31 December 2012                             | (64.4)             | 3.3                              | (72.8)  | -   | 5.1                     |



**Virgin Media Finance PLC**  
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**for the year ended 31 December 2012**

**24 Financial Instruments (continued)**

**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 profit or loss 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

Gains or losses representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognised as gains or losses on derivative instruments in the Group Income Statement in the period in which they occur. During the year ended 31 December 2012 the Group recognised an ineffectiveness loss totalling £4.2 million (2011 – gain of £3.7 million)

**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

|  | 2012<br>Carrying value<br>£ million | 2012<br>Fair value<br>£ million | 2011<br>Carrying value<br>£ million | 2011<br>Fair value<br>£ million |
|--|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| Senior credit facility                             | (750.0)                             | (750.0)                         | (750.0)                             | (750.0)                         |
| 9.50% U.S. dollar senior notes due 2016            | -                                   | -                               | (849.2)                             | (966.4)                         |
| 9.50% euro senior notes due 2016                   | -                                   | -                               | (145.3)                             | (170.1)                         |
| 8.375% U.S. dollar senior notes due 2019           | (309.3)                             | (357.6)                         | (380.6)                             | (416.9)                         |
| 8.875% pound sterling senior notes due 2019        | (250.3)                             | (287.7)                         | (345.2)                             | (378.9)                         |
| 5.25% U.S. dollar senior notes due 2022            | (308.9)                             | (321.9)                         | -                                   | -                               |
| 4.875% U.S. dollar senior notes due 2022           | (555.9)                             | (571.5)                         | -                                   | -                               |
| 5.125% sterling senior notes due 2022              | (400.0)                             | (409.0)                         | -                                   | -                               |
| 6.50% U.S. dollar senior secured notes due 2018    | (611.2)                             | (681.6)                         | (635.4)                             | (663.5)                         |
| 7.00% pound sterling senior secured notes due 2018 | (865.9)                             | (945.8)                         | (864.5)                             | (923.1)                         |
| 5.50% pound sterling senior secured notes due 2021 | (754.1)                             | (724.9)                         | (722.4)                             | (640.3)                         |
| 5.25% U.S. dollar senior secured notes due 2021    | (350.5)                             | (360.5)                         | (353.1)                             | (321.8)                         |

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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**24 Financial Instruments (continued)**

As at 31 December 2012, the fair value of the financial instruments held by the group is as follows

|   | Level 1<br>£ million | Level 2<br>£ million | Level 3<br>£ million | Total<br>£ million |
|---|----------------------|----------------------|----------------------|--------------------|
| <i>Financial assets at fair value</i>         |                      |                      |                      |                    |
| Cash, short term deposits and restricted cash | 197.8                | -                    | -                    | 197.8              |
| Cross-currency interest rate swaps            | -                    | 58.0                 | -                    | 58.0               |
| Interest rate swaps                           | -                    | 107.3                | -                    | 107.3              |
|   | <u>197.8</u>         | <u>165.3</u>         | <u>-</u>             | <u>363.1</u>       |
| <i>Financial liabilities at fair value</i>    |                      |                      |                      |                    |
| Senior Notes                                  | 1,947.8              | -                    | -                    | 1,947.8            |
| Senior Secured Notes                          | 2,712.8              | -                    | -                    | 2,712.8            |
| Cross-currency interest rate swaps            | -                    | 68.3                 | -                    | 68.3               |
| Interest rate swaps                           | -                    | 41.7                 | -                    | 41.7               |
|   | <u>4,660.6</u>       | <u>110.0</u>         | <u>-</u>             | <u>4,770.6</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. The carrying amounts of the group's derivative financial instruments are disclosed above.

*Senior Notes and Senior Secured Notes* The fair values of the 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 incorporates 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.

The carrying values of the \$500 million 5.25% and £650 million 5.50% senior secured notes due 2021 include increases of £42.9 million and £109.1 million, respectively, at 31 December 2012, and increases of £45.7 million and £77.9 million, respectively, at 31 December 2011, as a result of the group's application of fair value hedge accounting to these instruments.

During the year, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of the level 3 fair value measurements.

**25 Authorised and issued share capital**

|   | 2012<br>£'000 | 2011<br>£'000 |
|---|---------------|---------------|
| <i>Authorised</i>                         |               |               |
| 5,000,000 ordinary shares of £1 each      | <u>5,000</u>  | <u>5,000</u>  |
| <i>Allotted, called up and fully paid</i> |               |               |
| 92,456 ordinary shares of £1 each         | <u>92</u>     | <u>92</u>     |

**Virgin Media Finance PLC**  
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**for the year ended 31 December 2012**

**26 Share-based payments**

The company is an indirect, wholly-owned subsidiary of Virgin Media Inc. Consequently, the company has no share-based compensation plans. The group's directors and certain of its employees participate in the share-based compensation plans of Virgin Media Inc., as summarised below.

**Virgin Media Stock Incentive Plans**

The Virgin Media Stock Incentive Plans are intended to encourage Virgin Media Inc. share ownership by employees and directors so that they may acquire or increase their proprietary interest in the Virgin Media group, and to encourage such employees and directors to remain in the group's employ or service and to put forth maximum efforts for the success of the business. To accomplish such purposes, the plans provide that Virgin Media Inc. may grant incentive share options, non-qualified share options, shares of restricted stock, restricted stock units, performance shares and share awards.

**Virgin Media Sharesave Plan**

The Virgin Media Sharesave Plan is a broad based share option arrangement which enables eligible employees to receive options to purchase shares of Virgin Media Inc.'s common shares at a discount. Employees are invited to take out savings contracts that last for three, five or seven years. At the end of the contract employees use the proceeds of these savings to exercise options granted under the plan.

**Stock option grants**

All options have a 10 year term and vest and become fully exercisable within 5 years of continued employment. The group accounts for the Virgin Media Stock Incentive Plan under the fair value recognition provisions of IFRS 2 – "Share-based Payment".

The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| Year ended 31 December            | 2012   | 2011   |
|-----------------------------------|--------|--------|
| Risk-free Interest Rate           | 0.73%  | 1.81%  |
| Expected Dividend Yield           | 0.66%  | 0.63%  |
| Expected Volatility               | 49.96% | 58.10% |
| Expected Lives of Options (years) | 4.7    | 5.3    |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical realised volatility of the ultimate parent company's shares, matched to the expected life of the option, is indicative of future trends, which may not necessarily be the actual outcome.

A summary of the activity and related information of the Virgin Media share option grants relating to employees of the group, outstanding as of 31 December 2012, pursuant to the share incentive plans and the Virgin Media Sharesave Plan, and of the changes during the year ended 31 December 2012 is given below.

**Share options 2012**

|                                       | Share Incentive Plans | Virgin Media Sharesave Plan | Total             | Weighted Average Exercise Price |
|---------------------------------------|-----------------------|-----------------------------|-------------------|---------------------------------|
| Outstanding - 1 January 2012          | 10,064,470            | 2,667,510                   | 12,731,980        | \$16.43                         |
| Granted in year                       | 1,441,434             | -                           | 1,441,434         | \$24.36                         |
| Exercised                             | (2,190,367)           | (872,429)                   | (3,062,796)       | \$13.77                         |
| Expired                               | (5,239)               | (162,275)                   | (167,514)         | \$17.79                         |
| Forfeited                             | (653,602)             | (40,704)                    | (694,306)         | \$20.89                         |
| <b>Outstanding - 31 December 2012</b> | <b>8,656,696</b>      | <b>1,592,102</b>            | <b>10,248,798</b> | <b>\$18.33</b>                  |
| <b>Exercisable at end of the year</b> | <b>3,820,333</b>      | <b>29,290</b>               | <b>3,849,623</b>  | <b>\$18.14</b>                  |

**Virgin Media Finance PLC**  
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**26 Share-based payments (continued)**

A summary of the Virgin Media share option grants outstanding relating to employees of the group as of 31 December 2011, pursuant to the share incentive plans and the Virgin Media Sharesave Plan, and of the changes during the year ended 31 December 2011 is given below

**Share options 2011**

|                                       | <i>Share Incentive<br/>Plans</i> | <i>Virgin Media<br/>Sharesave<br/>Plan</i> | <i>Total</i>      | <i>Weighted<br/>Average<br/>Exercise Price</i> |
|---------------------------------------|----------------------------------|--|-------------------|--|
| Outstanding - 1 January 2011          | 13,429,280                       | 3,201,115                                  | 16,630,395        | \$14 67  |
| Granted in year                       | 1,658,843                        | 1,176,735                                  | 2,835,578         | \$23 04  |
| Exercised                             | (3,351,686)                      | (1,472,728)                                | (4,824,414)       | \$14 51  |
| Expired                               | (221,003)                        | (65,847)                                   | (286,850)         | \$21 44  |
| Forfeited                             | (1,450,964)                      | (171,765)                                  | (1,622,729)       | \$14 72  |
| <b>Outstanding - 31 December 2011</b> | <b>10,064,470</b>                | <b>2,667,510</b>                           | <b>12,731,980</b> | <b>\$16 43</b>                                 |
| <b>Exercisable at end of the year</b> | <b>3,735,200</b>                 | <b>-</b>                                   | <b>3,735,200</b>  | <b>\$18 70</b>                                 |

The options exercisable at 31 December 2012 had a weighted average remaining contractual term of 5 07 years (2011 - 5 68 years) and the options outstanding at the year end had a weighted average remaining term of 6 71 years (2011 - 5 07 years)

The weighted average share price at the date of exercise for the options exercised in 2012 was \$27 28 (2011 - \$28 17)

The weighted average fair value of options granted during the year ended 31 December 2012 was \$9 71 (2011 - \$10 39) The range of exercise prices for options outstanding at 31 December 2012 was \$3 98 to \$30 64 (2011 - \$0 02 to \$30 64)

For performance based option grants the performance objectives are set by the Compensation Committee of the Board of Directors of Virgin Media Inc based upon quantitative and qualitative objectives, including earnings and stock price performance, amongst others These objectives may be absolute or relative to prior performance or to the performance of other entities, indices or benchmarks and may be expressed in terms of progression within a specific range

**Restricted stock grants**

|                                      | <b>2012</b>   |   | <b>2011</b>    |   |
|--------------------------------------|---------------|---|----------------|---|
|                                      | <i>Shares</i> | <i>Weighted<br/>Average Grant<br/>Date Fair Value</i> | <i>Shares</i>  | <i>Weighted<br/>Average Grant<br/>Date Fair Value</i> |
| Non vested - beginning of year       | 312,500       | \$10 71   | 437,500        | \$11 57   |
| Granted                              | -             | -   | -              | -   |
| Vested                               | (303,050)     | \$10 72   | (114,596)      | \$13 66   |
| Forfeited                            | (9,450)       | \$10 30   | (10,404)       | \$14 28   |
| <b>Non vested at end of the year</b> | <b>-</b>      | <b>-</b>  | <b>312,500</b> | <b>\$10 71</b>  |

Restricted stock grants are issued with certain restrictions attached, which can be either service-based or performance related For performance related restricted stock grants the performance objectives are set by the Compensation Committee of the Board of Directors of Virgin Media Inc based upon quantitative and qualitative objectives, including earnings and stock price performance, amongst others These objectives may be absolute or relative to prior performance or to the performance of other entities, indices or benchmarks and may be expressed in terms of progression within a specific range The fair value for restricted stock grants is determined using the share price at the date of grant At 31 December 2012, there were no non-vested shares of restricted stock

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**for the year ended 31 December 2012**

**26 Share-based payments (continued)**

**Restricted stock unit grants**

|                                      | 2012               |   | 2011               |   |
|--------------------------------------|--------------------|---|--------------------|---|
|                                      | <i>Performance</i> | <i>Weighted<br/>Average Grant<br/>Date Fair Value</i> | <i>Performance</i> | <i>Weighted<br/>Average Grant<br/>Date Fair Value</i> |
|                                      | <i>Shares</i>      |   | <i>Shares</i>      |   |
| Non vested - beginning of year       | 4,078,675          | \$14.96   | 5,179,451          | \$12.29   |
| Granted                              | 1,522,494          | \$24.45   | 1,570,471          | \$20.27   |
| Vested                               | (1,015,523)        | \$9.10  | (974,239)          | \$12.16   |
| Forfeited                            | (395,478)          | \$18.16   | (1,697,008)        | \$13.34   |
| <b>Non vested at end of the year</b> | <b>4,190,168</b>   | <b>\$19.53</b>  | <b>4,078,675</b>   | <b>\$14.96</b>  |

Participants in the Virgin Media group's long term incentive plans are awarded restricted stock units or performance shares which vest after a three year period dependent on the achievement of certain long term performance targets and continued employment. The final number of restricted stock units vesting will be settled, at the Compensation Committee's discretion, in either shares in the ultimate parent company or an amount of cash equivalent to the fair market value at the date of vesting.

In 2010, the Compensation Committee introduced a relative stock performance measure to the stock incentive plan. The vesting of a proportion of restricted stock units under the 2010-2012, 2011-2013 and 2012-2014 long term incentive plans are subject to a relative Total Shareholder Value ("TSV") performance measure. The measure is based on a comparison of Virgin Media Inc's stock price growth with that of a comparator group of organisations selected by the Compensation Committee.

The fair values of the restricted stock units containing a market condition were estimated at the date of grant using the Monte Carlo simulation model with the following assumptions:

| <b>Year ended 31 December</b>                           | <b>2012</b>     | <b>2011</b>     |
|---|-----------------|-----------------|
| Risk-free Interest Rate                                 | 0.312% - 2.082% | 0.93% - 2.54%   |
| Expected Dividend Yield                                 | 0.66%           | 0.64%           |
| Expected Volatility of Virgin Media Inc. shares         | 39.36%          | 69.58%          |
| Expected Volatility of Selected Comparator Group Shares | 17.11% - 44.74% | 25.85% - 59.67% |
| Expected Lives (years)                                  | 2.93            | 2.93            |

The expected life of the restricted stock units is based on the stated performance period. Actual historical changes in the market values of the ultimate parent company's shares and those of selected comparator group stocks are used to calculate the expected volatility assumption.

The restricted stock units that vested during the year had a total fair value of £16.1 million (2011 - £16.3 million).

**Total expense**

The expense relating to the payment of share-based compensation of the group's directors and its employees is £17.7 million (2011 - £20.0 million).

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**27 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*

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

*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. The movement in this reserve in both 2012 and 2011 arose on the deferred and initial consideration, respectively, following the group's acquisition of the non-controlling interest in a subsidiary undertaking

*Unrealised gains and losses*

This reserve records the portion of gain or loss on hedging instruments that are determined to be effective hedges

**28 Post balance sheet events**

*Merger agreement with Liberty Global, Inc.*

On 5 February 2013, the Virgin Media group entered in to a Merger Agreement with Liberty Global, Inc., or Liberty Global, and certain of its direct or indirect wholly-owned subsidiaries, or the Merger Subsidiaries. Under the terms of the Merger Agreement, the Virgin Media group have agreed, through a series of intermediate steps and transactions, to be acquired by Liberty Global and merge into one of the Merger Subsidiaries. If consummated, the merger will result in both Liberty Global and Virgin Media becoming directly owned by a new UK public limited company, or the Ultimate Parent, listed on NASDAQ, the common stock of which will in turn be held by Liberty Global and Virgin Media Shareholders. The Virgin Media group will continue to operate under the Virgin Media brand in the UK.

On 15 April 2013, the merger was granted unconditional European Union, or EU, regulatory approval to proceed. The consummation of the merger is still subject to the affirmative approval of Virgin Media Inc.'s shareholders and those of Liberty Global, and other customary closing conditions. The shareholder meetings for the Virgin Media group and Liberty Global to consider and vote to approve the Merger Agreement and related transactions occurred on 4 June 2013 and 3 June 2013, respectively, and shareholder approval has been granted.

Under the Merger Agreement, the Virgin Media group has agreed to use its reasonable best efforts to carry on its business consistent with past practice and preserve intact the business organisation and commercial goodwill from the date of the Merger Agreement until either the merger is consummated or the Merger Agreement is terminated. In addition, during this period the Virgin Media group has undertaken covenants that place certain restrictions on the Virgin Media group, and its subsidiaries', ability to, among other things, dispose of material properties or assets, make unbudgeted capital expenditures, acquire substantial assets, make substantial investments, increase the salary of certain of its employees or directors, pay certain bonuses or incentive compensation, grant new equity or non-equity based compensation awards, hire new employees, redeem common stock or other equity interests, declare or pay dividends or make other distributions in respect of its capital stock, other than a quarterly dividend of up to \$0.04 per share, incur or otherwise become liable for material indebtedness, enter into certain transactions with related parties or enter into new material contracts, in each case, other than in the ordinary course of business, pursuant to certain exceptions and baskets set forth in the Merger Agreement or unless Liberty Global consents in writing to the taking of any such action. If the Virgin Media group fails to comply with these restrictions in all material respects, unless waived by Liberty Global, the Merger Agreement could be terminated or the merger not consummated.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
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**28 Post balance sheet events (continued)**

On 15 April 2013, the merger was granted unconditional European Union, or EU, regulatory approval to proceed. In addition, the shareholders for the Virgin Media group and Liberty Global approved the Merger Agreement and related transactions on 4 June 2013 and 3 June 2013, respectively. The consummation of the merger is still subject to other customary closing conditions. For example, the Merger Agreement will terminate if, prior to the consummation of the merger, the Virgin Media group enters into an acquisition agreement with respect to a superior proposal and pay an applicable termination fee of up to \$370 million, or if the merger is not consummated on, or prior to 5 October 2013, which is the eight month anniversary of the date of signature of the Merger Agreement, or 5 January 2014 if extended for certain reasons to the eleven month anniversary. The Merger Agreement also includes certain other events of termination and certain other termination fee and expense provisions. As set out in the Merger Agreement, the effective date of the Merger is three days following shareholder approval (or 7 June 2013), unless otherwise agreed by the parties. Merger consideration is expected to be transferred on 7 June 2013, following which control will be considered to have passed.

At the effective time of the merger, pursuant to the Merger Agreement, each share of Virgin Media Inc.'s common stock issued and outstanding immediately prior to the effective time (excluding shares held by itself or its subsidiaries in treasury and dissenting shares in accordance with Delaware law) will be converted into the right to receive (i) 0.2582 Series A shares of the Ultimate Parent, (ii) 0.1928 Series C shares of the Ultimate Parent and (iii) \$17.50 per share in cash. Based on Virgin Media Inc.'s fully-diluted shares outstanding of 335 million as of 31 December 2012, the Virgin Media group expects that its shareholders will own approximately 36% of the shares outstanding of the Ultimate Parent and have approximately 26% of the voting rights.

The Virgin Media group expects that Liberty Global will finance a portion of the merger consideration from its own cash reserves and by raising bank debt and accessing the capital markets, which, if the merger is consummated, will, together with debt raised to replace certain of the Virgin Media group's existing facilities, be assumed by the Virgin Media group and result in an increase to its overall level of debt.

***Financing implications of the Merger on the group's existing debt***

Consummation of the merger would represent a change of control event under the terms of the relevant indentures of all of the senior secured notes and senior notes issued by Virgin Media Finance PLC, or VMF, and the group's wholly owned subsidiary Virgin Media Secured Finance PLC, or VMSF, and obligate the Virgin Media group to offer the noteholders the right to put their notes back to it at 101% of the principal amount plus accrued interest. At the request of Liberty Global, on 6 February 2013, VMSF and VMF commenced consent solicitations in respect of some of these notes for the noteholders to preemptively waive this obligation and to seek consents to effect certain other proposed amendments in relation to the merger. Holders of the Virgin Media group's dollar-denominated 6.50% senior secured notes due 2018, sterling-denominated 7.00% senior secured notes due 2018, dollar-denominated 8.375% senior notes due 2019 and sterling-denominated 8.875% senior notes due 2019 granted consent to preemptively waive this obligation. Holders of the Virgin Media group's dollar-denominated 5.25% senior secured notes due 2021 and sterling-denominated 5.50% senior secured notes due 2021, collectively the 2021 Notes, did not grant consent to preemptively waive this obligation and therefore the Virgin Media group will be required to make an offer to repurchase these notes within 30 days of the consummation of the merger.

The Virgin Media group have not solicited consents in relation to its dollar-denominated 5.25% senior notes due 2022, its dollar-denominated 4.875% senior notes due 2022 and its sterling-denominated 5.125% senior notes due 2022, collectively the 2022 Notes, and will be required to make an offer to repurchase these notes within 30 days of the consummation of the merger.

The indentures governing the notes issued by VMF and VMSF permit the issuer to launch change of control offers in anticipation of a change of control event. Therefore, on 3 May 2013, the Virgin Media group launched to holders a notice of change of control and offer to purchase its 2021 and 2022 Notes, which will remain open until 11.59 p.m. New York City time on 7 June 2013, unless the offer is extended or terminated.

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**29 Capital commitments**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Amounts contracted for but not provided in the accounts | <u>148.5</u>      | <u>162.5</u>      |

**30 Contingent liabilities**

The group's revenue generating activities are subject to Value Added Tax (VAT). The group's VAT treatment of certain other revenue generating activities remains subject to challenge by the UK tax authorities. As a result, the group has estimated contingent losses totalling £31.9 million as of 31 December 2012 (2011 - £27.5 million) that are not accrued for, as the group did not deem them probable of resulting in a liability. The group currently expects an initial hearing on these matters to take place during the second half of 2013 or early 2014.

**31 Pension and other post-retirement benefits**

***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 £13.7 million (2011 - £13.6 million). The amount of outstanding contributions at 31 December 2012 included within creditors' amounts falling due within one year was £2.3 million (2011 - £2.3 million).

***Defined benefit plans***

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

The group operates two plans which are defined benefit plans that pay out pensions at retirement based on services and final pay.

**• ntl 1999 Pension Plan**

A subsidiary, Virgin Media Limited, operates a funded pension plan providing defined benefits ("ntl 1999 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 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. As closed plans, under the projected unit method the current service cost will increase as the members of the plan approach retirement.



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**31 Pension and other post-retirement benefits (continued)**

Changes in the present value of the Defined Benefit Obligation are as follows

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Defined benefit obligation at start of year | 424.6             | 390.1             |
| Current service cost                        | 1.8               | 1.7               |
| Past service credit                         | -                 | (3.0)             |
| Interest cost                               | 20.1              | 21.2              |
| Experience (gains)/losses                   | (24.8)            | 4.1               |
| Impact of changes in financial assumptions  | 24.2              | 23.3              |
| Employee contributions                      | 0.3               | 0.3               |
| Benefits paid                               | (15.1)            | (13.1)            |
| Defined benefit obligation at end of year   | <u>431.1</u>      | <u>424.6</u>      |

Changes in the fair value of plan assets are as follows

|  | £ million    | £ million    |
|--|--------------|--------------|
| Fair value of the plan assets at start of year | 381.0        | 351.1        |
| Expected return on assets                      | 18.8         | 21.9         |
| Actual less expected return on assets          | (18.1)       | 3.2          |
| Employer contributions                         | 17.7         | 17.6         |
| Employee contributions                         | 0.3          | 0.3          |
| Benefits paid                                  | (15.1)       | (13.1)       |
| Fair value of plan assets at end of year       | <u>384.6</u> | <u>381.0</u> |

The amounts recognised in the Group Balance Sheet, for the current and previous four periods are as follows

|   | 2012<br>£ million | 2011<br>£ million | 2010<br>£ million | 2009<br>£ million | 2008<br>£ million |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Present value of funded defined benefit obligations | (431.1)           | (424.6)           | (390.1)           | (377.7)           | (307.8)           |
| Fair value of plan assets                           | <u>384.6</u>      | <u>381.0</u>      | <u>351.1</u>      | <u>306.2</u>      | <u>273.9</u>      |
| Deficit in plan                                     | <u>(46.5)</u>     | <u>(43.6)</u>     | <u>(39.0)</u>     | <u>(71.5)</u>     | <u>(33.9)</u>     |
| Experience gains/(losses) on plan liabilities       | 24.8              | (4.1)             | 5.8               | (5.7)             | 12.3              |
| Experience (losses)/gains on plan assets            | (18.1)            | 3.2               | 21.4              | 18.2              | (67.7)            |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**31 Pension and other post-retirement benefits (continued)**

The amounts recognised in the Group Income Statement for the year are as follows

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| <i>Charged to operating profit</i>  |                   |                   |
| Current service cost  | 18                | 17                |
| Past service credit   | -                 | (30)              |
| Total recognised in arriving at operating profit (note 5)                   | <u>18</u>         | <u>(13)</u>       |
| <i>Charged/(credited) to net finance expense</i>                            |                   |                   |
| Expected return on pension plan assets                                      | (188)             | (219)             |
| Interest on pension plan liabilities  | 200               | 212               |
| Total net finance cost/(income)   | <u>12</u>         | <u>(07)</u>       |
| <b>Taken to the Group Statement of Comprehensive Income:</b>                |                   |                   |
| Experience losses/(gains) on plan assets                                    | 181               | (32)              |
| Experience (gains)/losses on plan liabilities                               | (248)             | 41                |
| Changes in assumptions underlying the present value of the plan liabilities | 242               | 233               |
| Actuarial losses recognised in the Group Statement of Comprehensive Income  | <u>175</u>        | <u>242</u>        |

The group expects to contribute £170 million to the Pension Plans in 2013

The cumulative amount of actuarial gains and losses, net of tax, recognised since 1 January 2004 in the Group Statement of Comprehensive Income is £105.3 million (2011 - £87.8 million). The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity of £76.4 million in the group is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group Statement of Comprehensive Income before 1 January 2004.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**31 Pension and other post-retirement benefits (continued)**

Principal actuarial assumptions are as follows

|  | 2012  | 2011  |
|--|-------|-------|
| Discount rate  | 4.40% | 4.80% |
| Annualised expected return on plan assets for the year | 5.45% | 4.91% |
| Rate of salary increases                               | 3.30% | 3.50% |
| Rate of pension increases                              | 3.43% | 3.52% |
| Rate of inflation                                      | 1.80% | 2.00% |
| Life expectancy for                                    |       |       |
| Male aged 45   | 88.6  | 88.4  |
| Male aged 65   | 87.3  | 86.4  |
| Female aged 45   | 91.0  | 91.0  |
| Female aged 65   | 89.4  | 89.1  |

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity investments, which is based more on realistic future expectations than on the returns that have been available historically. The overall expected long term rate of return on assets is then the average of these rates taking into account the underlying asset portfolio of the pension plans.

Our pension plan weighted-average asset allocations by asset category and by fair value hierarchy level at 31 December 2012 and 2011 were as follows

**2012**

|                                   | Long term<br>rate of<br>return | Level 1<br>£ million | Level 2<br>£ million | Level 3<br>£ million | Total<br>£ million |
|-----------------------------------|--------------------------------|----------------------|----------------------|----------------------|--------------------|
| Equities                          | 6.90%                          | 168.4                | -                    | -                    | 168.4              |
| Property                          | 6.40%                          | 2.6                  | -                    | 2.6                  | 5.2                |
| Government bonds                  | 2.90%                          | 19.5                 | -                    | -                    | 19.5               |
| Corporate bonds                   | 4.40%                          | 81.2                 | -                    | -                    | 81.2               |
| Hedge funds                       | 6.40%                          | -                    | 9.1                  | -                    | 9.1                |
| Insurance policy (buy-in)         | 4.40%                          | -                    | -                    | 90.6                 | 90.6               |
| Cash and other                    | 2.90%                          | 10.6                 | -                    | -                    | 10.6               |
| Total market value of assets      |                                | 282.3                | 9.1                  | 93.2                 | 384.6              |
| Present value of plan liabilities |                                |                      |                      |                      | (431.1)            |
| Net pension liability             |                                |                      |                      |                      | (46.5)             |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**31 Pension and other post-retirement benefits (continued)**

| 2011                              |                                |                      |                      |                      |                    |
|-----------------------------------|--------------------------------|----------------------|----------------------|----------------------|--------------------|
|                                   | Long term<br>rate of<br>return | Level 1<br>£ million | Level 2<br>£ million | Level 3<br>£ million | Total<br>£ million |
| Equities                          | 6.80%                          | 125.4                | -                    | -                    | 125.4              |
| Property                          | 6.30%                          | 4.7                  | 1.9                  | -                    | 6.6                |
| Government bonds                  | 3.00%                          | 142.7                | -                    | -                    | 142.7              |
| Corporate bonds                   | 4.80%                          | 75.0                 | -                    | -                    | 75.0               |
| Hedge funds                       | 6.50%                          | -                    | 27.0                 | -                    | 27.0               |
| Cash and other                    | 3.00%                          | 4.3                  | -                    | -                    | 4.3                |
| Total market value of assets      |                                | 352.1                | 28.9                 | -                    | 381.0              |
| Present value of plan liabilities |                                |                      |                      |                      | (424.6)            |
| Net pension liability             |                                |                      |                      |                      | (43.6)             |

During the fourth quarter of 2012, the trustees of one of the group's defined benefit plans purchased an insurance contract that will pay an income stream to the plan which is expected to match all future cash outflows in respect of certain liabilities. The fair value of this insurance contract is presented as an asset of the plan and is measured based on the future cash flows to be received under the contract discounted using the same discount rate used to measure the associated liabilities.

The benefits expected to be paid out of the pension plans in total are set out below for each of the next five years and the following five years in aggregate. The benefits expected to be paid are based on the same assumptions used to measure the benefit obligation at 31 December 2012 and include estimated future employee services.

|   | £ million  |
|---|------------|
| 2013  | 15.6       |
| 2014  | 16.6       |
| 2015  | 17.6       |
| 2016  | 18.7       |
| 2017  | 19.8       |
| Years 2018 - 2022   | 119.9      |
| Weighted average duration of the defined benefit obligation | 18.6 years |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**32 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

**Note 33**

|   | Services<br>rendered to<br>related<br>party<br>£ million | Services<br>rendered by<br>related<br>party<br>£ million | Interest<br>charged to<br>related<br>party<br>£ million | Interest<br>charged by<br>related<br>party<br>£ million | Amounts<br>owed by<br>related<br>party<br>£ million | Amounts<br>owed to<br>related<br>party<br>£ million |
|---|--|--|---|---|---|---|
| <i>Related party</i>  |  |  |   |   |   |   |
| Parent undertakings   |  |  |   |   |   |   |
| 2012  | 5.6  | -  | 54.7  | -   | 884.0   | -   |
| 2011  | 5.5  | -  | 9.4   | -   | 480.5   | -   |
| Other entities with significant<br>influence over the group |  |  |   |   |   |   |
| 2012  | -  | -  | 0.7   | (4.8)   | 49.9  | (353.0)   |
| 2011  | -  | -  | 2.5   | (8.0)   | 51.3  | (351.0)   |
| Fellow subsidiary<br>undertakings                           |  |  |   |   |   |   |
| 2012  | 52.3   | -  | 0.7   | (10.9)  | -   | (285.2)   |
| 2011  | 49.0   | -  | 1.3   | (11.5)  | -   | (252.6)   |
| Joint ventures  |  |  |   |   |   |   |
| 2012  | -  | -  | -   | -   | -   | -   |
| 2011  | 0.3  | (24.7)   | 5.4   | -   | -   | -   |

*Parent undertakings*

The group's ultimate parent company Virgin Media Inc. 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.

*Entities with significant influence over the group*

Virgin Media Holdings Inc., a company with significant influence over the group, has been indebted to the group, which receives interest income according to the terms of each loan agreement. The group has been indebted to VM Sundial Limited, an entity with significant influence over the group, incurring interest charges according to the terms of each loan arrangement.

*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.

*Joint venture*

UKTV was a related party of the group, as the group owned 50% of the voting rights until 30 September 2011, when the sale of UKTV was completed. The group billed overheads and costs incurred to UKTV in the year to 31 December 2011 of £0.3 million. The group had made a loan to UKTV and purchased redeemable preference shares in UKTV. Interest charged on this loan and preference dividends received was £5.4 million in the year to 31 December 2011. Dividends on ordinary shares received from UKTV for the year ended 31 December 2011 totalled £17.5.

In the normal course of its business the group purchases programming from UKTV on normal commercial terms. Purchases for the year ended 31 December 2011 by the group totalled £24.7 million. At 31 December 2011 the group did not owe UKTV an amount in relation to these purchases.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**32 Related party transactions (continued)**

*Pension schemes*

The assets of all the Virgin Media sponsored pension schemes are held separately from those of the group. For details see note 31. The group pays the actuarial and audit fees on behalf of each of the defined benefit schemes.

*Terms and conditions of transactions with related parties*

The terms of the loans payable to parent undertakings are as outlined in note 20. 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.

*Virgin Group Companies*

Virgin Entertainment Investment Holdings Limited (VEIH) became a holder of Virgin Media Inc's common stock on 4 July 2006 as a result of Virgin Media Inc's acquisition of Virgin Mobile on that date. As of 31 December 2012, VEIH, which is indirectly owned by trusts whose principal beneficiaries are Sir Richard Branson and members of his family, owned 2.5% (2011 - 2.3%) of Virgin Media Inc's common stock. The group has entered into various transactions described below, in which affiliates of VEIH had a material interest, whether direct or indirect.

*(a) Trademark Licence Agreement with Virgin Enterprises Limited*

On 3 April 2006, Virgin Media Inc entered into a trademark licence agreement with Virgin Enterprises Limited (VEL) under which it is entitled to use certain Virgin trademarks within the United Kingdom and Ireland. The licence entitles the group to use the 'Virgin' name for the TV, broadband internet, telephone and mobile phone services provided to residential customers, as well as the acquisition and branding of sports, movies and other premium television content and the sale of communications equipment, such as set top boxes and cable modems. The agreement provides for a royalty of 0.25% per annum of Virgin Media Inc's revenue from the relevant businesses, subject to a minimum annual royalty of £8.5 million. The agreement has a term of 30 years. It can be terminated by Virgin Media after 10 years on one year's notice, and it is subject to earlier termination by the group in certain other circumstances, including (subject to specified payments) upon a change of control. During the year ended 31 December 2012, the group incurred royalties owed to VEL of £8.5 million (2011 - £8.5 million) under this licence agreement, of which £4.25 million (2011 - £4.25 million) was payable at the year end.

On 16 December 2009 the group entered into a trademark licence agreement with VEL, with effect from 11 February 2010, to use the 'Virgin' name for its ntl Telewest Business division, which was rebranded 'Virgin Media Business'. The agreement provides for an annual royalty of 0.25% per annum of revenue from the business division, subject to a minimum annual royalty of £1.5 million. During the year ended 31 December 2012, the group incurred royalties of £1.7 million (2011 - £1.6 million) under this licence agreement, of which £885,000 (2011 - £771,000) was payable at the year end.

*(b) Service agreement with Virgin Group Investments Limited*

The group also has an agreement with Virgin Group Investments Limited, Sir Richard Branson's employer, and Virgin Management Limited, relating to personal public appearances by Sir Richard to promote the group and its services. The group is obliged to pay an annual fee of £100,000 under this agreement. During the year the group incurred £100,000 (2011 - £100,000) under this agreement.

*(c) Other ordinary course agreements with VEIH affiliates*

The group entered into agreements with VEIH affiliates in the ordinary course of business. These included telecommunications service agreements with Virgin Atlantic Airways and Virgin Holidays. These contracts were entered into prior to VEIH acquiring its interest in Virgin Media Inc. The group had aggregate revenues in 2012 of approximately £875,000 (2011 - £695,000) under these contracts.

*(d) Sales promotions with Virgin Games*

During 2006 the group entered into promotional arrangements whereby the products and services of Virgin Games, a division of Virgin.com Limited, are promoted on the group's internet portal at [www.virginmedia.com](http://www.virginmedia.com). The group received payment of approximately £117,000 in 2012 (2011 - £147,000) from Virgin Games in connection with these arrangements.

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**32 Related party transactions (continued)**

*(e) Advertising with Virgin Atlantic Airways*

During the year the group advertised its products on the in-flight entertainment platform of Virgin Atlantic Airways, incurring expenses of approximately £162,000 (2011 - £162,000)

*(f) Virgin Insight Services*

In 2012 the group provided Virgin Insight Limited, an organisation that was created in 2008 to facilitate closer mutually beneficial collaboration between participating Virgin Group companies and non-Virgin companies (which do not compete directly with any of the Virgin Group companies) through the identification of cross-group marketing opportunities based on the number of customers of the participating brands, with cash in-kind services (data-processing and support by the group's business intelligence analysts), incurring expenses (both cash and in-kind services) of £250,000 (2011 - £250,000) of which £150,000 (2011 - £150,000) was incurred through in-kind services

*(g) Business Travel and Virgin Atlantic Airways*

From time to time in the ordinary course of business the group's employees make travel arrangements with Virgin Atlantic Airways when flying for business reasons and the travel department encourages this due to the discounts made available. In 2012, the group incurred travel expenses of approximately £214,000 (2011 - £226,000) in connection with these arrangements

*(h) Virgin Vouchers*

From time to time, and in the ordinary course of business, the group offer sales and marketing promotions to customers and offer internal staff awards and promotions for which vouchers in respect of VEIH affiliates are provided. In 2012, the group incurred expenses of £90,000 (2011 - £171,000) to Acorne PLC, a voucher distributions company, in respect of vouchers for VEIH affiliates

**Compensation of key management personnel (including directors)**

|                              | 2012<br>£ million | 2011<br>£ million |
|------------------------------|-------------------|-------------------|
| Short-term employee benefits | 4.5               | 4.6               |
| Post-employment benefits     | 0.6               | 0.6               |
| Termination benefits         | -                 | -                 |
| Non-equity incentive plan    | 2.9               | 2.6               |
| Share based payments         | 5.6               | 7.3               |
|                              | <u>13.6</u>       | <u>15.1</u>       |

The compensation of the chairman and non-executive directors of Virgin Media Inc, the ultimate parent company of Virgin Media Finance PLC, are disclosed in the Proxy Statement of that company and represent costs that are not recharged to the group

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
for the year ended 31 December 2012

**33 Principal subsidiary undertakings**

Details of the principal 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 as follows. All are registered in England and Wales unless otherwise noted

| <i>Subsidiary</i>                            | <i>Holding</i>  | <i>Proportion of<br/>voting rights and<br/>shares held</i> | <i>Principal<br/>activities</i> |
|--|-----------------|--|---------------------------------|
| Virgin Media Investment Holdings Limited     | Ordinary shares | 100%   | Holding                         |
| Virgin Media Investments Limited             | Ordinary shares | 100% #   | Holding                         |
| Virgin Media Secured Finance PLC             | Ordinary shares | 100% #   | Finance                         |
| Virgin Media SFA Finance Limited             | Ordinary shares | 100% #   | Finance                         |
| VMIH Sub Limited                             | Ordinary shares | 100% #   | Holding                         |
| Virgin Media Limited                         | Ordinary shares | 100% #   | Telecoms                        |
| Virgin Media Payments Limited                | Ordinary shares | 100% #   | Collections                     |
| BCMV Limited                                 | Ordinary shares | 100% #   | Telecoms                        |
| ntl Business (Ireland) Limited               | Ordinary shares | 100% #   | Telecoms                        |
| Diamond Cable Communications Limited         | Ordinary shares | 100% #   | Holding                         |
| ntl Midlands Limited                         | Ordinary shares | 100% #   | Telecoms                        |
| ntl Funding Limited                          | Ordinary shares | 100% #   | Telecoms                        |
| NTL (Triangle) LLC                           | Common stock    | 100% # (ii)  | Holding                         |
| ntl Cambridge Limited                        | Ordinary shares | 100% #   | Telecoms                        |
| ntl Irish Holdings Limited                   | Ordinary shares | 100% #   | Telecoms                        |
| DTELS Limited                                | Ordinary shares | 100% #   | Telecoms                        |
| ntl Rectangle Limited                        | Ordinary shares | 100% #   | Holding                         |
| X-Tant Limited                               | Ordinary shares | 100% #   | Telecoms                        |
| ntl (South Hertfordshire) Limited            | Ordinary shares | 100% #   | Telecoms                        |
| ntl CableComms Limited                       | Ordinary shares | 100% #   | Telecoms                        |
| ntl CableComms Bolton                        | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Bromley                       | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Bury and Rochdale             | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Cheshire                      | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Derby                         | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Greater Manchester            | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Macclesfield                  | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Oldham and Tameside           | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Solent                        | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Staffordshire                 | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Stockport                     | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Surrey                        | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Sussex                        | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Wessex                        | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl CableComms Wirral                        | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl Wirral Telephone and Cable TV Company    | Ordinary shares | 100% # (i)   | Telecoms                        |
| ntl Communications Services Limited          | Ordinary shares | 100% #   | Telecoms                        |
| ntl (CWC) Limited                            | Ordinary shares | 100% #   | Telecoms                        |
| ntl Business Limited                         | Ordinary shares | 100% #   | Telecoms                        |
| Virgin Net Limited                           | Ordinary shares | 100% #   | Telecoms                        |
| Telewest UK Limited                          | Ordinary shares | 100% #   | Telecoms                        |
| Blueyonder Workwise Limited                  | Ordinary shares | 100% #   | Telecoms                        |
| Virgin Media Business Limited                | Ordinary shares | 100% #   | Telecoms                        |
| Telewest Communications (South West) Limited | Ordinary shares | 100% #   | Telecoms                        |
| Telewest Communications (Cotswolds) Limited  | Ordinary shares | 100% #   | Telecoms                        |

# held by subsidiary undertaking

(i) Unlimited company

(ii) Registered in USA

(iii) Registered in Luxembourg

(iv) registered in Scotland



**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**33 Principal subsidiary undertakings (continued)**

| <i>Subsidiary</i>                                       | <i>Holding</i>  | <i>Proportion of<br/>voting rights and<br/>shares held</i> | <i>Principal<br/>activities</i> |
|---|-----------------|--|---------------------------------|
| Cable London Limited                                    | Ordinary shares | 100% #   | Telecoms                        |
| Cable Camden Limited                                    | Ordinary shares | 100% #   | Telecoms                        |
| Cable Enfield Limited                                   | Ordinary shares | 100% #   | Telecoms                        |
| Cable Hackney & Islington Limited                       | Ordinary shares | 100% #   | Telecoms                        |
| Cable Haringey Limited                                  | Ordinary shares | 100% #   | Telecoms                        |
| Birmingham Cable Limited                                | Ordinary shares | 100% #   | Telecoms                        |
| Birmingham Cable Finance Limited                        | Ordinary shares | 100% #   | Telecoms                        |
| Eurobell (Holdings) Limited                             | Ordinary shares | 100% #   | Telecoms                        |
| Eurobell (Sussex) Limited                               | Ordinary shares | 100% #   | Telecoms                        |
| Eurobell (South West) Limited                           | Ordinary shares | 100% #   | Telecoms                        |
| Eurobell (West Kent) Limited                            | Ordinary shares | 100% #   | Telecoms                        |
| Eurobell Internet Services Limited                      | Ordinary shares | 100% #   | Telecoms                        |
| Telewest Communications Networks Limited                | Ordinary shares | 100% #   | Holding                         |
| Telewest Communications (London South) Limited          | Ordinary shares | 100% #   | Telecoms                        |
| Telewest Communications (South East) Limited            | Ordinary shares | 100% #   | Telecoms                        |
| Telewest Communications (South Thames Estuary) Limited  | Ordinary shares | 100% #   | Holding                         |
| Telewest Communications (Midlands & North West) Limited | Ordinary shares | 100% #   | Telecoms                        |
| M&NW Network Limited                                    | Ordinary shares | 100% #   | Telecoms                        |
| M&NW Network II Limited                                 | Ordinary shares | 100% #   | Telecoms                        |
| Telewest Communications (Cumbernauld) Limited           | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (Dumbarton) Limited             | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (Dundee & Perth) Limited        | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (Falkirk) Limited               | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (Glenrothes) Limited            | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (Motherwell) Limited            | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (Scotland) Limited              | Ordinary shares | 100% # (iv)  | Telecoms                        |
| Telewest Communications (North East) Limited            | Ordinary shares | 100% #   | Telecoms                        |
| Yorkshire Cable Communications Limited                  | Ordinary shares | 100% #   | Telecoms                        |
| Barnsley Cable Communications Limited                   | Ordinary shares | 100% #   | Telecoms                        |
| Doncaster Cable Communications Limited                  | Ordinary shares | 100% #   | Telecoms                        |
| Halifax Cable Communications Limited                    | Ordinary shares | 100% #   | Telecoms                        |
| Sheffield Cable Communications Limited                  | Ordinary shares | 100% #   | Telecoms                        |
| Wakefield Cable Communications Limited                  | Ordinary shares | 100% #   | Telecoms                        |
| Middlesex Cable Limited                                 | Ordinary shares | 100% #   | Telecoms                        |
| Windsor Television Limited                              | Ordinary shares | 100% #   | Telecoms                        |
| Virgin Media Wholesale Limited                          | Ordinary shares | 100% #   | Telecoms                        |
| VMWH Limited  | Ordinary shares | 100% #   | Holding                         |
| Bluebottle Call Limited                                 | Ordinary shares | 100% #   | Telecoms                        |
| Virgin Mobile Group (UK) Limited                        | Ordinary shares | 100% #   | Telecoms                        |
| Virgin Mobile Telecoms Limited                          | Ordinary shares | 100% #   | Telecoms                        |
| Future Entertainment Sàrl                               | Ordinary shares | 100% # (iii)   | Television                      |
| Interactive Digital Sales Limited                       | Ordinary shares | 100% #   | Content                         |
| Flextech B Limited                                      | Ordinary shares | 100% #   | Content                         |
| Flextech L Limited                                      | Ordinary shares | 100% #   | Content                         |
| Flextech C  | Ordinary shares | 100% #   | Content                         |
| Flextech Broadband Limited                              | Ordinary shares | 100% #   | Content                         |

# held by subsidiary undertaking  
(iii) Registered in Luxembourg

(i) Unlimited company  
(iv) registered in Scotland

(ii) Registered in USA

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
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**33 Principal subsidiary undertakings (continued)**

The company has taken advantage of Section 409 of the Companies Act 2006 and disclosed only those investments whose results or financial position materially affected the figures shown in the company's annual financial statements

The company will issue a guarantee under Section 479(C) of the Companies Act 2006 for the year ended 31 December 2012 in respect of the subsidiaries listed below. The company guarantees all outstanding liabilities to which the subsidiary company is subject to at 31 December 2012, 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 2012 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 following subsidiaries, all of which are 100% owned, either directly or indirectly

| <i>Active Subsidiaries</i>                 | <i>Company number</i> |
|--|-----------------------|
| VMIH Sub Limited                           | 5316140               |
| ntl Victoria Limited                       | 5685196               |
| Virgin Media Secured Finance PLC           | 7108352               |
| Virgin Media SFA Finance Limited           | 7176280               |
| ntl Funding Limited                        | 5333722               |
| Cambridge Holding Company Limited          | 2670603               |
| ntl Irish Holdings Limited                 | 5313953               |
| Virgin Media Secretaries Limited           | 2857052               |
| Diamond Cable Communications Limited       | 2965241               |
| ntl Business (Ireland) Limited             | 3284482               |
| X-TANT Limited                             | 3580901               |
| ntl Rectangle Limited                      | 4329656               |
| BCMV Limited                               | 3074517               |
| ntl (South Hertfordshire) Limited          | 2401044               |
| ntl (B) Limited                            | 2735732               |
| ntl CableComms Wessex                      | 2410378               |
| ntl CableComms Bromley                     | 2422195               |
| ntl CableComms Derby                       | 2387713               |
| ntl CableComms Bolton                      | 1883383               |
| ntl CableComms Greater Manchester          | 2407924               |
| ntl CableComms Bury and Rochdale           | 2446183               |
| ntl CableComms Macclesfield                | 2459067               |
| ntl Wirral Telephone and Cable TV Company  | 2511873               |
| ntl CableComms Limited                     | 2664006               |
| ntl CableComms Surrey                      | 2531586               |
| ntl CableComms East Lancashire             | 2114543               |
| ntl Bolton Cablevision Holding Company     | 2422198               |
| ntl Derby Cablevision Holding Company      | 2422310               |
| ntl Manchester Cablevision Holding Company | 2455631               |
| ntl CableComms Staffordshire               | 2379800               |
| ntl CableComms Cheshire                    | 2379804               |
| ntl CableComms Holdings No 1 Limited       | 3709869               |
| United Artists Investments Limited         | 2761569               |
| Flextech Digital Broadcasting Limited      | 3298737               |
| Flextech L Limited                         | 2802598               |
| Flextech C                                 | 2721189               |
| Flextech T Limited                         | 1733724               |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**33 Principal subsidiary undertakings (continued)**

| <i>Active Subsidiaries</i>                             | <i>Company number</i> |
|--|-----------------------|
| Flextech Communications Limited                        | 2588902               |
| Flextech Family Channel Limited                        | 2856303               |
| Flextech IVS Limited                                   | 2678882               |
| Flextech (1992) Limited                                | 1190025               |
| Flextech Limited                                       | 2688411               |
| General Cable Holdings Limited                         | 2798236               |
| Telewest Communications Holdco Limited                 | 3761983               |
| Telewest Communications Holdings Limited               | 2982404               |
| Telewest Limited                                       | 3291383               |
| Blue Yonder Workwise Limited                           | 4055742               |
| Telewest Communications (Cotswolds) Limited            | 1743081               |
| Cable Camden Limited                                   | 1795642               |
| Cable Enfield Limited                                  | 2466511               |
| Cable Hackney & Islington Limited                      | 1795641               |
| Cable Haringey Limited                                 | 1808589               |
| Eurobell (Holdings) Limited                            | 2904215               |
| Eurobell (Sussex ) Limited                             | 2272340               |
| Eurobell (South West) Limited                          | 1796131               |
| Eurobell (West Kent) Limited                           | 2886001               |
| Eurobell Internet Services Limited                     | 3172207               |
| Telewest Communications (London South) Limited         | 1697437               |
| Telewest Communications (South East) Limited           | 2270764               |
| Telewest Communications (South Thames Estuary) Limited | 2270763               |
| Telewest Communications (Midlands) Limited             | 1882074               |
| Telewest Communications (Telford) Limited              | 2389377               |
| Telewest Communications (Central Lancashire) Limited   | 1737862               |
| Telewest Communications (St Helens & Knowsley) Limited | 2466599               |
| Telewest Communications (Wigan) Limited                | 2451112               |
| Telewest Communications (Fylde & Wyre) Limited         | 2935056               |
| Telewest Communications (Southport) Limited            | 3085912               |
| M&NW Network Limited                                   | 6763496               |
| M&NW Network II Limited                                | 6765761               |
| Telewest Communications (Cumbernauld) Limited          | SC121614              |
| Telewest Communications (Dumbarton) Limited            | SC121700              |
| Telewest Communications (Dundee & Perth) Limited       | SC96816               |
| Telewest Communications (Falkirk) Limited              | SC122481              |
| Telewest Communications (Glenrothes) Limited           | SC119523              |
| Telewest Communications (Motherwell) Limited           | SC121617              |
| Telewest Communications (Scotland) Limited             | SC80891               |
| Yorkshire Cable Communications Limited                 | 2490136               |
| Barnsley Cable Communications Limited                  | 2466594               |
| Doncaster Cable Communications Limited                 | 2407940               |
| Halifax Cable Communications Limited                   | 2459173               |
| Wakefield Cable Communications Limited                 | 2400909               |
| Middlesex Cable Limited                                | 2460325               |
| The Cable Corporation Limited                          | 2075227               |
| VMWH Limited   | 7531816               |
| Theseus No 1 Limited                                   | 2994027               |
| Theseus No 2 Limited                                   | 2994061               |
| Virgin Media Finco Limited                             | 8045612               |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**33 Principal subsidiary undertakings (continued)**

| <i>Active Subsidiaries</i>  | <i>Company number</i> |
|---|-----------------------|
| ntl Midlands Leasing Limited                                      | 7981328               |
| BCMV Leasing Limited  | 7980898               |
| ntl CableComms Wessex Leasing Limited                             | 7981349               |
| ntl CableComms Sussex Leasing Limited                             | 7981341               |
| ntl CableComms Bromley Leasing Limited                            | 7981358               |
| ntl CableComms Derby Leasing Limited                              | 7981361               |
| ntl CableComms Bolton Leasing Limited                             | 7981350               |
| ntl CableComms Greater Manchester Leasing Limited                 | 7981364               |
| ntl Wirral Telephone and Cable TV Company Leasing Limited         | 7982011               |
| ntl CableComms Surrey Leasing Limited                             | 7981376               |
| ntl CableComms Wirral Leasing Limited                             | 7981333               |
| Telewest Communications (Midlands and North West) Leasing Limited | 7982014               |
| W Television Leasing Limited                                      | 7984439               |
| Birmingham Cable Corporation Limited                              | 2170379               |
| ntl (South London) Limited  | 657093                |

The company will issue a guarantee under Section 394(C) of the Companies Act 2006 for the year ended 31 December 2012 in respect of the wholly owned dormant subsidiaries listed below. The company guarantees all outstanding liabilities to which the subsidiary company is subject to at 31 December 2012, 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 2012 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 following dormant subsidiaries, all of which are 100% owned, either directly or indirectly.

| <i>Dormant Subsidiaries</i>                  | <i>Company number</i> |
|--|-----------------------|
| Virgin Media Sales Limited                   | 6047212               |
| Virgin Media Communications Networks Limited | 5993970               |
| ntl South Central Limited                    | 2387692               |
| Anglia Cable Communications Limited          | 2433857               |
| East Coast Cable Limited                     | 2352468               |
| Virgin Media Directors Limited               | 2499321               |
| Cambridge Cable Services Limited             | 3262220               |
| Credit-Track Debt Recovery Limited           | 2425789               |
| CCL Corporate Communication Services Limited | 2955679               |
| ntl Darlington Limited                       | 2533674               |
| Jewel Holdings                               | 3085518               |
| ntl Internet Services Limited                | 4038930               |
| ntl (Hampshire) Limited                      | 2351070               |
| ntl (Greenwich and Lewisham) Limited         | 2254009               |
| ntl (Lambeth and Southwark) Limited          | 2277986               |
| ntl (South London) Limited                   | 657093                |
| ntl (West London) Limited                    | 1735664               |
| ntl (City and Westminster) Limited           | 2809080               |
| ntl (CWC) Corporation Limited                | 2719477               |
| ntl (Thamesmead) Limited                     | 2461140               |
| ntl (Wandsworth) Limited                     | 1866178               |
| ntl (Ealing) Limited                         | 1721894               |
| ntl (Harrow) Limited                         | 2459179               |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**33 Principal subsidiary undertakings (continued)**

| <i>Dormant Subsidiaries</i>                           | <i>Company number</i> |
|---|-----------------------|
| ntl (Leeds) Limited                                   | 2400103               |
| ntl (Harrogate) Limited                               | 2404019               |
| ntl (York) Limited                                    | 2406267               |
| ntl (Wearside) Limited                                | 2475099               |
| ntl (County Durham) Limited                           | 3128449               |
| ntl (Broadland) Limited                               | 2443741               |
| ntl (Peterborough) Limited                            | 2332232               |
| ntl (CRUK)  | 2329254               |
| ntl (Kent) Limited                                    | 2456153               |
| ntl Holdings (Leeds) Limited                          | 2766909               |
| ntl (YorCan) Limited                                  | 2371785               |
| ntl Holdings (Broadland) Limited                      | 2427172               |
| ntl Holdings (Fenland) Limited                        | 2427199               |
| ntl Holdings (Norwich) Limited                        | 2412962               |
| ntl Holdings (Peterborough) Limited                   | 2888397               |
| ntl Holdings (East London) Limited                    | 2032186               |
| ntl Acquisition Company Limited                       | 2270117               |
| ntl Partcheer Company Limited                         | 2861817               |
| ntl UK Telephone and Cable TV Holding Company Limited | 2511877               |
| ntl Solent Telephone and Cable TV Company Limited     | 2511653               |
| ntl Streetwarm Services Limited                       | 2851011               |
| ntl Streetvital Services Limited                      | 2851021               |
| ntl Microclock Services Limited                       | 2861856               |
| ntl (CWC) UK  | 2463427               |
| ntl Chartwell Holdings Limited                        | 3290823               |
| ntl Winston Holdings Limited                          | 3290821               |
| ntl Strikeapart Trading Limited                       | 2851018               |
| ntl CableComms Holdings No 2 Limited                  | 3709840               |
| ntl Streetunique Projects Limited                     | 2851203               |
| ntl Strikeagent Trading Limited                       | 2851014               |
| ntl CableComms Manchester Limited                     | 2511868               |
| ntl Streetvision Services Limited                     | 2851020               |
| ntl Streetunit Projects Limited                       | 2851201               |
| ntl Sideoffer Limited                                 | 2927099               |
| ntl Streetusual Services Limited                      | 2851019               |
| ntl Streetwide Services Limited                       | 2851013               |
| ntl Strikeamount Trading Limited                      | 2851015               |
| ntl (CWC Holdings)                                    | 3922682               |
| ntl Victoria II Limited                               | 5685189               |
| Flextech Interactive Limited                          | 3184754               |
| Flextech B Limited                                    | 2342064               |
| Continental Shelf 16 Limited                          | 3005499               |
| Flextech (Kindernet Investment) Limited               | 1260228               |
| Flextech Broadcasting Limited                         | 4125325               |
| Flextech Distribution Limited                         | 2678883               |
| Flextech Childrens Channel Limited                    | 2678881               |
| Flextech Media Holdings Limited                       | 2678886               |
| Flextech Video Games Limited                          | 2670821               |
| Virgin Mobile Group (UK) Limited                      | 5050748               |
| Cable Adnet Limited                                   | 3283202               |

**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**33 Principal subsidiary undertakings (continued)**

| <i>Dormant Subsidiaries</i>                         | <i>Company number</i> |
|---|-----------------------|
| General Cable Group Limited                         | 2872852               |
| General Cable Investments Limited                   | 2885920               |
| General Cable Limited                               | 2369824               |
| General Cable Programming Limited                   | 2906200               |
| Southwestern Bell International Holdings Limited    | 2378768               |
| Telewest Communications (Publications) Limited      | 3860829               |
| Telewest Communications Cable Limited               | 2883742               |
| The Cable Equipment Store Limited                   | 2693805               |
| Telewest Workwise Limited                           | 4055744               |
| Filegale Limited                                    | 2804553               |
| Avon Cable Investments Limited                      | 2487110               |
| Birmingham Cable Corporation Limited                | 2170379               |
| Telewest Communications (North West) Limited        | 2321124               |
| Telewest Communications (Scotland Holdings) Limited | SC150058              |
| SANE Network Limited                                | SC352011              |
| The Yorkshire Cable Group Limited                   | 2782818               |
| Yorkshire Cable Telecom Limited                     | 2743897               |
| Yorkshire Cable Finance Limited                     | 2993376               |
| The Cable Corporation Equipment Limited             | 2116958               |
| Bradford Cable Communications Limited               | 2664803               |
| Cable Communications Limited                        | 1860121               |
| Cable Internet Limited                              | 3085918               |
| Cable on Demand Limited                             | 3039816               |
| Capital City Cablevision Limited                    | SC80665               |
| Central Cable Holdings Limited                      | 3008567               |
| Central Cable Limited                               | 3008681               |
| Central Cable Sales Limited                         | 2985669               |
| Crystal Palace Radio Limited                        | 1459745               |
| Dundee Cable and Satellite Limited                  | SC093114              |
| EMS Investments Limited                             | 3373057               |
| Eurobell (IDA) Limited                              | 3373001               |
| Eurobell (No 2) Limited                             | 3405634               |
| Eurobell (No 3) Limited                             | 3006948               |
| Eurobell CPE Limited                                | 2742145               |
| Eurobell Limited                                    | 2983427               |
| European Business Network Limited                   | 2146363               |
| Hieronymous Limited                                 | SC80135               |
| Perth Cable Television Limited                      | SC032627              |
| Pinnacle Debt Recovery Limited                      | 2989858               |
| Rotherham Cable Communications Limited              | 2455726               |
| Telewest Communications (Internet) Limited          | 3141035               |
| Telewest Health Trustees Limited                    | 3936764               |
| Telewest Parliamentary Holdings Limited             | 2514316               |
| Yorkshire Cable Limited                             | 2792601               |
| Yorkshire Cable Properties Limited                  | 2951884               |

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**Virgin Media Finance PLC**  
**Notes to the Group Financial Statements**  
**for the year ended 31 December 2012**

**34 Parent undertaking and controlling party**

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

The company's ultimate parent undertaking and controlling party at 31 December 2012 was Virgin Media Inc, a company incorporated in the state of Delaware, United States of America

The largest group of which the company is a member and for which group accounts have been drawn up is that headed by Virgin Media Inc

Copies of all sets of group accounts, are available from Company Secretary, Virgin Media, Bartley Wood Business Park, Hook, Hampshire, RG27 9UP

## **Virgin Media Finance PLC**

### **Statement of Directors' Responsibilities in Relation to the Company Financial Statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



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

We have audited the parent company financial statements of Virgin Media Finance PLC for the year ended 31 December 2012, which comprise the Company Balance Sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 86, the directors are responsible for the preparation of the parent company 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 parent company 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

## **Independent Auditor's Report to the Members of Virgin Media Finance PLC (continued)**

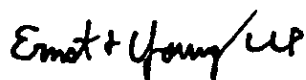
### **Matters on which we are required to report by exception**

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

### **Other matter**

We have reported separately on the group financial statements of Virgin Media Finance PLC for the year ended 31 December 2012



Michael Rudberg (Senior statutory auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
6 June 2013

**Virgin Media Finance PLC**  
**Company Balance Sheet**  
as at 31 December 2012

|  | Notes | 2012<br>£ million | 2011<br>£ million |
|--|-------|-------------------|-------------------|
| <b>Fixed assets</b>                                    |       |                   |                   |
| Investments  | 3     | 2,169 1           | 2,169 1           |
| <b>Current assets</b>                                  |       |                   |                   |
| Debtors (due in more than one year)                    | 4     | 1,866 4           | 1,761 1           |
| Debtors (due in less than one year)                    | 4     | 25 0              | 51 3              |
| Cash at bank and in hand                               |       | 1 0               | 1 9               |
|  |       | <u>1,892 4</u>    | <u>1,814 3</u>    |
| Creditors amounts falling due within one year          | 5     | <u>(286 6)</u>    | <u>(132 8)</u>    |
| <b>Net current assets</b>                              |       | 1,605 8           | 1,681 5           |
| <b>Total assets less current liabilities</b>           |       | <u>3,774 9</u>    | <u>3,850 6</u>    |
| Creditors amounts falling due after more than one year | 6     | <u>(1,804 6)</u>  | <u>(1,696 8)</u>  |
| <b>Net assets</b>                                      |       | <u>1,970 3</u>    | <u>2,153 8</u>    |
| <b>Capital and reserves</b>                            |       |                   |                   |
| Called up share capital                                | 7     | 0 1               | 0 1               |
| Share premium account                                  | 8     | 3,323 2           | 3,323 2           |
| Capital contribution                                   | 8     | 5 0               | 5 0               |
| Profit and loss account                                | 8     | <u>(1,358 0)</u>  | <u>(1,174 5)</u>  |
| <b>Equity shareholders' funds</b>                      | 8     | <u>1,970 3</u>    | <u>2,153.8</u>    |

*R. C. Gale*

R C Gale  
Director  
6 June 2013

Company Registration Number 5061787

**Virgin Media Finance PLC**  
**Notes to the Company Financial Statements**  
**for the year ended 31 December 2012**

**1 Accounting policies**

The principal accounting policies are summarised below and have all been applied consistently throughout the current year and the preceding year

***Basis of preparation***

The parent company financial statements of Virgin Media Finance PLC ("the company") are presented as required by the Companies Act 2006 and were approved for issue on 6 June 2013

The financial statements are prepared using the historical cost convention and in accordance with applicable accounting standards in the United Kingdom

No profit and loss account is presented by the company as permitted by Section 408 of the Companies Act 2006. The company has taken advantage of the exemption in paragraph 2D of FRS 29 '*Financial Instruments Disclosures*' and has not disclosed information required by that standard, as the group's consolidated financial statements, in which the company is included, provide equivalent disclosures for the group under IFRS 7 '*Financial Instruments Disclosures*'

***The company's investments in subsidiaries***

The company recognises its investments in subsidiaries at cost, less any provision for impairment. In a group reconstruction where Section 611 of the Companies Act 2006 applies, the cost of investment of the transferor is adopted by the company. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the costs of the investment.

***Deferred taxation***

Deferred taxation is recognised, as appropriate, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

(a) provision is made for deferred tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is probable that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold, and

(b) deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

***Foreign currency translation***

Transactions in foreign currencies are initially recorded in the 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 differences are taken to the income statement, except where hedge-accounting is applied. 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

***Employee benefits including long term incentives and share-based payments***

The company is an indirect, wholly-owned subsidiary of Virgin Media Inc. Accordingly, the company has no share-based compensation plans. The company has no employees. A wholly-owned indirect subsidiary, Virgin Media Limited is the principal employer of the group's employees. Details of employee costs including long term incentives and share based payments are disclosed in the consolidated financial statements herewith

**Virgin Media Finance PLC**  
**Notes to the Company Financial Statements**  
**for the year ended 31 December 2012**

**1 Accounting policies (continued)**

*Cash flow statement*

The company has taken advantage of the exemption under FRS 1 (revised) not to prepare a cash flow statement as it is a subsidiary which is at least 90% controlled by the ultimate parent undertaking

*Interest bearing loans and borrowings*

All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by repayments made in the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

**2 Loss attributable to members of the parent company**

The loss dealt with in the accounts of the parent company was £183.5 million (2011 - loss of £16.5 million)

**3 Investments**

*Investment in subsidiary undertakings*

|                                   | £ million      |
|-----------------------------------|----------------|
| <b>Cost and net book value:</b>   |                |
| At 1 January and 31 December 2012 | <u>3,323.2</u> |
| <b>Provision for impairment</b>   |                |
| At 1 January 2012                 | 1,154.1        |
| Impairment charge for the year    | -              |
| At 31 December 2012               | <u>1,154.1</u> |
| <b>Net book value:</b>            |                |
| At 31 December 2012               | <u>2,169.1</u> |
| At 31 December 2011               | <u>2,169.1</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 33 to the group financial statements.

**4 Debtors**

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| Loan notes due from group undertakings                        | 1,866.4           | 1,761.1           |
| Amounts due from group undertakings                           | -                 | 1.1               |
| Interest receivable on loan notes due from group undertakings | 25.0              | 50.2              |
|   | <u>1,891.4</u>    | <u>1,812.4</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 US dollar denominated loans of \$2,000.7 million (2011 - \$2,011.7 million) which had a carrying value of £1,235.8 million (2011 - £1,294.1 million) at the balance sheet date and euro denominated loans of €nil (2011 - €174.2 million) which had a carrying value of €nil (2011 - £145.3 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 2012**

**5 Creditors: amounts falling due within one year**

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| Interest on loan notes due to group undertakings | 2.2               | 2.2               |
| Interest payable on Senior Notes                 | 24.8              | 49.9              |
| Amounts owed to group undertakings               | 200.7             | 21.8              |
| Loan notes due to group undertakings             | 58.9              | 58.9              |
|  | <u>286.6</u>      | <u>132.8</u>      |

Amounts owed to and loan notes due to group companies are technically 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. 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.

All other amounts above are unsecured and due within one year.

**6 Creditors: amounts falling due after more than one year**

|              | 2012<br>£ million | 2011<br>£ million |
|--------------|-------------------|-------------------|
| Senior Notes | 1,804.6           | 1,696.8           |
|              | <u>1,804.6</u>    | <u>1,696.8</u>    |

Borrowings are repayable as follows

|   | 2012<br>£ million | 2011<br>£ 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     | -                 | 981.7             |
| In more than five years                                 | 1,804.6           | 715.1             |
| Borrowings amounts falling due after more than one year | <u>1,804.6</u>    | <u>1,696.8</u>    |

Loans not wholly repayable within five years are as follows

|              | 2012<br>£ million | 2011<br>£ million |
|--------------|-------------------|-------------------|
| Senior Notes | 1,804.6           | 715.1             |
|              | <u>1,804.6</u>    | <u>715.1</u>      |

**Virgin Media Finance PLC**  
**Notes to the Company Financial Statements**  
**for the year ended 31 December 2012**

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

*Total borrowings comprise*

|   | 2012<br>£ million     | 2011<br>£ million     |
|---|-----------------------|-----------------------|
| 9 50% U S dollar senior notes due 2016                          | -                     | 849 2                 |
| 9 50% euro senior notes due 2016                                | -                     | 145 3                 |
| 8 375% U S dollar senior notes due 2019                         | 309 3                 | 380 6                 |
| 8 875% sterling senior notes due 2019                           | 250 3                 | 345 2                 |
| 5 25% U S dollar senior notes due 2022                          | 308 9                 | -                     |
| 4 875% U S dollar senior notes due 2022                         | 555 9                 | -                     |
| 5 125% sterling senior notes due 2022                           | 400 0                 | -                     |
|   | <u>1,824 4</u>        | <u>1,720 3</u>        |
| Less issue costs  | (19 8)                | (23 5)                |
| Total senior notes  | <u>1,804 6</u>        | <u>1,696 8</u>        |
| <b>Borrowings: amounts falling due after more than one year</b> | <u><b>1,804 6</b></u> | <u><b>1,696 8</b></u> |

The company has the following Senior Notes in issue as at 31 December 2012

- 1) 8 375% Senior Notes due 15 October 2019 - the principal amount at maturity is \$507 1 million Interest is payable semi-annually on 15 April and 15 October commencing 15 April 2010
- 2) 8 875% Senior Notes due 15 October 2019 - the principal amount at maturity is £253 5 million Interest is payable semi-annually on 15 April and 15 October commencing 15 April 2010
- 3) 5 25% Senior Notes due 15 February 2022 – the principal amount at maturity is \$500 million Interest is payable semi-annually on 15 February and 15 August commencing 15 August 2012
- 4) 4 875% Senior Notes due 15 February 2022 – the principal amount at maturity is \$900 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 £400 million Interest is payable semi-annually on 15 February and 15 August commencing 15 February 2013

On 26 July 2011 the company's \$550 million 9 125% senior notes due 2016 were settled by subsidiary undertakings for cash of £355 8 million

On 13 March 2012 the company issued \$500 million 5 25% senior notes due 2022 at par, and received proceeds of £316.3 million, net of fees of £2 9 million The net proceeds, and cash on the company's balance sheet, were used to redeem \$500 million of the \$1,350 million 9 50% senior notes due 2016 on 28 March 2012 for cash of £361 2 million inclusive of a redemption premium of £47 1 million

On 30 October 2012 the company issued \$900 million 4 875% and £400 million 5 125% senior notes due 2022 at par, and the company received proceeds of £953 1 million, net of fees of £7 4 million The net proceeds, and cash on the company's balance sheet, were used to redeem the remaining \$850 million of the \$1,350 million 9 50% senior notes due 2016, the full outstanding balance of the £180 million 9 50% senior notes due 2016, \$92 9m of the \$600 million 8 375% senior notes due 2019 and £96 5 million of the £350 million 8 875% senior notes due 2019 The company repaid these notes over the period 31 October 2012 to 30 November 2012 with cash of £930 9 million, inclusive of a redemption premium of £103 3 million

Virgin Media Inc, the company's ultimate parent company, and all the intermediate holding companies, guarantee the Senior Notes on a senior basis Virgin Media Investment Holdings Limited (VMIH), 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 credit facility and Senior Secured Notes due 2018 and 2021

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**for the year ended 31 December 2012**

**7 Authorised and issued share capital**

|   | 2012<br>£000   | 2011<br>£000   |
|---|----------------|----------------|
| <i>Authorised</i>                         |                |                |
| 5,000,000 ordinary shares of £1 each      | <u>5,000 0</u> | <u>5,000 0</u> |
| <i>Allotted, called up and fully paid</i> |                |                |
| 92,456 ordinary shares of £1 each         | <u>92 0</u>    | <u>92 0</u>    |

**8 Reconciliation of movements in equity shareholders' funds**

|                     | Called-up<br>equity share<br>capital<br>£ million | Share<br>premium<br>account<br>£ million | Capital<br>contribution<br>£ million | Profit<br>and loss<br>account<br>£ million | Total<br>£ million |
|---------------------|---|--|--------------------------------------|--|--------------------|
| At 1 January 2011   | 0 1   | 3,323 2                                  | 5 0                                  | (1,158 0)                                  | 2,170 3            |
| Loss for the year   | <u>-</u>  | <u>-</u>                                 | <u>-</u>                             | <u>(16 5)</u>                              | <u>(16 5)</u>      |
| At 1 January 2012   | 0 1   | 3,323 2                                  | 5 0                                  | (1,174 5)                                  | 2,153 8            |
| Loss for the year   | <u>-</u>  | <u>-</u>                                 | <u>-</u>                             | <u>(183 5)</u>                             | <u>(183 5)</u>     |
| At 31 December 2012 | <u>0 1</u>  | <u>3,323 2</u>                           | <u>5 0</u>                           | <u>(1,358 0)</u>                           | <u>1,970 3</u>     |

*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

*Capital contribution*

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

**9 Related party transactions**

In accordance with the exemptions offered by FRS 8 'Related Party disclosures' there is no disclosure in these financial statements of transactions with entities that are 100% owned by Virgin Media Inc



**Virgin Media Finance PLC**  
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**for the year ended 31 December 2012**

**10 Auditor's and director's remuneration**

Auditor's remuneration of £1,000 (2011 - £1,000) represents costs attributed to the company by the fellow group undertakings that pay all auditor's remuneration on behalf of the Virgin Media group

Fees paid to Ernst & Young 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 are required to disclose such fees on a consolidated basis

The directors received remuneration for the year of £3,500 (2011 - £3,500) in relation to qualifying services as directors of this company, all of which was paid by Virgin Media Limited

**11 Contingent liabilities**

The company, along with fellow group undertakings, is party to a senior secured credit facility with a syndicate of banks under which it has guaranteed the amount outstanding, which as at 31 December 2012 amounted to approximately £1,200 million (2011 - £1,200 million) Borrowings under the facility are secured against the assets of certain members of the group including those of the company

In addition, a wholly owned subsidiary 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 credit facility The amount outstanding under the senior secured notes at 31 December 2012 amounted to approximately £2,582 million (2011 - £2,575 million) Borrowings under the notes are secured against the assets of certain members of the group including those of the company

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

**12 Post balance sheet events**

For details of the post balance sheet events arising as a result of the proposed merger of the Virgin Media group and Liberty Global, Inc, see note 28 to the group financial statements

**13 Parent undertaking and controlling party**

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

The largest group of which the company is a member and for which group accounts have been drawn up is that headed by Virgin Media Inc The smallest group of which the company is a member and for which group accounts have been drawn up is the Virgin Media Finance PLC group

The company's ultimate parent undertaking and controlling party at 31 December 2012 was Virgin Media Inc, a company incorporated in the state of Delaware, United States of America Copies of all sets of group accounts are available from Company Secretary, Virgin Media, Bartley Wood Business Park, Hook, Hampshire, RG27 9UP