Annual Report and Financial Statements
for the seven months ended
31 December 2021

VMED O2 UK HOLDINGS LIMITED
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VMED O2 UK HOLDINGS LIMITED

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COMPANY INFORMATION

In this report, unless the context otherwise requires, the terms "we," "our," "our company," "us," and "VMED O2" refer to VMED O2 UK Holdings Limited and its consolidated subsidiaries. Unless otherwise indicated, operational and statistical data, including subscriber statistics and product offerings, are as of 31 December 2021.

VMED O2 UK Holdings Limited (**VMED O2**) is an integrated communications provider of mobile, broadband internet, video and fixed-line telephony to residential customers and businesses in the United Kingdom (**U.K.**). As of 31 December 2021, the primary subsidiaries of VMED O2 include (i) Virgin Media Inc. and its subsidiaries (collectively, **Virgin Media**) and (ii) O2 Holdings Limited and its subsidiaries (collectively, **O2**).

VMED O2 is a wholly-owned subsidiary of VMED O2 UK Limited, which is a 50:50 joint venture formed on 1 June 2021 between Liberty Global plc (**Liberty Global**) and Telefónica, SA (**Telefónica**) (the **JV Transaction**). In this Annual Report, Liberty Global and Telefónica are each referred to as a "**Shareholder**" and together as the "**Joint Venture Parents**". Prior to the completion of the JV Transaction, (a) Virgin Media was a wholly-owned subsidiary of Liberty Global that provided fixed and mobile communications services in the U.K. and (b) O2 was a wholly-owned subsidiary of Telefónica that provided mobile communications services in the U.K.

VMED O2 has prepared this Annual Report, the first since the 1 June 2021 formation of the VMED O2 UK Limited joint venture, to satisfy VMED O2's obligations under the reporting provisions of the credit facilities agreement and bond indentures governing our outstanding indebtedness. The consolidated financial statements for VMED O2 included in this Annual Report have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (**IFRS**) as at and for the seven-month period ended 31 December 2021 to cover the period from the joint venture formation on 1 June 2021 through to the end of 2021.

Pro forma data, where presented, assumes that the JV Transaction occurred on 1 January 2020 and pushes back purchase price accounting, policy alignment and transaction adjustments to this date. The pro forma financial statements, which have been prepared in accordance with IFRS, do not purport to project the results of operations or financial condition of VMED O2 for any future period nor do they purport to represent what the actual results of operations or financial condition of the VMED O2 would have been had the JV Transactions occurred on 1 January 2020.

Liberty Global is a world leader in converged broadband, video and mobile communication services. It delivers next generation products through advanced fibre and 5G networks that connect over 85 million subscribers across Europe and the U.K. Liberty Global's businesses operate under some of the best-known consumer brands, including Virgin Media O2 in the U.K., VodafoneZiggo in The Netherlands, Telenet in Belgium, Sunrise UPC in Switzerland, Virgin Media in Ireland and UPC in Eastern Europe. Through Liberty Global's substantial scale and commitment to innovation, they are building Tomorrow's Connections Today, investing in the infrastructure and platforms that empower its customers to make the most of the digital revolution, while deploying the advanced technologies that nations and economies need to thrive. Liberty Global is listed on NASDAQ (LBTYA, LBTYB and LBTYK).

Telefónica is one of the world's leading telecommunications service providers. The company offers fixed and mobile connectivity services, as well as a wide range of digital services for residential and business customers. It is present in Europe and Latin America trading under the Telefónica, Vivo, Movistar and the joint venture Virgin Media O2 brands, where it has more than 369 million customers with a global annual revenue of Euro 39 billion in 2021. Telefónica is listed on the Spanish Stock Market as well as on those in New York and Lima.

FORWARD-LOOKING INFORMATION

Certain statements in this annual report constitute forward-looking statements. To the extent that statements in this annual report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding VMED O2's business, product, foreign currency and finance strategies in future periods, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of VMED O2's markets, the anticipated impacts of new legislation

(or changes to existing rules and regulations), anticipated changes in VMED O2's revenue, costs or growth rates, VMED O2's liquidity, credit risks, foreign currency risks, target leverage levels, VMED O2's future projected contractual commitments and cash flows and other information and statements that are not historical fact.

Where, in any forward-looking statement, VMED O2 expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties discussed under the *Risk Factors* section within this annual report, as well as the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the U.K.;
- the competitive environment in the broadband internet, cable television and telecommunications industries in the U.K., including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the European Union (**E.U.**), currency instability and related fiscal reforms, including as a result of the COVID-19 pandemic;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt, including as a result of the COVID-19 pandemic;
- changes in consumer television viewing and broadband internet usage preferences and habits;
- consumer acceptance of our existing service offerings, including our mobile, broadband internet, cable television, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes, including our ability to adequately manage our legacy technologies and transformation;
- our ability to maintain or increase the number of subscriptions to our mobile, broadband internet, cable television and fixed-line telephony service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers, including with respect to our significant property, plant and equipment additions;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital and on customer spending;
- changes in, or failure or inability to comply with, government regulations in the U.K. and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would open our broadband distribution networks to competitors and any adverse change in our accreditations or licences;
- our ability to maintain and further develop our direct and indirect distribution channels;
- our lack of insurance of the underground portion of our fixed-line network and various pavement-based electronics associated with our fixed-line network
- the effect of perceived health risks associated with electromagnetic radiation from base statement and associated equipment;
- changes in U.K. laws, regulations and governmental policy, or other risks relating to our ability to set prices, enter new markets or control our costs;

- any failure to comply with anti-corruption laws and regulations and economic sanctions programmes;
- the effect on our business of strikes or collective action by certain of our employees that are represented by trade unions;
- any conflict of interests between our direct or indirect parent companies and our and/or our debt holders' interests;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire, form or dispose of businesses and, if acquired, to integrate, realise anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to acquire (including in connection with the Joint Venture Transactions);
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the United States (**U.S.**) and the U.K.;
- our exposure to additional tax liability and negative or unexpected tax consequences as a result of adverse changes in our financial outlook;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- our ability to navigate the potential impacts on our business of the U.K.'s departure from the E.U.;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access, including as a result of the COVID-19 pandemic;
- the activities of device manufacturers and our ability to secure adequate and timely supply of handsets that experience high demand;
- the availability of, and our ability to acquire on acceptable terms, attractive programming for our video services and the costs associated with such programming;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with the network extension programme in the U.K. (the **Network Extension**), the deployment of our 5G network and the planned programme to upgrade our existing fixed-line network to full fibre-to-the-premises (**FTTP)**;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire (including in relation to the Joint Venture), including the failure to realise our financial and strategic goals with respect to strategic transactions;
- the leakage of sensitive customer data or any failure to comply with applicable data protection laws, regulations and rules;
- a failure in our network and information systems, whether caused by a natural failure or a security breach, and unauthorised access to our networks;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- adverse changes in public perception of the "Virgin" brand, which we and others license from Virgin Enterprises Limited, and of the "O2" brand which we license from O2 Worldwide Limited, any resulting impacts on the goodwill of customers toward us;

- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics or epidemics and other similar events, including the ongoing invasion of Ukraine by Russia;
- the risk of default by counterparties to our cash investments, derivative and other financial instruments, and undrawn debt facilities;
- changes in laws and government regulations that may impact our ability to finance expenditure as "Eligible Green Projects" under the International Capital Markets Association's (**ICMA**'s) Green Bond Principles, satisfy "green" reporting requirements or undertakings, and/or impact the suitability of the 2031 Senior Secured Notes issued under ICMA's as a "green" asset to investors;
- adverse impacts on our reputation from our sustainability programme being viewed as inadequate by customers, regulators and/or government; and
- an increase in our operational costs due to the impact of our sustainability commitments and/or regulatory and/or government action on climate change.

THE JOINT VENTURE

Joint Venture Summary

On 7 May 2020, Liberty Global and Telefónica, amongst others, entered into the Contribution Agreement (as defined below) and agreed to form a 50:50 joint venture, VMED O2 UK Limited, combining the operations of Virgin Media Inc. in the U.K. (**Virgin Media**) with the operations of O2 Holdings Limited and its subsidiaries (**O2**) in the U.K. (the **Joint Venture**). Liberty Global's operations in Ireland and certain other less significant operations were not part of the Joint Venture (the **VM Excluded Businesses**). The Joint Venture was consummated on 1 June 2021 (the **JV Closing Date**). For additional information, see "*Joint Venture Transactions*" below. VMED O2 UK Limited is our immediate parent company.

The Joint Venture combines Virgin Media's fibre-rich broadband network with O2's leading mobile operations to create a leading telecommunications provider in the U.K. As of 31 December 2021, the Joint Venture had 5.8 million fixed-line customers and 42.2 million retail and wholesale mobile connections.

We believe the Joint Venture benefits from combining the operations of Virgin Media and O2 as follows:

- well penetrated broadband and digital TV markets, which, together with the potential to migrate mobile customers from prepaid to postpaid contracts, supports opportunities for fixed-mobile convergence (**FMC**);
- strong positions in terms of number of subscribers and market share across multiple business segments;
- opportunity to become a leading enterprise business through the integration of the respective entity's expertise and rich product portfolio powered by Virgin Media's fibre-rich fixed-line network and O2's leading mobile network;
- strong network infrastructure with a market-leading high-speed broadband network and a mobile network with substantial spectrum holding; and
- significant expected efficiencies by achieving key cost, capital expenditure and revenue synergies.

The synergy benefits are estimated to include cost, capital expenditure and revenue synergy benefits of £540 million on an annual basis by the fifth full year following completion of the Joint Venture Transactions (as defined below), comprised of approximately £350 million of cost savings, approximately £80 million of capital expenditure synergies and approximately £110 million of revenue synergies.

The key expected sources of cost and capital expenditure synergies include:

- use of existing infrastructure to provide services for each of Virgin Media's and O2's customers at lower costs compared with each of Virgin Media's and O2's standalone and/or wholesale capabilities;
- migration of Virgin Media's existing mobile traffic to O2's mobile network;
- combination of regional and national network infrastructures and IT systems;
- reduction in combined marketing expenditures; and
- potential to reduce general and administration costs and site rationalisation.

The key expected sources of revenue synergies are expected to include significant growth through cross-selling opportunities and scale. To achieve these synergies, the Joint Venture expects to incur approximately £700 million of integration costs, substantially all of which are expected to be incurred in the first four years following completion of the Joint Venture Transactions (as defined below).

The Joint Venture intends to distribute available unrestricted cash to its shareholders periodically and is expected to undertake periodic further recapitalisations, subject to market and operating conditions (including compliance by VMED O2 with the terms of existing financing arrangements), to maintain a target net leverage ratio between 4.0x to 5.0x.

Joint Venture Transactions

The transactions described under this section "*Joint Venture Transactions*" are referred to, collectively, herein as the **Joint Venture Transactions**.

Overview

On 7 May 2020, Liberty Global, Liberty Global Europe 2 Limited (**Liberty Global Europe**), Liberty Global Holdco Limited, Telefónica and Telefonica O2 Holdings Limited (**Telefonica O2**) entered into a contribution agreement (the **Contribution Agreement**) pursuant to the terms of which the parties agreed to form the Joint Venture. The Contribution Agreement includes customary representations, warranties, covenants and indemnification obligations of Liberty Global and Telefónica relating to each of their contributed businesses. On 20 May 2021, the U.K.'s Competition & Markets Authority announced final approval of the Joint Venture, without remedies.

As part of the Joint Venture, on 1 June 2021, Liberty Global and Telefónica (amongst other parties) entered into a shareholders agreement (the **Joint Venture Shareholders Agreement**) whereby each of Liberty Global and Telefónica directly or indirectly hold 50% of the issued share capital of VMED O2 UK Limited, our immediate parent, and to which Liberty Global Europe contributed the operations of Virgin Media (other than the VM Excluded Businesses) (the **Virgin Media Contribution**) and Telefonica O2 contributed O2 (the **O2 Contribution** and, together with the Virgin Media Contribution, the **Contributions**). The Contributions were consummated on the JV Closing Date. Each of Liberty Global Europe and Telefonica O2 implemented certain reorganisation steps prior to the JV Closing Date. In particular, the VM Excluded Businesses were not part of the Virgin Media Contribution and were transferred out of Virgin Media prior to the JV Closing Date. For more information, see "*Discussion and Analysis of our Results of Operations*." The Virgin Media Contribution included all existing third-party indebtedness of Virgin Media and the O2 Contribution included all existing third-party indebtedness of O2, in each case as of the JV Closing Date.

Each of Liberty Global and Telefónica guaranteed the performance of Liberty Global Europe and Telefonica O2, respectively, under each of the Contribution Agreement and the Joint Venture Shareholders Agreement. The Joint Venture Transactions did not constitute a Change of Control under (and as defined in) the VMO2 Credit Facilities, the Senior Secured Notes, the Senior Notes (as defined and described in note 11 to our consolidated financial statements) or any other existing indebtedness of Virgin Media or O2 prior to the formation of the Joint Venture.

Joint Venture Shareholders Agreement

The Joint Venture Shareholders Agreement provides that the initial board of directors of VMED O2 UK Limited will be composed of eight directors, with four directors designated by each of Liberty Global Europe and Telefonica O2. The Joint

Venture Shareholders Agreement provides that, in order for a meeting of the board of directors to be quorate, at least three directors nominated by each Shareholder must be present and that, in general, most decisions of the board of directors will require the approval of at least one individual designated by both Liberty Global Europe and Telefonica O2, whereas certain decisions as to "Reserved Matters" will require the approval of both Liberty Global Europe and Telefonica O2, either directly or through their designees to the board of directors. Such "Reserved Matters" under the Joint Venture Shareholders Agreement include: (i) changes in the constituent documents of the company, capital stock, certain executive management matters, or branding of the Joint Venture; (ii) certain material transactions, including transfers of all shares in the company and acquisitions and dispositions over a certain threshold; (iii) the adoption of any new business plan or amendment to any current business plan (including with respect to the budget) of the Joint Venture; and (iv) certain other material business, investing and financing decisions of the Joint Venture.

The Joint Venture Shareholders Agreement provides that the Chairman of the board of directors will alternate every two years between a Liberty Global Europe director and a Telefonica O2 director. The initial Chairman of the board of directors of VMED O2 UK Limited, Mr. Mike Fries, the CEO of Liberty Global, was designated by Liberty Global Europe. Mr. José María Álvarez-Pallete López, the CEO of Telefónica, was designated as a director by Telefonica O2. The remaining directors and executive officers have been selected and appointed by Liberty Global Europe and Telefonica O2 in accordance with the Joint Venture Shareholders Agreement.

Pursuant to the Joint Venture Shareholders Agreement, the Joint Venture will be required to make regular cash distributions to the shareholders of the company on a *pro rata* basis equal to the unrestricted cash of the Joint Venture (subject to the Joint Venture maintaining minimum cash levels and complying certain leverage ratios and the terms of its financing arrangements). The Joint Venture Shareholders Agreement includes a lock-in period of three years from the date of the agreement, during which the shareholders of the company are not permitted to transfer their shares other than in limited circumstances. Each shareholder has the right to initiate an initial public offering after the third anniversary of the JV Closing Date. Each shareholder of the company has a customary right of first offer rights and drag along rights, which shall apply following the fifth anniversary of the Joint Venture Shareholders Agreement and will be subject to non-compete and non-solicit undertakings subject to certain carve-outs.

Leadership Team

The leadership team has been selected and appointed by Liberty Global Europe and Telefonica O2 in accordance with the Joint Venture Shareholders Agreement.

Lutz Schüler, Chief Executive Officer

Lutz Schüler is our Chief Executive Officer. Mr. Schüler was appointed Chief Executive Officer of Virgin Media in May 2019, prior to which he served as Virgin Media's Chief Operating Officer from September 2018 and as the CEO of Unitymedia GmbH from January 2011 to August 2018. Mr. Schüler has significant experience in the telecommunications market, with many years of strategic and operational experience and extensive experience in marketing, sales and operations across a wide range of products. He has served in several senior management roles with Telefónica Germany since 1998. From 2006 to 2010, he was Managing Director, Marketing & Sales for Telefónica Germany. Before joining Telefónica Germany in 1998, he worked as product manager with VIAG Interkom GmbH and T-Mobile. Mr. Schüler studied business administration at the University of Augsburg and holds a master's degree in business administration ("*MBA*").

Patricia Cobian, Chief Financial Officer

Patricia Cobian is our Chief Financial Officer. Ms. Cobian was appointed Chief Financial Officer of O2 in September 2016. Ms. Cobian was previously O2's Strategy & Transformation Director. Before joining O2's leadership team, Ms. Cobian led Telefónica post-merger integration planning of Telefonica Deutschland with ePlus. Prior to this, Ms. Cobian was the Director for Business Development of Telefonica Europe. Ms. Cobian joined Telefónica in 2006 as VP Strategy and Development for Telefonica Europe. Ms. Cobian has deep expertise in the TMT space with a track record of over 15 years in leading teams at the intersection of evolving customer trends, market structure and technology. Ms. Cobian was named a Young Global Leader by the World Economic Forum in 2014. Prior to joining O2, Ms. Cobian was a consultant with the TMT and Corporate Finance practices of McKinsey & Company. Ms. Cobian started her career in Hewlett-Packard and holds an MSc in Industrial Engineering from Universidad Pontificia Comillas ICAI (Madrid).

Jeff Dodds, Chief Operating Officer TV, Broadband & FMC

Jeff Dodds is our Chief Operating Officer TV, Broadband & FMC. Mr. Dodds re-joined Virgin Media as Managing Director—Mobile in May 2017, and was latterly Virgin Media's Chief Customer Officer and Managing Director. Previously, Mr. Dodds spent almost five years with Virgin Media, most recently as Chief Marketing Officer. Prior to re-joining Virgin Media in May 2017, Mr. Dodds worked for TalkTalk as Managing Director responsible for Mobile. Before that, Mr. Dodds spent two years living and working in the Netherlands as the CEO of Tele2, a telecoms business, where he oversaw the build and launch of its 4G mobile network. Prior to this, Mr. Dodds was the Group Marketing Director for Callaway Golf Europe, and prior to that worked at Honda U.K. Mr. Dodds is a board member of the Valuable 500 charitable organisation and in April 2021 was appointed non-executive director to the U.K. Government Ministry for Housing, Communities and Local Government. Mr. Dodds holds an MSc in International Marketing from Aberdeen Business School and an MBA from Westminster Business School.

Gareth Turpin, Chief Commercial Officer—Mobile

Gareth Turpin is our Chief Commercial Officer—Mobile. Mr. Turpin was appointed Sales Director for O2 in September 2017, a role that covered all aspects of sales including consumer, small and medium business, online, retail, telesales and supply chain as well as all customer service activity for O2's customers. Prior to 2017, Mr. Turpin was Director of Customer Service managing O2's customer service channels, including its strategic partnership with Capita plc and initiated O2's company wide transformation programme. Mr. Turpin's previous roles within O2 have covered areas such as IT, Operations and Sales & Service. Prior to joining O2 in 2001, Mr. Turpin spent two years at Halifax plc (now Lloyds Bank plc). Mr. Turpin holds a BSC in Mathematics/Geography from Newcastle University and is a member of the Vizolution Customer Advisory Board.

Jo Bertram, Managing Director, Business & Wholesale

Jo Bertram is our Managing Director, Business & Wholesale. Ms. Bertram was appointed Managing Director, Business of O2 in August 2019, having joined O2 as Chief Digital & Strategy Officer in April 2018. As Managing Director, Business of O2, Ms. Bertram was responsible for O2's B2B and wholesale businesses, including product management and development, marketing, sales, and wholesale and MVNO (as defined below) relationships. Prior to this, Ms. Bertram was the Regional General Manager of Uber's Northern Europe operations. Ms. Bertram also has more than eight years of management consultancy experience, having worked for both McKinsey and Accenture. Ms. Bertram holds a degree in natural sciences from Cambridge University and an MBA from INSEAD.

Jeanie York, Chief Technology Officer

Jeanie York is our Chief Technology Officer. Ms. York was appointed as Chief Technology and Information Officer at Virgin Media in January 2019. Prior to this, she spent almost six years at Liberty Global, joining as Vice President of Network Operations and later becoming Managing Director in 2017, where her role included responsibility for network engineering and operations. Before joining Liberty Global, Ms. York held a number of senior management positions at Qwest and CenturyLink over a period of 15 years. Ms. York holds an Associate of Science (A.S.) degree from North Idaho College.

Rob Evans, Managing Director, Fixed Network Expansion

Rob Evans is our Managing Director, Fixed Network Expansion. Mr. Evans became Virgin Media's Managing Director for Lightning in April 2017. Prior to this, Mr. Evans was Managing Director of Core Networks & Operations within the Liberty Global T&I organisation from January 2016 to February 2017 and Chief Information, Network and Technology Officer with Virgin Media from April 2015 to December 2015. Before this, Mr. Evans served as Virgin Media's Executive Director of Engineering and Supply Chain beginning in 2009. From 2006 to 2009, Mr. Evans was the Vice President of Network, Data Centres and Global Operations with BP International. Prior to this, he was Vice President of Network Engineering at Cable & Wireless from 2000 to 2006. Mr. Evans has previously held senior management roles with Schlumberger in the United States and with Hong Kong Telecom in Hong Kong and Macau. Mr. Evans holds a degree in Mechanical Engineering and an executive MBA from Henley Business School.

Kay Schwabedal, Chief Digital Officer

Kay Schwabedal is our Chief Digital Officer. Mr. Schwabedal was appointed Chief Digitization Officer of Virgin Media in October 2019. Initially carving out his career at P&G and McKinsey in marketing and consulting, Mr. Schwabedal has held a number of CEO and Chief Experience Officer leadership roles in gE, Vodafone and KPN's operating companies, building challenger IT outsourcing and fixed and mobile telecommunication businesses. Most recently, Mr. Schwabedal built a digital transformation unit for METRO AG. Mr. Schwabedal has undertaken many entrepreneurial engagements throughout his career including his role as CEO in Bavaria Boats, a leveraged buy-out, as founding partner of the Lead X investment fund and positions on supervisory boards. Mr. Schwabedal holds a joint degree in Mechanical Engineering and Business Administration (*Dipl.-Wirtschaftsingenieur*) from Technische Universität Darmstadt and an MBA from Harvard Business School.

Adrian Di Meo, Chief Information Officer

Adrian Di Meo is our Chief Information Officer. Mr. Di Meo was appointed Chief Technical Information Officer for Telefonica Móviles Argentina S.A. in 2015. In that role he oversaw the planning, deployment, and operation of the mobile, fixed and IPTV networks, as well as the IT stack. Prior to 2015, Mr. Di Meo was Chief Technology Officer of O2 (U.K.). Mr. Di Meo joined Telefónica in 1998 as a Radio Engineer and later becoming Head of Quality Assurance at Telefonica Móviles Argentina S.A. Mr. Di Meo also serves as a lecturer at Universidad Argentina de la Empresa and at Universidad de San Andres. Mr. Di Meo studied Electronic Engineering at Universidad Tecnológica Nacional, Buenos Aires and holds an MBA from EDDE Escuela de Dirección de Empresas Argentina.

Enrique Medina Malo, General Counsel and Chief Regulatory Officer

Enrique Medina Malo is our General Counsel and Chief Regulatory Officer, and was Chief Policy Officer at Telefónica until 1st June. Mr. Medina Malo joined the Telefónica legal department in 2006 as Head of Public Law and has held different responsibilities in the field of Regulation and Competition legal affairs. Mr. Medina Malo was appointed as General Counsel of Telefonica Europe in September 2011. Before joining Telefónica, Mr. Medina Malo served in the Spanish Government Legal Service, working for the Ministry of Science and Technology, the Ministry of Industry and Energy and the High Court of Cataluña. From 2002 to 2004 Mr. Medina Malo served as both General Director for Legislation (**Secretario General Tecnico**) of the Ministry of Science and Technology and as Chief Legal Officer of the Spanish Broadcasting Corporation, RTVE. Mr. Medina Malo holds a degree in Law from the Universidad Carlos III de Madrid and was admitted to Spanish Government Legal Services in 1997 (**Abogado del Estado**).

Philipp Wohland, Chief People and Transformation Officer

Philipp Wohland is our Chief People and Transformation Officer. Mr. Wohland joined the Virgin Media Group as Chief Transformation Officer in 2019, later assuming responsibility for the People Teams in October 2019. Prior to this, Mr. Wohland was Senior Vice President of People and Transformation at Unitymedia in Germany, where he led on large-scale transformation initiatives. Mr. Wohland has significant strategic and operational experience having also worked as Senior Vice President of Strategy leading Unitymedia's major corporate development from 2008. Prior to Unitymedia, Mr. Wohland worked as a project manager at Roland Berger Strategy Consultants from 2000. Mr. Wohland holds a degree in business administration from the University of Cologne and a doktor rerum politicarum from Leuphana University of Lüneburg.

Nicola Green, Chief Communications and Corporate Affairs Officer

Nicola Green is our Chief Communications and Corporate Affairs Officer. Ms. Green was appointed as Corporate Affairs Director at O2 in 2016, having served seven years as Director of Communications and Reputation. In June 2019 Nicola was appointed as a member of O2's Executive Team. At O2, Ms. Green had responsibility for Corporate Communications, Public Relations, Internal Communications, Public Affairs, Corporate Responsibility & Sustainability and Social Media Response. Ms. Green joined O2 in 2003 as Head of Media & Communications. Ms. Green previously worked for a number of major blue chip brands including Dr Pepper and Orange, where she helped build the brand and manage its flagship partnerships with BAFTA and the Glastonbury Festival. Ms. Green began her career at global public relations and communications firm, Burson-Marsteller, where she worked for a number of fast-moving consumer goods clients. Ms. Green has a degree from the University of Leeds and in May 2018 graduated with a Non-Executive Director Diploma from The Financial Times.

Services from the Joint Venture Parents

Following the JV Closing Date, the Joint Venture Parents have agreed to provide ongoing services to the Joint Venture, primarily consisting of technology and innovation-related services, procurement, brand management and other support services. The annual charges by the Joint Venture Parents for these services will ultimately depend on the actual level of services required by the Joint Venture. In addition, VMED O2 has entered into brand licence agreements in respect of the use by the Joint Venture of the "O2" brand. For further information on the charges related to the "O2" brand, see note 23 of our consolidated financial statements.

BUSINESS OF VMED O2

Introduction

Our Fixed-line Network

Our fixed-line network operated under the Virgin Media brand provides broadband internet, video, fixed-line telephony, and mobile (see "*Mobile - Virgin Media MVNO Based Offerings*" below) services in the U.K. We are one of the U.K.'s largest providers of residential communications services in terms of the number of customers. We believe our advanced, deep-fibre cable access network enables us to offer faster and higher quality broadband internet services than digital subscriber line (**DSL**) market participants. As a result, we provide our residential customers with a leading next generation broadband internet service and one of the most advanced interactive television services available in the U.K. market.

Our residential customers include SOHO (Small Office, Home Office) customers that pay a premium price to receive enhanced service levels along with video, internet or telephony services that are the same or similar to the products offered to our residential subscribers. All SOHO customers receiving mass marketed products, whether or not accompanied by enhanced service levels and/or premium prices, are included in our Fixed-line customer counts and subscriber revenue, with only those services provided at premium prices considered to be "SOHO customers". SOHO customers at 31 December 2021 increased 38% compared to 31 December 2020.

Virgin Media's residential broadband internet subscribers generally access the internet at various download speeds ranging up to 1.1 Gbps (gigabits per second), depending on the tier of service selected. We offer gigabit speeds to the whole of our footprint. We determine pricing for each different tier of broadband internet service through analysis of speed, market conditions and other factors. As of 31 December 2021, 97% of our fixed-line customers were broadband internet customers and fixed-mobile convergence penetration stands at 45%. Fixed-mobile convergence penetration represents the number of customers who subscribe to both a broadband internet service and postpaid mobile telephony service, divided by the number of customers who subscribe to our broadband internet service.

On 29 July 2021, we announced our intention to upgrade our fixed-line network to full FTTP with completion expected in 2028. The upgrade plan will cover the vast majority of our network taking into account our existing 1.4 million FTTP homes passed.

Liberty Global and Telefónica have initiated discussions with a number of potential financial partners regarding an opportunity to participate in a network build joint venture. The focus of the entity will be on building a full fibre network of up to 7 million premises in new greenfield areas by the end of 2027. VMED O2 will commit to being an anchor tenant of the network, with its proven track record of achieving up to 30% penetration in new build areas. The network will also be available to other Internet Service Providers (**ISP's**) on a wholesale basis. As this extends the company's total gigabit reach to approximately 23 million premises once completed, it provides VMED O2 with a clear incremental growth opportunity by offering services to a wider pool of customers and higher cross and upsell due to the increased overlap of fixed and mobile services.

Our digital cable service offerings include basic and premium programming and incremental product and service offerings such as enhanced pay-per-view (**PPV**) programming (including digital cable-on-demand), digital cable recorders, ultra-high definition (**UHD**), high definition (**HD**) and access to over-the-top (**OTT**) content.

Virgin Media provides mobile services to customers in the U.K. using third-party networks through mobile virtual network operator (**MVNO**) arrangements. Following the formation of the Joint Venture, these services will migrate to our mobile network and these MVNO arrangements will be unwound.

In addition, through Virgin Media Business, we provide broadband internet, fixed-line and mobile telephony and other connectivity services to businesses, public sector organisations and service providers in the U.K. across our fixed-line network.

Our Mobile Network

Our mobile network is operated under the O2 brand and is a leading U.K. mobile network operator (**MNO**) whose primary business is providing mobile telecommunications and related services.

Under our premium O2 brand, we offer a comprehensive range of mobile services and products to consumer and business customers, including mobile voice, messaging and data services, and sales of handsets, tablets, wearable devices and other hardware. In addition, we offer a wide range of value-add services and products including WiFi services, security services, cloud services, digital payment services, certain fixed-line services for businesses and insurance products. O2 has also developed innovative value-add services and products, including services and products relating to the Internet of Things (**IoT**), insurance, and big-data and insight services for businesses. Through its digital loyalty programme, Priority, O2 offers its customers a range of exclusive deals and perks and this programme was extended to our fixed-line customers in November 2021.

In addition to its offerings under its premium O2 brand, we also seek to access additional customer groups through, for example: (i) our wholly-owned MVNO, giffgaff; (ii) our joint venture with Tesco to operate Tesco Mobile; and (iii) other MVNOs such as Sky Mobile, Lycamobile and Manx Telecom.

O2 was the largest MNO in the U.K. mobile telecommunications market in 2020 based on mobile subscriptions, with an MNO market share of approximately 33.0% (including giffgaff and MVNOs) (compared to 32.0% in 2019 and 32.1% in 2018). O2 was the second largest MNO in the U.K. mobile telecommunications market in 2020 based on mobile service revenue, with an MNO market share of approximately 29.2% (including giffgaff) (compared to 29.9% in 2019 and 2018). (source: Analysys Mason).

As of 31 December 2021, we operated 2G, 3G, 4G and 5G mobile networks providing 2G, 3G and 4G voice and data coverage to more than 99% (in at least one band) of the U.K. outdoor population. In the 2021 uSwitch Mobile Awards, O2 won the Best Network Coverage award (the fourth consecutive year that O2 has earned this distinction), while giffgaff won the Network of the Year award. In the 2022 uSwitch Mobile Awards, which did not include a Best Network Coverage category, O2 was named best Network for Roaming and Most Popular Mobile Network and giffgaff retained the Network of the Year award.

Operating Statistics

The following table shows our operating statistics as of and for the corresponding periods ended 31 December 2021:

	Three months ended 31 December		Year ended 31 December	
	2021	2020	2021	2020
Footprint	Actual	Pro Forma	Pro Forma	Pro Forma
Homes Passed[1]	**15,649,900**	**15,310,800**	**15,649,900**	**15,310,800**
Fixed-Line Customer Relationships				
Fixed-Line Customer Relationships[2]	**5,768,300**	**5,626,700**	**5,768,300**	**5,626,700**
O/w Broadband Connections	5,596,800	5,420,100	5,596,800	5,420,100
Fixed-Line Customer Relationship net additions	**52,700**	**43,100**	**141,600**	**102,100**
O/w Broadband net additions	60,400	54,700	176,700	143,100
Q4 Monthly Transaction Adjusted ARPU[3] per Fixed-Line Customer Relationship	£ 48.71	£ 50.24		
Mobile				
Retail Connections	**32,276,800**	**30,336,600**	**32,276,800**	**30,336,600**
Mobile[4]	24,057,100	23,846,000	24,057,100	23,846,000
Contract[5]	15,938,000	15,594,200	15,938,000	15,594,200
Prepaid[6]	8,119,100	8,251,800	8,119,100	8,251,800
IoT[7]	8,219,700	6,490,600	8,219,700	6,490,600
Wholesale Connections[8]	**9,966,600**	**9,210,800**	**9,966,600**	**9,210,800**
Total Mobile Connections	**42,243,400**	**39,547,400**	**42,243,400**	**39,547,400**
Retail net additions	**412,200**	**635,400**	**1,940,200**	**1,357,500**
Mobile net additions (losses)	(36,200)	78,800	211,100	(14,400)
Contract net additions	128,700	162,900	343,800	433,800
Prepaid net additions (losses)	(164,900)	(84,100)	(132,700)	(448,200)
IoT net additions	448,400	556,600	1,729,100	1,371,900
Wholesale net additions	**193,000**	**192,600**	**755,800**	**496,200**
Total Mobile net additions	**605,200**	**828,000**	**2,696,000**	**1,853,700**

(1) Homes Passed are homes, residential multiple dwelling units or commercial units that can be connected to our fixed-line networks without materially extending the distribution plant. Our Homes Passed counts are based on census data that can change based on either revisions to the data or from new census results.

(2) Fixed-line Customer Relationships are the number of customers who receive at least one of our broadband internet, video or telephony services that we count as Fixed Connections, without regard to which or to how many services they subscribe. Fixed-line Customer Relationships generally are counted on a unique premises basis. Accordingly, if an individual receives our services in two premises (e.g., a primary home and a vacation home), that individual generally will count as two Fixed-line Customer Relationships. We exclude mobile-only customers from Fixed-line Customer Relationships.

- A Fixed Connection is separately a broadband connection, video connection or telephony connection. A home, residential multiple dwelling unit or commercial unit may contain one or more fixed connections. For example, if

a residential customer subscribed to our video service, fixed-line telephony service and broadband internet service, the customer would constitute three fixed connections. We had 13.4 million total fixed connections at 31 December 2021. Fixed connections generally are counted on a unique premises basis such that a given premises does not count as more than one fixed connection for any given service. On the other hand, if an individual receives one of our services in two premises (e.g., a primary home and a vacation home), that individual will count as two fixed connections for that service. Each bundled broadband, video or telephony service is counted as a separate fixed connection regardless of the nature of any bundling discount or promotion. Non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period. Services offered without charge on a long-term basis (e.g., VIP subscribers or free service to employees) generally are not counted as fixed connections.

- Broadband Connection is a home, residential multiple dwelling unit or commercial unit that receives internet services over our network, or that we service through a partner network.

- Video Connection is a home, residential multiple dwelling unit or commercial unit that receives our video service over our broadband network or through a partner network via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology. Video Subscribers are counted on a unique premises basis. For example, a subscriber with one or more set-top boxes that receives our video service in one premises is generally counted as just one subscriber.

- Telephony Connection is a home, residential multiple dwelling unit or commercial unit that receives voice services over our network. Telephony Connections exclude mobile telephony subscribers.

(3) ARPU per fixed-line customer relationship: Average Revenue Per Unit is the average monthly subscription revenue per average fixed-line customer. Calculated by dividing the average monthly subscription revenue from residential cable and SOHO services by the average number of fixed-line customer relationships for the period.

(4) Mobile Retail Connections represents the number of active subscriber identification module (**SIM**) cards in service rather than services provided. For example, if a mobile subscriber has both a data and voice plan on a smartphone this would equate to one Mobile Subscriber. Alternatively, a subscriber who has a voice and data plan for a mobile handset and a data plan for a laptop would be counted as two mobile subscribers. Customers who do not pay a recurring monthly fee are excluded from our Mobile Subscriber counts after periods of inactivity of three calendar months. Total number of Mobile Retail Connections includes Consumer, Small and Medium Businesses (**SMB**), Large Enterprise and Public Sector (**LEPS**), Mobile Broadband and IoT (comprising M2M and SMIP, as defined below) and excluding Mobile Wholesale Connections (as defined below).

(5) Mobile Contract represents the total number of Postpaid contract retail mobile connections including Consumer, SMB, LEPS and Mobile Broadband but excluding M2M, SMIP and Mobile Wholesale Connections (as defined below).

(6) Mobile Prepaid represents the total number of Prepay retail mobile connections for Virgin Media, O2 and giffgaff brands measured on the basis of activity within three calendar months.

(7) IoT Connections represent the total number of Machine-to-Machine (**M2M**) connections including Smart Metering Implementation Programme (**SMIP**) contract connections.

(8) Mobile Wholsesale Connections represents the total number of wholesale MVNO contract connections (Tesco Mobile, Sky Mobile, Lycamobile, SMB Wholesale and other).

Our Fixed-line Network in the U.K.

Consumer Products and Services

We offer our customers a choice of packages and tariffs within each of our fixed-line product categories. Our bundled packaging and pricing are designed to encourage our customers to purchase multiple services across our product portfolio by

offering incentives to customers who subscribe to two or more of our products. The types and number of services that each customer uses, and the prices we charge for these services, drive our revenue. For example, broadband internet is more profitable than our television services and, on average, our "triple-play" customers are more profitable than "double-play" or "single-play" customers. As of 31 December 2021, 97% of our 5.8 million fixed-line customers are broadband internet customers and fixed-mobile convergence penetration stood at 45% of our broadband internet customers.

Broadband Internet

Connectivity is a critical building block for vibrant communities. As highlighted by the current COVID-19 pandemic, all aspects of society, including families, businesses, education and healthcare, to name a few, rely heavily on connectivity and the digital services that depend on it. To meet our customers' expectations of seamless connectivity, we are developing a fully digital, cloud-based "Connectivity Ecosystem" built on top of our fibre-rich fixed-line broadband network and mobile network. The Connectivity Ecosystem is orchestrated by a fully cloud-based digital journey, enabling fast and flexible introduction of new hardware and services, as well as cloud-to-cloud open application programming interface integration, which simplifies the on-boarding of new services and devices. The devices used within our Connectivity Ecosystem are connected and protected through our security gateway and VPN, both at home and on the go. At home, our customers can benefit from the gigabit speeds enabled by our "Hub 4 router," as well as "Intelligent WiFi," which has optimisation functionalities, such as the ability to adapt to the number of people and devices online at any given time in order to improve and extend wireless connectivity reach and speeds. In addition, we introduced our first "Smart Home" bundles, enabling those customers to take their smart home ambitions to the next level, including enhanced entertainment, home automation and home security.

Our Hub 3 and Hub 4 routers are our intelligent WiFi and telephony gateways that enables us to maximise the impact of our ultrafast broadband networks by providing reliable wireless connectivity anywhere in the home. This gateway can be self-installed and allows customers to customise their home WiFi service. We also offer our Connect App that, amongst other things, allows our customers to find their best WiFi access. In addition, we provide intelligent mesh WiFi boosters, which increase speed, reliability and coverage by adapting to the environment at home.

In the fourth quarter of 2021, we also launched our new, next generation broadband router, called Hub 5, which comes with WiFi 6, the latest generation of wireless technology that brings faster and more reliable speeds. It is built from 100% post-consumer recycled plastic.

Internet speed is of crucial importance to our customers, as they spend more time streaming video and other bandwidth-heavy services on multiple devices. Our extensive broadband network enables us to deliver ultra high-speed internet service across our markets in the U.K. As of 31 December 2021, we provided broadband internet services to approximately 5.6 million subscribers, 97% of our fixed-line customers. We are one of the leading providers of broadband internet access in the U.K. Our residential subscribers access the internet via cable modems connected to their internet capable devices, or wirelessly via a WiFi gateway device.

We currently offer six tiers of cable broadband internet services to new subscribers with unlimited downloads at speeds of up to 50 Mbps (megabits per second), 100 Mbps, 200 Mbps, 350 Mbps, 600 Mbps and 1.1 Gbps in the U.K. and are now the largest gigabit speed provider in the U.K. with our Gig1 service available across our U.K. footprint, representing over 15 million premises. We won the uSwitch award for Fastest Broadband Provider in the U.K. in 2021. By leveraging our existing fibre-rich broadband networks and the Network Extension programme in the U.K., we are in a position to deliver gigabit services by deploying the next generation DOCSIS 3.1 technology. DOCSIS 3.1 technology is an international standard that defines the requirements for data transmission over a cable system. Not only does DOCSIS 3.1 technology improve our internet speeds, but it also allows for network growth. In addition, on 29 July 2021, we announced our intention to upgrade our fixed-line network to full FTTP with completion expected in 2028. The upgrade plan will cover the vast majority of our network taking into account our existing 1.4 million FTTP homes passed.

As noted above (see "*Introduction - Our Fixed-line Network*"), the Joint Venture Parents have initiated discussions with third parties over investment in a FTTP network build joint venture that would pass up to 7 million premises with VMED O2 as an anchor tenant, extending our reach to approximately 23 million premises across an entirely FTTP network by 2028, and offering wholesale access to other ISP's.

We offer value-added broadband services for an incremental charge. These services include Intelligent WiFi features, security (e.g., anti-virus, anti-spyware, firewall and spam protection) and Smart Home services. Subscribers to our internet

service pay a monthly fee based on the tier of service selected. In addition to the monthly fee, customers pay an activation service fee upon subscribing to an internet service. This one-time fee may be waived for promotional reasons. We determine pricing for each different tier of internet service through an analysis of speed, market conditions and other factors.

We have deployed "Community WiFi" via routers in the home, which provides secure access to the internet for our customers. Community WiFi is enabled by a cable modem WiFi access point **(**WiFi modem**)** in a Hub 3 router or Hub 4 router of our internet customers. Community WiFi is created through the sharing of access to the public channel of our customers' home wireless routers. The public channel is a separate network from the secure private network used by the customer within the home and is automatically enabled when the WiFi modem is installed. Public WiFi access points (covering train stations, hotels, bars, restaurants and other public places) are also available for no additional cost.

Television

Our digital cable platform includes access to over 230 linear television channels, advanced interactive features and a range of premium subscription-based and PPV services. In addition to our linear television services, which allow our customers to view television programming at a scheduled time, our digital cable customers also have access to a broad range of digital interactive services, including Virgin TV On Demand, one of the most comprehensive digital cable-on-demand services in the U.K., and Virgin TV Go, one of the most comprehensive cloud-based entertainment services in the U.K., which are described below.

We also offer interactive "red button" applications from the British Broadcasting Corporation (**BBC**) and other commercial broadcasters, such as Sky plc (**Sky**) and BT Group plc (**BT**). Red button functionality in the U.K. permits television viewers to press a red button on their remote control handset to receive additional interactive services, including multiple alternative broadcasts.

Digital Set-Top Boxes

We have a range of advanced digital set-top boxes in use with our customers, which include multiple tuners enabling recording of multiple programmes at the same time. Set-top boxes equipped with digital video recorders digitally record television programming to a hard disk in real-time, enabling customers to play back, pause, fast forward or rewind the programme at any point during or for a period after the broadcast.

The Virgin Media V6 box combines support for UHD/4K video together with improved streaming functionalities and more processing power. The Virgin Media V6 box has eight tuners, allowing viewers to record six programmes while watching a seventh they previously recorded. Under a strategic partnership agreement, we also distribute the TiVo user interface software for our legacy set-top boxes. All of our boxes provide converged television and broadband internet capabilities in the U.K. This enables us to support digital cable-on-demand delivery of television shows, movies and children's programmes in addition to supporting web video services such as Netflix, BBC iPlayer, Prime Video and YouTube.

Virgin TV 360

Virgin Media introduced its latest TV platform, Virgin TV 360, in November 2020 offering customers a seamless and more personal connected entertainment experience. Virgin TV 360 boasts all of the top TV channels and streaming apps such as Netflix, Amazon Prime Video and BBC iPlayer, all with UHD/4K and high dynamic range viewing capabilities. The upgraded platform also offers a host of new features including a voice activated remote-control, Profiles, a new Mini box and Startover. Virgin TV 360 is powered by Horizon, the next-generation entertainment platform developed by Liberty Global, and with access to regular updates and innovations, is Virgin Media's most advanced and intuitive TV platform to date.

For Horizon we offer three advanced digital set-top boxes, two of which include multiple tuners enabling recording of multiple programmes at the same time. The Mini box does not enable recording but streams recordings from the other box types.

The Virgin TV 360 Mini Box is only available alongside a Virgin TV 360 box that is capable of recording. That box has eight tuners, allowing viewers to record six programmes while watching a seventh they previously recorded. The Virgin TV

360 software can be downloaded to the Virgin Media V6 box allowing customers to migrate from TiVo to the latest Horizon software on receipt of the Virgin TV 360 Voice enabled remote control.

Virgin TV On Demand

Our digital cable-on-demand service provides our customers with instant access to a wide selection of premium movies, television programmes. Content is available in a variety of broadcast formats including standard definition (**SD**), HD and UHD/4K. Our HD content is available to all of our digital cable customers who have an HD box, at no additional charge, however the exact channels available depend on the particular customer's package. Viewers can watch programmes instantly, without the need for buffering, and can freeze-frame, fast-forward and rewind the content at will. This gives our customers increased control over the content and timing of their television viewing.

The primary categories of content available within Virgin TV On Demand are "catch-up" television programming, boxsets, children's programming and movies (on a PPV and premium subscription basis). A selection of content, including our "catch-up" television service, is available free of charge to all of our television customers. The BBC iPlayer is the largest catch-up television service we offer, but we also offer catch-up television content from ITV Hub, All 4, My5 and other pay TV linear channels.

Subscription Video On Demand

We offer our television customers basic subscription digital cable-on-demand (**SVOD**) with a selection of content that increases in volume in line with the customer's digital cable subscription tier.

The offering includes 'Virgin TV Ultra HD' which is a linear entertainment channel broadcasting a selection of high quality TV series to eligible Virgin TV customers in UHD. The Sky On Demand service allows our customers to access a library of approximately 1,000 hours of television content from across Sky's range of entertainment channels, and an additional 1,000 UHD movie titles being made available to eligible Virgin Media subscribers of Sky Cinema. Tailored advertising is also inserted across many providers within the basic television SVOD and free catch-up services.

Virgin Media Store

The Virgin Media Store offers hundreds of titles from all the major studios and most independent distributors. Customers can buy or rent the latest movies on demand, straight from the cinema plus buy much loved TV Box Sets (including series from HBO and Showtime). They can also get early access to premium rentals available to watch at home, the same time as in cinemas. Both Virgin TV and Non-Virgin TV customers can register and use our Virgin Media Store application (**app**) to buy content and watch on up to five devices. Virgin TV customers can also rent and buy movies to watch on their TV via a Virgin TV box. Rental is only available on Virgin TV and a may be viewed multiple times within a 48-hour window.

Virgin TV Go & Virgin TV Control

Our Virgin TV Go app allows our television customers to stream more than 100 live television channels (depending on their TV package) on up to five devices at no extra cost through their web browser or via mobile apps for compatible Android, iOS and Window devices. In addition, our Virgin TV 360 customers can use the Virgin TV Go app to control their set-top box and can also watch selected recordings from their Virgin TV 360 box.

Our Virgin TV Control app allows our TiVo or V6 box customers with iOS or Android mobile devices to manage their set-top box remotely. When in the home, these mobile devices can act as a remote control for their set-top boxes. Customers with compatible iOS or Android devices and a V6 box can also watch selected recordings from their V6 box within the home or download them to their devices for offline viewing using the Virgin TV Control app.

Virgin TV Go and Virgin TV Control are available at no extra cost to our digital cable customers. Virgin Media subscribers of Sky Sports are able to stream these premium channels online or on iOS and Android mobile devices through Sky-provided services.

Apps

As well as our Virgin TV Go, Virgin TV Control and Virgin Media Store apps, we provide our television customers with a large array of third-party apps. Virgin TV was the first platform in the U.K. to integrate the Netflix streaming service onto the set-top box and over time we have added a large number of apps offering a wide range of content. We provide all the public service broadcaster apps, so BBC iPlayer, ITV Hub, All 4, My5 and STV are all available to use via the Virgin TV remote. We also feature Amazon's Prime Video, YouTube, YouTube Kids and Pluto TV. In addition, our TV platforms provide access to music apps including Vevo, BBC Sounds and Radioline, news apps from around the world as well as games to entertain. We continue to improve and broaden our portfolio of apps and each year we are committed to bringing the very best new launches to the Virgin TV platforms.

Fixed-line Telephony

We provide local, national and international telephony services to our residential customers over our twisted copper, hybrid fibre coaxial cable and fibre-to-the-premises (fibre-to-the-home/-cabinet/-building/-node is referred to herein as **FTTx**) networks. We also provide telephony services through voice over internet protocol (**VoIP**) technology, which was launched in late 2016, across our fibre network. We offer a basic line rental service to our cable customers for a fixed monthly fee. In addition, we also offer tiered bundles of call tariffs, features and services, including calling plans that enable customers to make unlimited national landline calls and calls to mobile telephones either during specified periods or anytime, for an incremental fixed monthly fee. Our fixed-line customers can also make calls to mobile customers free of charge and may also subscribe to additional services such as call waiting, call blocking, call forwarding, three-way calling, advanced voicemail and anonymous caller rejection services for an additional fee.

Our Mobile Network in the U.K.

Products and Services

Our company offers a wide range of mobile telecommunications and value-add services and products to our consumer and business customers principally under our premium O2 brand. Our approach focuses on the needs of our customers with the aim of maintaining and increasing our large, loyal customer base to drive value.

Consumer Services and Products

We offer consumers mobile services (including mobile voice, messaging and data services) through post-pay and pre-pay models, and offer a range of hardware, including wearables and handsets in connection with the company's mobile service offerings as well as stand-alone mobile devices and accessories. In addition, we offer consumers a range of value-add services and products, including a digital loyalty programme, WiFi, security services, cloud services, digital payment services and insurance with the aim of differentiating the customer experience and increasing customer loyalty and engagement.

Mobile Services

We offer our consumer customers mobile voice, messaging and data services which are supplied, at present, through the purchase of a SIM card. Customers can purchase a SIM card either on its own (a SIMO mobile service) or together with a handset. Mobile services for both SIMO and handset options are offered under two payment models: "pay monthly" (a post-pay model) and "pay as you go" (a pre-pay model). "Pay as you go" customers can purchase a handset paying in full upfront. "Pay monthly" customers have access to the "Custom Plan" proposition (as part of O2 Refresh), which allows customers to spread the cost of their phones over different terms, flex their data up and down or upgrade.

We also provide data-only mobile broadband services over our mobile network. Customers can purchase data-only plans together with a tablet device, or as a SIMO service purchasing data access devices separately, for example a laptop dongle or an in-car WiFi device.

Our Company also provides its O2 Family offering with the aim to simplify billing processes and provide discounts (based on the number of connections registered) and support for families. For each family connection registered, the primary account holder receives one bill (rather than multiple bills throughout the month).

We have also introduced embedded SIM cards (**e-SIM**) for smartphones and released a 5G e-SIM in the autumn of 2020. We continue to build on this capability and have plans to develop a fully digital distribution method for e-SIM, removing the need for paper e-SIM vouchers.

Hardware Sales

In addition to handsets, tablets and data access devices offered to its mobile customers, our company offers a range of stand-alone products, including smart-tech (such as smart watches and fitness devices) and accessories (such as handset cases, screen protectors, chargers, cables, portable batteries, headphones and speakers).

As part of the Joint Venture, our customers will also, in the future, be able to purchase a range of Virgin Media products in the stores that are within the catchment area for Virgin Media broadband connectivity; and, additionally, joint VMED O2 service and support from all of our stores across the U.K.

As part of our "Like New" online offers, customers are able to select from a choice of quality assured pre-owned handsets. Customers can purchase "Like New" handsets as part of our "pay monthly" and "pay as you go" payment models.

Consumers on any network can exchange their existing handset through O2 Recycle, a scheme which allows people to exchange old phones and other gadgets utilising the value towards the cost of a new one or for cash payment or bill credit. Devices returned through O2 Recycle are processed for re-use via Like New, Market Place, re-sold or sent for environmental recycling by dissembling and harvesting component parts. Since launch in 2009, O2 Recycle has paid out over £250 million to consumers and returned 3.2 million devices which have been diverted from landfill.

giffgaff

In addition to our business under our premium O2 brand, we also have a wholly owned digital brand, giffgaff. giffgaff is a 100% owned subsidiary of O2, and is principally an online-only MVNO providing telecommunications services to the consumer mobile segment. It has no call centres or shops, resulting in a highly-efficient member service model with significantly reduced customer service costs. giffgaff's core business is the provision of pre-pay, SIMO mobile services, but it also offers new and refurbished handsets (outright or via a loan from our finance partner). As of 31 December 2021, giffgaff's member base was approximately 4.7 million.

Value-add Services and Products

Our O2 business offers a number of value-add services and products as part of its strategy to increase customer engagement and loyalty and reduce customer churn rates. The following value-add services and products are available to O2's customers:

Rewards and Offers

Priority offers customers a range of exclusive deals and offers through a mobile app, as well as 48 hours early access to presales of tickets for music, comedy and sports events across the U.K., including 21 O2 Academy venues, the O2 England Rugby matches at Twickenham and over 600 venues nationwide. Priority is one of the largest U.K. digital loyalty programmes. Priority was extended to our fixed-line customers in November 2021 and had over 2.6 million active users as of 31 December 2021, with more than 11.0 million offers being accepted and prize draws being entered through Priority in 2021 to date.

WiFi

O2 WiFi provides access to free WiFi at over 16,500 locations across the U.K. as of 31 December 2021. It is offered free to end users regardless of their end network. It had approximately 11.8 million unique users as of 31 December 2021. O2 WiFi supports the connectivity needs of O2 customers and it also allows us to access a wider potential customer base introducing them to the O2 brand experience. O2 WiFi has also been developed for business customers - see *Business and Wholesale - LEPS (Large Enterprise and Public Sector) - VMED O2 Business Products and Services.*

Communications

WiFi Calling (also called Voice over WiFi or VoWiFi), allows customers to make and receive calls even if they cannot connect to the mobile network. 4G Calling (also called Voice over LTE or VoLTE) allows customers to make calls using its 4G network, for a clearer voice call. In 4G Calling areas, WiFi and 4G Calling work together to provide a seamless and uninterrupted experience as customers move from one to another, without calls being dropped.

Payment Services

Charge to Mobile allows customers to buy digital content through their handset, with the cost of the product added to their monthly mobile bill for "pay monthly" customers or taken from their mobile credit for "pay as you go" customers.

MyO2

MyO2 enables consumer customers to digitally self-serve, providing over 70 account management features including billing. payments, bolt-ons and tariff changes. Customers can also view personalised tariff and/or device upgrade recommendation and access Aura, our virtual assistant which has over 230 use cases. It is our most popular customer service channel with over 8 million unique 12 month active users and is our highest NSS (Net Satisfaction Score) touchpoint at 55 points.

O2 Extras

We launched O2 Extras in partnership with, amongst others, Amazon (Music Unlimited, Prime Video & Audible) and McAfee. O2 Extras gives O2 customers the ability to pick a partner service to enjoy (at no initial cost) as part of their tariff. In March 2020, we added Disney+ to our line-up and became the only U.K. mobile network operator to offer Disney+ to its customers. This Disney+ partnership included creation of an exclusive offer for customers taking the Paid Disney subscription direct with O2, saving them £2 per month for as long as they keep the Disney+ service.

We also offer paid services and products with the aim of leveraging our strong position in the U.K. mobile service market and monetising additional growth opportunities, including (i) mobile and tablet insurance, (ii) international calling bolt-ons which allow customers to make international calls from 1p per minute for £3 per month, and (iii) the O2 Travel bolt-on, which allows customers to call, text and use data at significantly reduced rates (compared with O2's standard rates) while roaming abroad.

Business and Wholesale

Overview

VMED O2 Business provides business services to large enterprise, public sector and small & medium business customers as well as wholesale and MVNO partners. There has never been a more important role for connectivity than right now. As organisations look to build for the future, they want a partner that really understand their needs.

As an organisation, VMED O2 is investing significantly in the U.K.'s connectivity network, technology and services. We are well positioned to offer businesses more choice and flexibility, putting customers at the heart of everything we do. We have dedicated sales, commercial, marketing and partner teams focusing on delivering a full range of solutions to customers. From broadband, mobile and security to Big Data and IoT, we offer a customer led approach focusing on delivering measurable outcomes.

In addition, we look to partner with other organisations to wholesale our connectivity whether fixed or mobile. We own the relationship with some of the largest MVNO's in the U.K. This means we wholesale our network to organisations such as Tesco Mobile, Sky Mobile and Lycamobile. Finally, VMED O2 also provide the connectivity for much of the U.K.'s Smart Meter infrastructure roll out, helping the U.K. progress towards a more sustainable future.

The U.K. needs connectivity that is fit for today and the future. Businesses need to be able to respond to the needs of today's dynamic workforce and hybrid ways of working. But arguably most importantly, businesses want to work with a brand with principles and commitments as well as skills and expertise.

SMB (Small and Medium Business)

VMED O2 Business has a dedicated sales, commercial and marketing team focused exclusively on the provision to SMB's in the U.K. The teams are responsible for taking our full range of product and propositions to some of the UK's most dynamic and fastest growing businesses.

Not only do we focus on connecting, securing and empowering our customers' businesses, but we bring enhanced service and flexibility alongside technology innovation that brings our customers new ways to address business challenges together.

Direct Sales

In our direct sales channel for SMB customers we have both a mobile and non-mobile portfolio. Examples of our mobile portfolio are singleton tariffs that have inclusive allowances of calls, text and data for SMB customers and sharer tariffs for our Medium Business customers. Examples of our non-mobile portfolio are O365 security products such as Maas 360 and Sophos and fixed connectivity solutions.

Through 2021 our overarching value proposition has centred around flexibility recognising the fact that things can change very quickly for our SMB customers. Positioning ourselves as the "Flexible Network" we have promoted the following points to demonstrate how we are flexible and how we can help our Small Business customers be flexible:

- Choice of contract length - We offer a choice of contract lengths from 30 days to 36 months providing our SMB customers with the choice their business needs;

- Data rollover - No business can afford to waste data it doesn't use, so we automatically roll over unused data to the next month for our SMB customers;

- Flexible tariffs - We've made our business tariffs flexible, so our SMB customers and flex their data allowances up or down, plus change their tariff once every billing cycle;

- Dedicated business support - Our account managers provide our SMB customers the advice and support they need to work more effectively;

- Flexible digital tools – Digital tools that enable flexible working so small businesses can work productively and securely anywhere.

Indirect Sales

Our indirect SMB sales channel is built up of a number of direct relationships with partners ("Partners"), who sell O2 products and services to business customers either directly or through their network of resellers (stockists). These Partners represent an important part of our SMB activity and are a significant route to market. They offer us reach into different market segments, they give choice to business customers and often deliver a compelling service wrap and product range. The Partners complement our direct routes to market by giving SMB customers choice as to where they procure their telecommunications needs.

We have an Indirect Channel Sales Team with a designated responsibility to work with these partners and to support them to grow their O2, and overall business. It is important to develop strong relationships with these Partners, so we work on an aligned business plan with each partner targeted at growth. Many of the Partners have worked with O2 for many years, but we are also keen to forge new relationships with partners in new sectors.

Products

VMED O2 Business offers its SMB customers tailored solutions to meet its customers' needs for mobile and fixed connectivity, mobile hardware, secure flexible working, and unifying communication and collaboration.

We have partnered with leading hardware and software brands such as Apple, Samsung, IBM, Microsoft, Sophos, McAfee and Ingram Micro to deliver a curated portfolio that enables customers to simplify their communication and migrate their IT to the cloud. These services are underpinned with an O2 branded support wrap designed for Small and Medium Business, on a single bill.

We rolled out our Business Flex programme in 2020. Through this programme, we embedded a greater level of flexibility in how our products and services are offered with data rollover on our mobile tariff, the ability to flex mobile data up and down and flexible contract lengths to better meet our customers' needs.

Customer Services

SMB support is provided to three distinct groups of Customers – SMB Small Business (1-9 handsets), SMB Medium Business (10+ handsets and up to 500 employees) and SMB Partner Managed (where the customer has been acquired by an approved O2 SMB Partner and the Partner is the primary support channel).

Customers are provided with multiple interactive service channels – Voice, Webchat, Online Help & Support and My O2 Business which provides reporting and account changes. SMB Medium Business customers also have email support.

Large Enterprise and Public Sector (LEPS)

Overview

VMED O2 Business has a large and dedicated sales, commercial and marketing team focused exclusively on provision to LEPS customers in the U.K. Sales and account management is split into three areas: New Business Development, Key Accounts & Multinational Corporations and Volume Sales. These teams are responsible for taking our full range of product propositions to many of U.K.'s largest businesses and public sector entities, across all industries. Notable customers include McDonald's, NHS England, Network Rail, Sainsbury's and Transport for London.

Not only do we focus on connecting, securing and empowering our customers' businesses, but we bring process and commercial flexibility alongside technology innovation that brings our customers new ways to address business challenges together.

VMED O2 Business services a range of private sector organisations including retail, construction, professional services, hospitality, financial services and manufacturing.

Within the Public Sector, VMED O2 Business' solutions help public sector organisations engage with communities and citizens. That's why we've made sure we're on all the relevant government-approved frameworks, so organisations can buy public sector ICT services as flexibly and efficiently as possible.

VMED O2 Business Products and Services

Mobile

Mobile is a straightforward offering, aimed at providing our customers with managed estates of mobile phones, allowing voice calls and internet access, data, on the move. We aim to make the offering tailored to the customer, giving choice from a range of devices to cover all the customers organisational needs and importantly to enable their people with the best technology. Our flexible approach to tariffs means we give the customer the best fit for their organisation, with voice, data, roaming and needs focused 'Bolt Ons' to ensure complete flexibility and control.

Voice Unified Communications ("UC") and Productivity

VMED O2 Business has a range of voice and productivity solutions across all business segments of the market that can be broken down into three broad areas (i) traditional voice services such as ISDN and Centrex, (ii) IP based voice services such as SIP, Unified Communications and Contact Centre as a service and (iii) productivity solutions which consists of our Microsoft practice capability enabling services from, for example, "Teams" software through to Microsoft end point management and analytics.

Connectivity, Cloud and Security

VMED O2 Business has a rich portfolio of connectivity solutions that range from high performance broadband and internet access to complex managed WAN and LAN/WiFi solutions for enterprise and public sector customers. O2 WiFi was also developed to enable O2's business customers to provide a seamless and high quality WiFi service to their own customers and employees within their venues. Business customers can choose to purchase additional services in relation to O2 WiFi, including insight services whereby these business customers can learn more about their own customers, through data on, for example, footfall and demographics.

VMED O2 is bringing together our fixed-line broadband internet and 5G services while expanding its network reach across the country and offers a full range of access options, so our customers can access their services in the most cost-effective and secure way. Our extensive broadband network enables us to deliver ultra high-speed internet service across all our markets in the U.K.

Our Ethernet network has over 300 Ethernet nodes and is capable of carrying a variety of services and high bandwidth applications simultaneously. Our managed WAN solutions securely connect business users and devices to the data centres, cloud services and applications they need and we increasingly aim to enable digital transformation with new generation services such as Software Defined Wide Area Networks (SD-WAN) built around the cloud and "software-as-a-service applications".

VMED O2 Business also offers a wide portfolio of security solutions across network and end point security as well as unified endpoint management.

Digital Workplace

VMED O2 Business recognises that not all businesses are the same and so we provide a wide range of devices from the latest smartphones to hardened tablets and the accessories to help our customers work smarter, faster and more efficiently.

We are an accredited Android Enterprise Recommended Managed Service Provider, and in 2021 we became a certified Android Enterprise Device Reseller. VMED O2 Business supports all the device enrolment platforms including Apple ADE, Samsung KME and Android ZTE which are provided free of charge to our business customers with the purchase of new devices.

The O2 Managed Logistics Service (MLS) allows our LEPS customers to speed up device on-boarding by having VMED O2 kit and pre-configured devices to their specific operational needs, along with optional lifecycle repairs, replacement, and asset management. The service offers rapid replacement of any damaged, lost or stolen devices, ensuring our customers stay connected and operational. The service additionally facilitates end-of-life asset value recovery and disposal by integrating with the O2Recycle service. O2Recycle allows customers to recycle old phones, tablets and laptops. In exchange they receive a credit on their hardware account, but also can be sure that all devices are 100% recycled and that O2 will responsibly remove all data from every device and can provide a CESG (Communications Electronic Security Group) Certified Data Wipe.

Messaging

VMED O2 Business provides a white label messaging product to business. The standard version of this product provides a business customer with web portal access to send/receive SMS messages and view messages submitted by API access into the solution.

Future Innovation

VMED O2 has invested in capability that will help organisations deliver their outcomes both now and in the future including 5G, IoT, Data Analytics and Artificial Intelligence. We have a series of products:

- O2 Motion – Using anonymised and aggregated data for O2's mobile network and huge customer base to generate actionable insights (e.g. Audience Insights, Movement Insights and Travel Insights);
- Smart Digits – Digital identity to protect our customers against fraud by taking attributes from the mobile network (e.g. SIM Swaps, call diversions) and offering them to add extra layers of protection for risky transactions;
- IoT Connectivity – Give Direct and Indirect business customers the ability to use a platform to manage the connectivity provisioning and billing for all their IoT devices and SIMs across their estate;
- Smart Vehicle – Easy to install telematics device that provides real-time data on vehicle diagnostics and driver behaviour to manage fleet in more efficient ways;
- Asset Tracking – Connected device which gathers location data and asset-specific data from sensors, sending it to a platform which manages device performance and generates reports and alerts from the date collected;
- 5G Private Networks – Making digital transformation possible for industrial sites where it had been unfeasible before by offering a local, private, and reliable network;
- 5G Apps (e.g. AR Remote Expert, Health and Safety Monitoring, Spatial Insights, Smart Stations): 5G-enabled technology solutions as a way of addressing core business problems such as increasing the productivity and efficiency of an existing workforce, reducing operational risks and deepening customer relationships.

Partnerships

Our strategic partners and suppliers are imperative to our overall success, and we use carefully selected third parties to both enhance our product portfolio as well as assist in the delivery of services and the support that we provide to our customers.

When selecting new partners, we ensure they meet a robust criteria that aligns with our organisational cultural, social, environmental and ethical responsibilities. These include validation of their own supply chain approach, adherence with our anti-corruption and bribery policy and that they take comprehensive security and privacy measures to maintain the integrity of ours and our customers data.

As a combined organisation, VMED O2 Business can now benefit from a much wider breath of partner supported capability, which is helping up accelerate the delivery of products and service to our customer and presenting the opportunity to optimise our supply chain and focus on driving a reduced series of deeper more collaborative partnerships

LEPS Customer Service

Customer Service Support for LEPS customers is based around a model that focuses on the authorised contacts from the customers organisation who are able to deal with account changes on behalf of the customers business. There are teams providing support through voice communications, and teams providing email and back-office support. For Enterprise customers, support is split between the U.K., (voice and complex email), and India, (standard email and back-office), whereas for Public Sector customers on Framework contract, all support is provided within the U.K. due to Framework compliance requirements. There are separate teams to deal with the on-boarding and set-up of new customers and tasks completed here would include account creation, transfer of mobile numbers from existing providers, ordering of handsets and activation of tariffs and services. Employees of the customers organisation, (referred to as End Users), have access to voice support through an "End User" team based in the U.K.

Wholesale Fixed

Our wholesale fixed portfolio consists of core connectivity, dedicated fibre products:

- Dark Fibre – unlit fibre;
- High Capacity Services – national or local optical services of 10Gb or higher;
- Ethernet Services – national or local ethernet services from 10Mb to 10Gb;
- Dedicated Internet Access – from 10Mb to 10Gb.

Partner relationships are key to customer experience and is a crucial part of the Wholesale Fixed business' success in terms of the way we do business and perform.

Wholesale product key partners are Alcatel, Ciena and Infinera for network equipment supply and Nokia for design, build and deploy professional services. For each partner a Partner Manager is assigned and owns the primary relationship and is responsible for monitoring partner performance and continuous improvement of partner performance through formal partner reviews.

In 2021, VMED O2 Business launched its "UltimateFlex" contracting method, an industry first entirely flexible dedicated fibre service with 30 days cancellation and price benchmarking to ensure it is never above the prevailing market rate.

Wholesale Mobile

Mobile (MVNO)

We are the leading wholesale provider in the U.K. in terms of the number of MVNO subscribers, including Tesco Mobile, Sky Mobile, Lycamobile and Manx Telecom. We provide wholesale MVNO partners access to our mobile network and infrastructure which enables MVNOs to provide mobile telecommunications services to their customers. Through these arrangements, we seek to expand our reach across the U.K. telecommunications market and access additional complementary customer groups, including loyal Tesco customers (such as Tesco Clubcard holders) through the joint venture with Tesco, and expatriate communities through the MVNO partnership with Lycamobile.

Tesco Mobile

Tesco Mobile is a 50:50 joint venture between certain subsidiaries of Tesco and O2 providing mobile services in the U.K. The business has continually grown and developed, and is now the largest MVNO in the U.K. in terms of mobile subscribers, offering a full range of pre-pay and post-pay mobile services (both SIMO or with a handset).

Tesco Mobile offers its services and products across multiple channels, including through extensive national store coverage as part of Tesco stores, together with telesales and online sales. As of 31 December 2021, Tesco Mobile had over 5.0 million customers.

Sky Mobile

Sky, the largest U.K. pay-television broadcaster, entered into an exclusive, multi-year MVNO agreement with the O2 business in 2015, allowing Sky to offer mobile services in addition to the fixed-line telephony, fixed-line broadband internet and television services that it already offered to its customers. Our MVNO agreement with Sky was extended on a long-term basis in 2021

Lycamobile

Lycamobile is one of the world's largest international MVNO's with 15 million customers in 23 countries worldwide. Lycamobile targets expatriate communities in the U.K., primarily through its international "pay as you go" SIM cards which provide low cost international calls. We last renewed our MVNO agreement with Lycamobile in 2021.

Messaging & Payments

Under the O2 brand, we enable businesses to expand their digital sales beyond debt or credit cards through taking payments by means of a charge to the customer mobile bill.

We help businesses engage with their customers and employees by enabling them to send automated text messages.

IoT (Internet of Things)

We offer IoT products and services (which includes activities sometimes referred to as “machine-to-machine” or “M2M”) which provide automated data communications between devices (including vehicle fleets, payment terminals and traffic lights) via our mobile network, to help businesses reduce costs and grow revenue through greater convenience and improved customer experience.

Smart Metering

In 2013 the Department for Business, Energy and Industrial Strategy of the U.K. Government awarded O2 a 15 year contract initially worth approximately £1.5 billion to deliver communications services (including the supply of communication hubs) for 23 million homes in the central and southern regions of the U.K. as part of the Smart Metering Implementation Programme (**SMIP**), one of the largest IoT projects in the world. SMIP has been rolling-out millions of gas and electricity smart meters across the U.K. to help reduce energy usage and CO2 emissions by providing greater visibility of energy consumption. We are a core communications service provider within SMIP and the programme is a key part of the U.K.’s drive towards a low carbon economy and supports the goal of the U.K.being carbon neutral by 2050.

Mobile - Virgin Media MVNO Based Offerings

Our Virgin Media business offers consumers mobile communication services that are currently provided using the mobile networks owned by BT/EE Limited (**EE**) and Vodafone Limited (**Vodafone**) through MVNO arrangements. In January 2021, we launched 5G services using the Vodafone network and all customers with access to 5G utilise that network while all customers who only have access to 4G and below utilise the EE network.

We have had a full MVNO arrangement EE since 2017. In October 2020, we completed the SIM swap migration so that all customers are now using our core network. This has meant we were able to move 5G customers seamlessly from EE to Vodafone without the customers needing to swap their SIMs. The EE agreement came to an end 31 December 2021 and all remaining customers were being migrated to Vodafone in early 2022 before moving them to our O2 mobile network at a later date. That migration of our customers to Vodafone is substantially (over 99%) complete as at the date of this report.

Through these MVNO agreements we offer a broad range of mobile communications products and services available on 5G, 4G and 3G, including mobile data services, voice and short message service (**SMS**). We also offer a broad range of handsets, including Android and Apple iOS-based smartphones, and mobile internet services, which complement our fixed-line broadband internet offering.

Following the formation of the Joint Venture, the intent is that all consumer mobile services will be delivered through our own mobile network. Notice has been given to cancel the MVNO agreement with Vodafone.

As of 31 December 2021, our customer base comprised both postpaid and prepaid customers. Postpaid customers subscribe to our services for periods ranging from a minimum of 30 days for an airtime contract to up to 36 months for a “Freestyle” handset purchase agreement. “Freestyle” mobile contracts provide customers with the flexibility to purchase a handset independently of an airtime contract. Prepaid customers top up their accounts prior to using the services and have no minimum contracted term. The prepaid service was discontinued in January 2022**.**

We continue to focus on increasing our proportion of higher-value postpaid customers, expanding our range of higher-value mobile handsets and cross-selling into homes already connected to our fixed-line network.

Network Infrastructure

Our Fixed-line Network Infrastructure

We deliver broadband internet, video and fixed-line telephony services over our cable access network, which covers parts of many metropolitan areas in the U.K. The deep-fibre design of our access network enables us to transmit data by means of fibre optic cable from equipment in technical properties known as “headends” and “hubsites” to widely deployed distribution cabinets. The data is then transmitted to distribution points via coaxial cable for digital broadband signals and digital television and via twisted copper cables for fixed-line telephony. The final connection into each home from the fibre access network comprises two components combined into a single drop cable (twisted copper and coaxial cable). For broadband internet and video services we only use high capacity coaxial cable, which has considerable spectrum and associated bandwidth capabilities and which concurrently supports a full portfolio of linear and digital cable-on-demand services as well as high-speed broadband internet services for both consumers and business customers. Using DOCSIS 3.1, we currently offer download speeds of up to 1.1 Gbps for consumers and 500 Mbps for Business customers on our hybrid-fibre-coaxial network. We have also conducted trials of higher downstream speeds. For fixed-line telephony services, historically we have used the twisted copper pair access network. However, we more recently started to deliver voice services into the home over the coaxial cable. As a result of the extensive use of fibre in our access networks, we are also able to provide high-speed data network services to business customers delivering nationwide connectivity.

We believe that our deep-fibre access network has enabled us to take a leading position in the roll-out of next-generation broadband internet access technologies in the U.K. As of 31 December 2021, virtually all of the homes served by our cable network could receive all of our broadband, digital television and fixed-line telephony services. We expect to leverage the latest generation of cable technology (DOCSIS 3.1) to increase the data rates that can be transmitted over the coaxial cable that, in turn, allows our existing infrastructure to support multi-Gigabit customer download speeds.

During 2015, our Virgin Media business initiated the Network Extension, many areas of which have been built using a FTTP architecture. For more information regarding the Network Extension, see *Management’s Discussion and Analysis of Financial Condition and Results of Operations - Overview - Strategy and Management Focus*”.

On 29 July 2021, we announced our intention to upgrade our fixed network to full FTTP with completion expected in 2028. The upgrade plan will cover the vast majority of our network taking into account our existing 1.4 million FTTP homes passed.

Liberty Global and Telefónica have initiated discussions with a number of potential financial partners regarding an opportunity to participate in a network build joint venture. The focus of the entity will be on building a full fibre network of up to 7 million premises in new greenfield areas by the end of 2027. VMED O2 will commit to being an anchor tenant of the network, with its proven track record of achieving up to 30% penetration in new build areas. The network will also be available to other ISP’s on a wholesale basis. As this extends the company’s total gigabit reach to approximately 23 million premises once completed, it provides VMED O2 with a clear incremental growth opportunity by offering services to a wider pool of customers and higher cross and upsell due to the increased overlap of fixed and mobile services.

Our Mobile Network Infrastructure

Our O2 business operates a mobile access network based on 2G, 3G, 4G and 5G standards. As of 31 December 2021, O2’s network sharing arrangement with Vodafone consisted of more than 17,800 shared mobile sites (in addition to those operated separately by our O2 business) with 2G, 3G, 4G and 5G base stations (connecting handsets to O2’s mobile network using available spectrum), backhaul (the transport link between the mobile sites and O2’s core network), the core network (composed of data centres which store customer information and location and switching sites which route voice calls and data to their intended destination) and a service layer (which provides messaging and voicemail capabilities). See also “*Backhaul and Transport — Network sharing arrangement between Vodafone Limited and Telefonica UK Limited*” below for more information.

Our O2 business has a comprehensive 4G mobile network across the U.K. extending to over 99% outdoor population coverage as of 31 December 2021.

The table below provides an overview of our mobile network's 2G, 3G, 4G outdoor and indoor U.K. population coverage and U.K. geographic coverage as at 31 December 2021.

	U.K. population coverage		
Network	**Outdoor**	**Indoor**	**U.K. geographic coverage (1)**
2G	99.77 %	99.40 %	96.50 %
3G	99.74 %	97.15 %	94.15 %
4G	99.58 %	99.00 %	86.63% (1)

1. Uses VMED O2 link budget (-112dBm) definition of geographic coverage. Ofcom measurement of outdoor landmass is at -105dBm (for SRN, as defined below, compliance) which reduces coverage to 80.33%**.**

We have continued to roll out our 5G network, focusing on strengthening our 5G coverages in over 300 towns and cities while introducing the next generation network to a number of tourist hotspots. Our focus has been on network reliability and coverage, for which we have been recognised consistently over the past few years by both USwitch, winning Best Network Coverage in the Broadband & Mobile Awards, and Global Wireless Solutions (GWS), winning Best Network for Reliability. Following the U.K. Office of Communications' (Ofcom) 5G Spectrum Auction in spring 2021, we now have more low-band spectrum than anyone else, providing an opportunity to have the largest 5G coverage footpint in the U.K.

Through our continuing network sharing arrangement with Vodafone, we expect to be able to actively roll-out the 5G network faster than would otherwise be possible. We believe we are well placed to continue our 5G roll-out notwithstanding the U.K. Government's decision to remove all Huawei equipment from 5G networks by the end of 2027.

Through the Shared Rural Network (**SRN**), the four major MNOs in the U.K., including O2, are each conditionally committed to delivering high-quality 4G geographic coverage to at least 90% of the U.K. landmass by January 2027. We are also currently required to provide 99.25% mobile telecommunications coverage to homes in the SMIP-designated central and southern regions of the U.K. in connection with the SMIP contract awarded to O2 in 2013. See "*Business and Wholesale - Wholesale Mobile — IoT*" above for more information.

Our mobile network strategy has focused on coverage and reliability, which we believe are the two key factors that customers value with respect to a mobile network. We believe that this customer-led, mobile-first strategy has been instrumental in helping it establish a leading position in the U.K. mobile telecommunications market as well as high customer loyalty, demonstrated by O2 winning the Best Network for Coverage award (for the fourth year running) and giffgaff winning Network of the Year in the 2021 uSwitch Mobile Awards, both as voted for by members of the public. This has been followed up in the 2022 uSwitch Mobile Awards with O2 being named best Network for Roaming and Most Popular Mobile Network and giffgaff retaining the Network of the Year award.

Network Coverage and Reliability

We have aimed to continually improve our mobile network coverage and reliability to deliver a world class service for our customers.

We invest in our mobile network to help our customers, remain competitive and exploit the potential that 5G technology can provide. Our network sharing arrangement with Vodafone creates a single, national grid of more than 17,800 shared mobile sites across the U.K. as of 31 December 2021, which provides comprehensive network coverage and will allow more people to access 5G technology faster than would otherwise be possible. See "*Backhaul and Transport — Network Sharing Arrangement between Vodafone Limited and Telefonica UK Limited*" below for more information.

We have invested in obtaining a significant share of the lower frequency spectrum which helps us achieve greater coverage both indoor and outdoor (see "*Licences and Frequencies*" below). O2 has licences for approximately 36% of the sub 1 GHz spectrum compared to approximately 26% licensed to Vodafone, 24% licensed to EE/BT and 14% licensed to Three. Lower frequency spectrum can travel longer distances than higher frequency spectrum and pass more easily through walls, increasing indoor and outdoor coverage.

Our company regularly conducts independent drive testing of our mobile network, performing a series of voice calls and mobile data tests to ensure these represent a true customer experience. Reports are produced against a number of key performance indicators including call completion success rates and data speeds. We also crowdsource information from Tutela. This information enables a technical comparison against our competitors and a customer experience view of the O2 mobile network.

The resilience of the O2 mobile network has been demonstrated in light of the COVID-19 pandemic. As of April 2020, phone calls increased 25%, with the first week of the U.K. lockdown seeing a 57% peak increase in calls carried across the O2 mobile network. Following the return of Premier League football on 17 June 2020, nationwide data usage surged by 13% at 8pm as the first games were played. As of 31 December 2021, the O2 network had successfully managed the increase in traffic of all kinds without major incident.

Capacity and Spectrum Management

Spectrum licences are currently divided between the four MNOs active in the U.K. mobile telecommunications service market, with approximately 32% of allocated spectrum licensed to EE/BT, approximately 24% licensed to Vodafone, approximately 22% licensed to Three and approximately 22% licensed to O2.

We undertake a number of measures to manage and expand our network capacity and ensure that we have sufficient capacity to meet customer demand. Our company is building small cell sites to increase capacity particularly in built-up areas where there is not enough room for full scale mast sites. We are carrying out an extensive transfer strategy, redeploying our 2G and 3G networks onto lower frequency spectrum bands, thereby freeing up the higher frequency spectrum for 4G services in order to maximise capacity and ensure that we are highly efficient in our use of available spectrum. In April 2021, Ofcom held a spectrum auction of 700 MHz and 3.6 - 3.8GHz bands, which are suitable for 4G and 5G. One of our subsidiaries, Telefonica UK Limited, acquired 20 MHz of paired 700 MHz spectrum and 40 MHz of 3.6 - 3.8 GHz spectrum. As part of the same auction, Telefonica UK Limited agreed to trade holdings in the 3.4 - 3.8 GHz band with Vodafone in order to allow it to defragment its spectrum and create a continuous block of 80 MHz in the same band. This is in addition to the 25 MHz of the 2.6 GHz band Telefonica UK Limited acquired from EE in 2020. See "—Licences and Frequencies" below for more information.

In the future, we may also be able to manage our network capacity through the successful application of a variety of yield management techniques, including targeting new customer acquisitions in geographical areas which do not currently experience network capacity constraints or incentivising customers to use our mobile network outside of periods of peak demand.

Backhaul and Transport

Backhaul Services between our Mobile Sites and Core Network

Traffic is transported between our mobile sites and our core network using a diverse portfolio of backhaul solutions. These include optical links managed by BT and Virgin Media Communications Limited, the latter now part of VMED O2, as well as self-built wireless connections via point-to-point microwave systems. This approach provides O2 with the ability to connect its mobile sites and core network quickly, flexibly and cost-effectively. Following the formation of the Joint Venture, work on joint VMED O2 backhaul architecture is complete with design, planning and testing work progressing to plan. A pilot is expected to be operational in mid 2022.

Interconnections within O2's Core Network

The core of O2's mobile network is composed of a number of switching sites and data centres across the U.K. In 2016, O2 migrated to a dedicated high capacity "dark-fibre" network which improved the capacity and scalability of O2's core network. This has allowed O2's mobile network to accommodate increasing demand for mobile data as O2's has been rolling out 5G while still investing in 4G capacity, with 241,000 post codes benefiting from 4G capacity upgrades in 2021.

In the second half of 2021 a number of strategic data interconnections were deployed between the O2 and Virgin Media networks to provide for the integration of IT systems as well as facilitate network synergies such as the use of the O2 mobile network for Virgin Mobile and the use of the Virgin Media fixed-line network for mobile backhaul.

We still rely significantly on existing Transmission suppliers for the provision of mobile backhaul services. Projects to directly peer with our Transmission supplier backhaul routers, as well as some upgrades to 100Gbps capability for capacity scaling, were deployed during 2021.

O2's Fusion programme continues to upgrade its IP data network with all major Core Network platforms and routes to the internet now running on a new platform providing greater scalability. Full migration of all platforms and services to the Fusion architecture is expected to complete in 2022.

Network Sharing Arrangement between Vodafone Limited and O2

In 2012, O2 and Vodafone entered into a network sharing arrangement under which Telefonica UK Limited and Vodafone agreed to share their collective mobile sites to form a single, national grid of mobile sites across the whole of the U.K. In 2019, Telefonica UK Limited and Vodafone announced a further agreement to share 5G active equipment, such as radio antennae, on joint network sites in certain parts of the U.K.

Under the network sharing arrangement, Telefonica UK Limited (through Cornerstone Telecommunications Infrastructure Limited (**CTIL**)) has access to a single grid of more than 17,800 mobile sites as of 31 December 2021. Telefonica UK Limited has thus to date been able to decommission over 3,600 mobile sites thereby reducing costs. The network sharing agreement also requires the building of new mobile sites needed to extend coverage into rural and remote areas or to increase capacity as required in relevant areas. The network sharing arrangement has two distinct elements: a passive infrastructure share and an active radio access network (RAN) share.

The passive infrastructure share is managed by CTIL, which was formed as a 50:50 joint venture company between Telefonica UK Limited and Vodafone and into which they contributed their respective existing site management businesses (including the mobile sites and physical assets deployed on the mobile sites which are used in association with the RAN). CTIL manages and provides the parties with access to all mobile sites and passive RAN assets which form part of a single national grid. In January 2021, O2 and Vodafone announced a new Master Services Agreement, which will provide for operational simplicity and efficiency, and will enable CTIL to generate revenue by offering space on infrastructure to third parties. In addition in January 2021, Vodafone transferred its 50% ownership interest in CTIL to Vantage Towers AG (**Vantage Towers**), at the time a wholly owned subsidiary of Vodafone. Vantage Towers subsequently listed on the Frankfurt Stock Exchange on 18 March 2021. Vodafone retained an 81% ownership interest in Vantage Towers at the time of the IPO and continues to consolidate Vantage Towers.

The active RAN share component involves sharing of Telefonica UK Limited's and Vodafone's 2G, 3G, 4G and 5G networks (except in London and certain other major cities). The shared network is managed by each party separately based on a geographical split: Telefonica UK Limited is responsible for managing the active component of the shared network in the Eastern half of the U.K., Northern Ireland, most of Scotland and North London, and Vodafone is responsible for managing the active component of the shared network in the Western half of the U.K. (including Wales) and South London.

Each party acts as host operator in its allotted geographical region and, as such, in that region provides active sharing services to the other party (the "sharing operator"). The parties' responsibilities in their allocated regions include the design, deployment, operation and maintenance of the active elements of the RAN. Backhaul to and from the mobile sites is provided by the host operator. For each shared site, a single set of base station equipment transmits signals at the host operator's frequencies (for the host's traffic) and at the sharing operator's frequencies (for the sharer's traffic) using 2G, 3G,4G and 5G technologies as required by the sharer (in London only 4G is currently actively shared, which is set to stop following mutual agreement, and 5G will similarly not be shared in London and certain other cities). In its region, the host operator operates two separate RANs: (i) a host RAN for its own traffic; and (ii) a managed RAN for the sharing operator's traffic, using shared passive physical equipment managed across the U.K. by CTIL.

As part of these arrangements, the parties entered into a managed network services agreement which sets out an agreed target number of shared mobile sites forming the single grid including contractual deployment milestones with minimum network capabilities and performance standards. Together these elements constitute the "basic demand" which determines the coverage, capacity and capability which the host operator must provide to the sharing operator. Each party may request further coverage, capacity or capability anywhere in the U.K., which exceeds this basic demand. If the other party wants to share that additional coverage, capacity or capability it is provided by the host operator for the use of both parties; otherwise it will be provided unilaterally for the sharing operator.

Licences and Frequencies

We have the following spectrum holdings: 2 x 10 MHz of 800 MHz, 2 x 17.4 MHz of 900 MHz, 2 x 5.8 MHz of 1.8 GHz and 2 x 10 MHz of 2.1 GHz, in addition to the 40 MHz of 2.3 GHz, 3.4 GHz and 3.6 GHz spectrum referred to below. Our spectrum licences are effective until revoked by Ofcom or surrendered by us.

Although no licence or authorisation is required to operate a telecommunications network or provide a telecommunications service in the U.K., operators must obtain a licence under the Wireless Telegraphy Act 2006 in order to use radio frequency spectrum.

Spectrum licences for an agreed block of spectrum can be awarded by auction or through negotiation with Ofcom. However, Ofcom's established policy has been to use auctions as a means of allocating spectrum. In 2018 Ofcom completed a mobile spectrum auction pursuant to which licences were awarded in 2.3 GHz and 3.4 GHz bands suitable for 4G and 5G deployment. We were awarded licences to 2350 – 2390 MHz (2.3 GHz) and 3500 – 3540 MHz (3.4 GHz) of spectrum following the 2018 auction. In 2020, our subsidiary, Telefonica UK Limited, acquired 25 MHz of the 2.6 GHz spectrum band from EE. In April 2021, Ofcom completed a mobile spectrum auction of the 700 MHz and 3.6 – 3.8 GHz bands pursuant to which we were awarded a paired licence covering 703 - 713 MHz and 758 - 768 MHz (700 MHz) and 2760 - 3800 (3.6 GHz). As part of the same auction, we agreed to trade holdings in the 3.4 - 3.8 GHz band with Vodafone, in order to allow it to defragment its spectrum and create a continuous block of 80 MHz.

We intend to review all opportunities for additional future spectrum in order to improve capacity on our mobile network and enhance its ability to deliver high quality mobile services. The analysis of future spectrum opportunities and the management of mobile network capacity and usage levels are, and are expected to continue to remain, key strategic priorities for the Joint Venture.

Sales and Distribution

Virgin Media Fixed-Line Products and Services

We offer our Virgin Media consumer products and services through a broad range of sales channels, including inbound and outbound telesales, customer care centres and online. As of 31 December 2021, we employed approximately 900 staff members in our call centres and we also use outsourced call centres in the U.K., Philippines and India. Additionally we engage in direct face-to-face marketing initiatives through a dedicated national sales force of approximately 500 representatives, as well as comprehensive national and regional mass media advertising initiatives. Since the year end, we've announced our decision to transfer our in-house Telesales and Retentions contact centre teams to Sitel UK Limited under the terms of TUPE (Transfer of Undertakings (Protection of Employment) Regulations 2006). This will impact approximately 900 employees across our retentions and telesales teams with a planned effective date of 28 March 2022.

O2 Mobile Products and Services

Direct Channels

O2 continues to move towards an omni-channel sales approach for its direct sales, offering customers the ability to research, purchase and collect products through three primary sales channels: stores (both O2-owned and franchised), online and telesales. We have increasingly focused on delivering an integrated and seamless experience across different elements of our direct distribution channels. O2 believes that these omni-channel offerings help it achieve high customer engagement, higher value customers and high customer satisfaction and as we start to integrate products and services from the Virgin Media portfolio, we anticipate that these metrics will grow further as we grow our connectivity capabilities.

Prior to the COVID-19 pandemic, O2 owned and franchise stores were traditionally the largest direct sales channels. As of 31 December 2021, O2 offered its products and services through 422 stores (224 O2 owned stores and 198 franchise stores). O2 owned stores and franchise stores are generally located in highly frequented and strategically important areas, such as high streets in urban centres, and offer exclusively O2 branded services. We estimate that O2 owned and franchise stores had in aggregate approximately 1.4 million visitors per month during the year ended 31 December 2019, approximately 0.8 million

visitors per month during the year ended 31 December 2020 and approximately 0.8 million visitors per month during the year ended 31 December 2021, with the decrease from 2019 to 2020 and 2021 attributable to the U.K. lockdowns in response to the COVID-19 pandemic. In response to the COVID-19 pandemic we have revamped our physical store presence with new layouts and a virtual queuing system to save customer waiting time. The result is a more personal service which also reduces customer waiting time.

O2 conducts sales to SOHO customers through its existing O2 direct sales and distribution channels (stores, online and telesales), using specialist sales advisors to help deliver customer retention, acquisition and upgrades.

O2 also sells products and services directly through the O2 website and the MyO2 mobile app. The O2 website has a specific business site in addition to its consumer site, with a dedicated online shop for SMB customers. The O2 website had an average of 31 million visits per month during the year ended 31 December 2021, and there were approximately 9.4 million visits per month in the same period to the MyO2 mobile app.

In addition, O2 sells products through telesales, and there were approximately 710,000 contacts per month during the year ended 31 December 2021 compared to 1.2 million contacts per month during the prior year. This reduction reflects both the increase in open stores from the second quarter of 2021 as COVID-19 driven lockdown measures eased and the impact of COVID-19 related sickness absences in 2021 as inbound calls were given priority, reducing outbound call capacity.

Indirect Channels

Consumer Indirect sells mobile connectivity via several Indirect partners in two business categories; Pay Monthly and Prepay. This enables us to reach a broader range of customers and as a supplement to our direct distribution channels.

Pay Monthly trading occurs via two main indirect partners, AO.com and A1 Comms who primarily acquire customers on our behalf, with some minimal reactive retention.

Prepay trading occurs via several SIM distributors with Elite, Core Communications and GK Telecoms being biggest of them who ensure national coverage in a broad range of end distribution outlets, and retailers such as Tesco and Argos, giving us presence in the biggest and most important retailers in the U.K.

Brands and Marketing

We operate a portfolio of brands including O2, Virgin Media, Virgin Mobile and giffgaff. In addition we have an interest in Tesco Mobile via our 50% stake in the Tesco Mobile JV.

We engage in marketing activity to promote our brands and products to new and existing customers across a wide range of media and owned channels including television, radio, print, outdoor, direct mail, digital, social, SMS, MMS and email, as well as engaging customers through our websites and apps. We are committed to responsible advertising practices and are members of the Incorporated Society of British Advertisers and the Conscious Advertising Network.

Our strong brand portfolio supports our trading and business performance, helping to attract, grow and retain customers.

Virgin Media Brand

Virgin Media is a leading FMC brand, recognised for delivering the fastest widely available broadband connectivity in the U.K. underpinned by our unique fixed-line network, as well as providing TV, fixed and mobile telephony services.

O2 Brand

O2 is the leading mobile brand in the U.K., recognised for putting customers first and offering customers unique rewards and experiences, underpinned by Priority and Priority tickets. O2 is the U.K.´s favourite mobile network operator, ranked ahead of all other mobile network operators in Ofcom’s 2021 customer net promoter score (NPS) survey.

giffgaff Brand

giffgaff is a wholly owned MVNO with a unique brand positioning as the mobile network run by its members. Its community of members play a central role in defining its propositions, promoting it to new members and supporting existing members.

Virgin Mobile Brand

Virgin Mobile is a wholly owned MVNO focused on value conscious customers who are looking for straightforward no frills mobile proposition.

Virgin Media O2 Brand

Virgin Media O2 is the brand for the Joint Venture. It is also used when communicating joint consumer and business facing propositions or portfolios. Since the brand launched on June 1st 2021 with the Joint Venture's formation, there have been a number of announcements and launches spanning corporate and social responsibility, with a new Databank for the UK, expanding benefits across the portfolio, with Virgin Media customers now able to access Priority from O2, and a new joint customer proposition, Volt, which provides exclusive benefits for being with both Virgin Media and O2.

Sponsorships

We generate significant brand and customer benefits through our portfolio of sponsorship agreements. O2 has longstanding relationships with AEG (The O2 - one of the leading entertainment venues in the world), LiveNation (Priority tickets and 21 iconic O2 Academy venues across the U.K.), and the Rugby Football Union (lead sponsor for England Rugby) which generate significant media value and underpin Priority tickets for our customers. Virgin Media has relationships across sport (with the British Paralympic Association and Southampton Football Club), entertainment (as the lead sponsor of the British Academy Television Awards – BAFTA) and gaming (with EGX).

O2 Intellectual Property Rights

The "O2", "O2 Refresh" and "Priority" brands and related rights are licensed by Telefonica through its subsidiary, O2 Worldwide Limited, to Telefonica UK Limited and, since 1 June 2021, VMED O2 for use in the U.K. under two indefinite trademark licences. These trademark licences may be terminated in certain circumstances, including material non-use for a period of 24 months or material breach. Since 1 June 2021 the licences bear a royalty based on a set percentage of certain categories or revenue, subject to an annual cap, currently £26 million. Prior to that the licence was royalty-free but was granted in consideration of Telefonica UK Limited paying for certain general and specific brand costs according to a separate cost sharing agreement.

The "giffgaff" brand and trademarks are owned by Telefonica UK Limited. The "Tesco Mobile" brand is owned by Tesco Stores Limited and licensed to the Tesco Mobile joint venture.

Virgin Media Patents, Trademarks, Copyrights and Licences

Virgin Media owns or has the right to use patents, copyrights and registered trademarks, which in some cases are, and in other cases may be, of material importance to our business. This includes the exclusive right to use the "Virgin" name and logo under licences from Virgin Enterprises Limited in connection with our corporate activities and the activities of our consumer and business operations. These licences, which expire in April 2036, are exclusive to us within the U.K., Northern Ireland, the Isle of Man and Channel Islands, and are subject to renewal on terms to be agreed. They entitle us to use the "Virgin" name for the broadband internet, television, fixed-line telephony and mobile telephony services we provide to our consumer and business customers, and in connection with the sale of certain communications equipment, such as set-top boxes and cable modems. That exclusivity includes the use of "Virgin Media" for the provision of consumer communication services and "Virgin Media Business" for the provision of business communication services.

Our Virgin licence agreements provide for an annual minimum royalty of £13 million annually across consumer and business, with scope for upward adjustments to reflect the growth of VMED O2's consolidated revenue.

Customer Service

Both our Virgin Media and our O2 businesses are committed to providing an excellent end-to-end customer experience. In Ofcom's "Comparing Service Quality" Report of 21 August 2020, O2 was joint first for customer service satisfaction. In the latest Ofcom "Comparing Customer Service" Report of 7 May 2021, O2 was the second highest ranked MNO overall, with giffgaff having the highest satisfaction with service overall of the assessed MNOs and MVNOs. O2 was one of the top two MNOs receiving the fewest Ofcom complaints (along with EE), as ranked by Ofcom in both of the aforementioned reports. Virgin Media has seen an improvement in the metric it uses to measure customer experience in 2021 compared to the prior year as well as a reduction in complaints over the same period. Both our Virgin Media and our O2 businesses have significant outsourcing partnerships in connection with their customer service offering.

In order to effectively manage customer credit risks, both our Virgin Media and our O2 businesses have a series of business acceptance procedures including identity verification, credit and fraud checks and affordability assessments. Both our business also have collections policies in place to ensure that customers who are struggling to make payments are treated fairly. O2's arrears management process follows the general principles of treating customers as individuals, contacting customers at the earliest opportunity, focusing on achieving the best outcome for the customer and being aware of customer vulnerabilities. Virgin Media has embedded a culture of 'doing the right thing' by the customer and has effective systems and controls in place to ensure the customer is being treated fairly whilst in financial difficulty, and throughout the arrears management process. During 2021 VMED O2 has implemented processes to support the U.K. Government's Debt Respite scheme, otherwise known as "Breathing Space", across our operations.

Our teams will work to understand the customers' ability to make payments. Suitable adjustments are made and where appropriate forbearance options can be offered and if agreed an arrangement that is most suitable to their circumstances can be put in place. The Financial Ombudsman Service have reported a minimal number of complaints from our customers who have been financially impacted by COVID-19 and commended us for the way we have handled the impacts, and supported our customers, when they have reached out to us.

IT Systems and Security

We operate a large scale IT estate and portfolio to support our customers and cyber security to our business to protect VMED O2 against impacts on services, data loss, data integrity, data accessibility and fraud. We do this through proactive planning, preventative measures and maintaining awareness of the threats we face as an organisation. We use a range of tools to actively identify vulnerabilities in our platforms and systems and deploys systems, tools and analytics to tackle intrusion and secure the perimeter of our network.

We continue to recognise cyber security as one of the Joint Venture's greatest areas of risk. See "Risk Factors - *A failure to adequately manage our legacy technologies and transformation could result in a loss of existing customers, a failure to attract new customers and in an increased likelihood of data security incidents*."

Property and Leases

We own or lease the fixed assets necessary for the operation of our businesses, including office space, retail stores, transponder space, head-end facilities, rights of way, cable television and telecommunications distribution equipment, telecommunications switches and customer premises equipment (**CPE**), technical sites, mobile sites and other property necessary for our operations. The Joint Venture leases its headquarters in Hammersmith, London.

Under the network sharing arrangement between the companies, both Vodafone and ourselves through our subsidiary Telefonica UK Limited have access to a single grid of more than 17,800 shared mobile sites as of 31 December 2021 through CTIL. CTIL holds almost all of the mobile sites (either wholly or by holding space on the site) under operating lease agreements. See also *"Backhaul and Transport — Network sharing arrangement between Vodafone Limited and Telefonica UK Limited"* above for more information.

At 31 December 2021, our business operated through 422 stores around the U.K. (224 owned stores and 198 franchise stores).

Insurance

VMED O2 maintains insurance coverage in line with good industry practice as well as meeting all U.K. legal insurance requirements. VMED O2 is insured for, amongst other things, material damage and business interruption, crime and cyber risk, corporate/general/public liability, products liability, property damage, environmental liability, technology media, errors and omission, terrorism, patent infringement, pension trustee liability, motor fleet insurance, personal accident and travel, U.K. warehouse, Marine and Airside, employer's liability and directors' and officers' liability.

VMED O2 does not currently insure the underground portion of its fixed-line network or various pavement-based electronics associated with its fixed-line network. Almost all of its fixed-line network is constructed underground. See *Risk Factors – VMED O2 does not currently insure the underground portion of its fixed-line network and various pavement-based electronics associated with its fixed-line network and it may not insure such assets in the future*.

Employees

As of 31 December 2021, VMED O2 had approximately 17,600 employees and approximately 800 temporary employees in the U.K. Approximately 3,600 employees are represented by two trade unions, CWU and Prospect and VMED O2 believes it has good relations with these two trade unions. The remaining 14,000 employees are not covered by collective bargaining or recognition agreements and, for employee consultation purposes, VMED O2 works with and recognises two employee forums, the members of which are nominated by employees, to provide feedback and representation to the rest of the organisation. These two forums are the PCG (Professional Commercial Grade) Representatives and the National Employee Voice Forum**.**

Competition

We face intense competition from a variety of entertainment and communications service providers, which offer broadband internet, television, fixed-line telephony and mobile services. Technological advances and product innovations have increased, and are likely to continue to increase, the number of alternative providers available to our customers and have intensified the competitive environment.

The merger of Virgin Media and O2 through the formation of the Joint Venture creates a strong competitor with significant scale and financial strength to invest in U.K. digital infrastructure and give millions of consumer, business and public sector customers more choice and value.

We believe that our deep-fibre access provides us with several competitive advantages in the areas served by our network. For instance, our fixed-line network allows us to concurrently deliver internet access, together with real-time television and digital cable-on-demand content at higher speeds. Our competitors are typically reliant on the access infrastructure of the U.K.'s incumbent telecommunications provider, BT, which typically relies on copper-pair technology from the local exchange to the customer's home. BT is upgrading its infrastructure to provide data services capable of higher speeds, using FTTC (fibre to the cabinet) technology, but service providers using BT's existing network are subject to performance constraints as a result of copper based services degrading over distance which affect data download. Our fixed-line network also offers benefits over the infrastructure of satellite service providers, which are unable to offer a full array of interactive services in the absence of a fixed-line telephony or broadband internet connection using third-party access infrastructure. By contrast, our fixed-line infrastructure allows us to provide "triple-play" bundled services of broadband internet, television and fixed-line telephony services without relying on a third-party service provider or network. In serving Business (**B2B**) customers, many aspects of the network can be leveraged at very low incremental cost given that B2B demand peaks at a time when residential consumer demand is low, and peaks at lower levels than residential consumer demand. As such, we believe we have an advantage over other providers who serve either residential or B2B customers, but not both.

In the mobile telephony sector, we face direct competition from MNOs, such as BT (through its wholly-owned subsidiary, EE), Vodafone and Hutchison 3G UK Limited (which operates in the U.K. as **Three**), and other MVNOs, such as Tesco Mobile, Sky Mobile, TalkTalk Telecom Group plc (**TalkTalk**) and iD Mobile Ltd. We also face intense competition in the

mobile retail sector, which is primarily driven by increased pricing pressure from both established and new service providers, evolving customer needs and technological developments.

We use our O2 brand to differentiate through a simple and personal customer experience, building trust with our customers to maintain market leading customer satisfaction measures. Our partnerships allow us to give our customers access to unique experiences through Priority.

We maintain a reliable network and are the leading network of choice for MVNO's, including giffgaff, Sky Mobile and Lycamobile, as well as managing a 50:50 joint venture with Tesco for Tesco Mobile. We are uniquely positioned to leverage our portfolio of brands to provide market coverage.

We offer most of our products on a stand-alone basis or as part of bundled packages designed to encourage customers to subscribe to multiple services. We offer broadband internet, video and fixed-line telephony services to residential users exclusively in areas served by our fixed-line network. We also offer broadband internet, data services, fixed-line telephony and mobile telephony and data services to business users throughout the U.K., using both our own network and wholesale inputs from other providers. Our primary competitors are BT (including EE), Sky (which is now owned by Comcast), TalkTalk, Vodafone and Three.

Broadband Internet

We have a number of significant competitors in the sector for broadband internet services. Of those competitors, BT (including EE) is the largest retail provider, serving approximately 33% of the total number of broadband internet customers in the U.K. We serve approximately 20% of the total broadband sector in the U.K.

BT provides broadband internet access services to both its own retail arm and third party retail providers over its own "Openreach" network, using a mixture of DSL (copper network-based) technologies and FTTP. In 2020, BT announced its intention to pause the rollout of its G fast technology, a DSL standard applied over the copper local loops, which reached speeds of up to 300 Mbps+, having already reached 2.8 million premises across the U.K. Instead BT has focused its efforts on rollout of an FTTP service supporting 1 Gbps to homes and businesses, with a target to cover 25 million premises by 2026. In pursuit of those objectives, BT has launched a range of ultrafast consumer packages offering average speeds of up to 145 Mbps and 900 Mbps, using a combination of G fast and FTTP technology, the latter currently available to 6.4 million U.K. homes.

Operators such as Sky and TalkTalk deploy their own network access equipment in BT exchanges via a process known as local loop unbundling (**LLU**). This allows an operator to reduce the recurring operating costs charged by BT by reducing the proportion of traffic that must travel directly over BT's network. LLU deployment requires a substantial capital investment to implement and requires a large customer base to deliver a return on investment.

In addition to the competition and pricing pressure in the broadband internet market arising from LLU, we may be subject to increased competition in the provision of broadband internet services from mobile internet and technological developments (such as long-term evolution, or **LTE**, and 5G mobile technology) and other wireless technologies, such as WiFi and Worldwide Interoperability for Microwave Access. For example, EE and Vodafone's 4G mobile coverage have each reached 99% of the U.K. population. At the time of this report, operators differ in how they communicate their 5G coverage externally. Three reports 5G coverage in over 300 towns and cities as does VMED O2. Vodafone reports 5G coverage in 127 towns and cities, while EE reports 5G coverage in terms of a 40% coverage of the population.

Television

We are the largest cable television provider in the U.K. in terms of the number of video customers and the sole provider of video cable services in all of our network area. Our digital television services are available to approximately 50% of U.K. television households. Our digital television services compete primarily with those of Sky and BT. Sky is the primary pay satellite television platform in the U.K. Sky owns the U.K. rights to SD, HD and UHD/4K versions, as the case may be, of various sports and movie programming content. Sky is both our principal competitor in the pay-TV market and an important supplier of basic and premium television content to us.

In August 2013, BT launched its own premium BT Sport channels, providing a range of sports content including football from the English Premier League, and in 2019, retained its exclusive rights to the UEFA Champions League and the UEFA

Europa League until 2024. The BT Sport channels are available over BT's internet protocol television platform, or **IPTV**, Sky's satellite system and our cable network. BT has also launched a BT Sport UHD channel.

Content owners, online aggregators and television channel owners are increasingly using broadband internet as a new digital distribution channel direct to consumers. In 2012, a free-to-air internet-connected television service to U.K. homes was launched by YouView, a joint venture which includes Arqiva, BBC, BT, Channel 4, Channel 5, ITV plc (**ITV**) and TalkTalk. Consumers are able to purchase a box from retailers or get a free subsidised box as part of a bundled package (television, broadband internet and telephony) with providers BT and TalkTalk.

Residential customers may also receive digital terrestrial television (**DTT**), which is delivered to customer homes through a conventional television aerial and a separately purchased set-top box or an integrated digital television set. The free-to-air DTT service in the U.K. is called "**Freeview**". This service is provided by a consortium of operators, including the BBC.

The BBC and ITV also offer a free-to-air digital satellite alternative to Freeview service, known as "**Freesat**". Freesat offers approximately 150 subscription-free television channels, including selected HD channels such as BBC 1 HD, ITV HD and Channel 4 HD. Freesat also offers a range of satellite boxes offering access to catch-up television services under the brand Freetime and a range of digital video recorders under the brand Freesat+.

Residential customers may also access television content by means of IPTV. BT TV, a combined DTT and video on demand service offered by BT over a DSL broadband connection, is available throughout the U.K. Sky also offers live streamed television and services over a broadband internet connection, through its Sky On Demand, Sky Go and NowTV services. In addition, Netflix, Amazon, Google, Apple and others launched IPTV products. In 2019, ITV and the BBC launched a new joint venture subscription streaming service in the U.K., "Britbox", which contains archive material as well as some newly commissioned content.

The communications industry is constantly evolving and there are a number of new and emerging technologies which can be used to provide video services that are likely to compete with our digital cable and digital cable-on-demand services. These include the DSL services mentioned above and next-generation LTE services. We expect continued advances in communications technology and in content, such as an increasing adoption of UHD.

Fixed-line Telephony

We compete primarily with BT in providing telephony services to residential customers in the U.K. BT occupies an established position as the former state provider. We also compete with other telecommunications companies that provide telephony services directly, through LLU, or indirectly. These include TalkTalk and Sky, and mobile telephone operators such as EE, Vodafone and Three. Our share of the fixed-line telephony market in the U.K. is approximately 16%.

We compete with mobile telephony businesses that offer consumers an alternative to fixed-line telephony services. Mobile telephony services also contribute to the competitive price pressure on fixed-line telephony services.

In addition, we face competition from companies offering VoIP, services using the customer's existing broadband, mobile data and WiFi connections. These services are offered by independent providers, such as WhatsApp and Skype, as well as those affiliated with established competitors, such as BT. These services generally offer free calls between users of the same service, but charge for calls made to fixed-line or mobile numbers either on a flat monthly rate for unlimited calls (typically restricted to geographic areas) or based on usage.

Mobile

In the mobile telephony sector, we face direct competition from MNOs, such as BT (through its wholly-owned subsidiary, EE), Vodafone and Three, and other MVNOs, such as Tesco Mobile, Lebara, TalkTalk, Sky Mobile and ASDA. We also compete with fixed-line telephony operators, with companies offering VoIP services, and from the growth in online communication, as described in "Fixed-line Telephony" above.

EE became the first U.K. MNO to launch 5G in May 2019, with Vodafone and Three following in July 2019 and August 2019, respectively. At the time of this report, operators differ in how they communicate their 5G coverage externally. Three

reports 5G coverage in over 300 towns and cities as does VMED O2. Vodafone reports 5G coverage in 127 towns and cities, while EE reports 5G coverage in terms of a 40% coverage of the population.

In November 2019, we entered into a new 5-year MVNO deal with Vodafone that enabled the launch of 5G services for our mobile customers in the U.K. in January 2021. Following the formation of the Joint Venture, notice has been given to cancel this MVNO agreement – see "*Mobile – Virgin Media MVNO Based Offerings*".

Business

The U.K. business telecommunications industry is characterised by strong competition and ongoing consolidation. Competition in the U.K. business telecommunications market continues to be value driven, with the key components being quality, reliability and price.

We compete primarily with traditional network operators such as Vodafone and BT. BT represents the main competition nationally due to its network reach and product portfolio. We also compete with communications providers such as Daisy Group and Gamma Communications, which offer ICT services. Recently, we have faced increasing competition from alternative network providers such as City Fibre and Neos Networks.

In the retail sector we continue to focus on small, medium and large nationally oriented businesses and public sector organisations.

Sustainability

Joint Venture Overview

O2's operations in the U.K. were supported by a dedicated sustainability strategy, which was aligned with the objectives of the Telefónica Group's sustainability programme. Similarly, aspects of Virgin Media' sustainability strategy were designed to support the sustainability targets of Liberty Global. Prior to the formation of the Joint Venture, legal restrictions prevented O2 and Virgin Media from developing a combined sustainability programme; however VMED O2 is now reviewing the two existing strategies and will establish a single sustainability plan for the newly combined operations. Until such time as this integrated sustainability strategy is put in place, both the Virgin Media and O2 businesses will follow their respective existing sustainability strategies which are outlined below.

Sustainability in Virgin Media's Operations

In this "*Sustainability in Virgin Media's Operations*" section, the terms "**we**," "**our**," "**our company**," and "**us**" refers to Virgin Media, unless otherwise stated.

Overview

Virgin Media's sustainability strategy (the **Meaningful Connections Plan**) was launched in February 2021. It seeks to utilise the influence of the Virgin Media brand, the skills and capabilities of its employees and the strength of its fixed-line network to promote positive societal and environmental changes. The Virgin Media sustainability plan focuses on the following core undertakings:

Better for People

We are aiming to build a business where all our employees and customers feel a sense of belonging and that they are being supported. To achieve this aim, we are creating initiatives that assist individuals from underrepresented communities to develop skills and access employment opportunities.

Better for Communities

While digital connectivity has increased incrementally, loneliness and isolation continue to rise with it. We plan to bring people and communities closer together by harnessing the power of our network and brand to help 1.5 million people foster

meaningful connections within their communities by the end of 2025, and support unpaid carers through a partnership with Carers UK. We consider a connection as “meaningful” where it helps reduce loneliness and build a sense of community belonging. We will also look to encourage local volunteering as a way of encouraging community involvement.

Better for the Planet

In recognition of the growing effects of human industry on our planet, we are looking to shrink our own impact by committing to a zero waste and zero carbon future. We have set a goal of reaching net zero carbon and zero waste across our operations by the end of 2025.

Better business

Our plan is underpinned by our commitment to running our business responsibly - looking beyond our environmental and social impact initiatives to foster positive social and environmental changes in our daily business operations. We communicate regularly and openly on our progress with the annual publication of a corporate responsibility, modern slavery and gender pay gap report.

Better for People

At Virgin Media we believe that diverse teams are more innovative, make better decisions and achieve higher performance. This creates a better employee and customer experience which in turn means our people and our customers will want to stay with us for longer.

We will only get there by creating a sense of Belonging, and we do that by removing barriers, giving people a voice and space to be themselves, and ensuring our products and services meet the needs of all our customers. But we also know that too many people from underrepresented communities in the U.K. are being left behind.

Communities are underrepresented because of barriers put in place by society; negative attitudes, inaccessible working environments and systems and processes that make it harder to get into and stay in work. This doesn’t just impact individuals who face restricted career opportunities, financial difficulties and reduced confidence, it affects society as a whole.

At Virgin Media we want to support hundreds of people from these underrepresented communities with employment and skills, so they have an opportunity to thrive. This will also create significant social value for society and will create a more diverse Virgin Media – a key driver of our growth for the next five years and beyond. Our plan is based on three pillars:

- Diverse workforce;
- Psychological safety;
- Leaving no-one behind.

Diverse Workforce

Attracting and retaining a diverse workforce can only be achieved if we remove barriers throughout both the candidate and employee experience.

We will:

1. Create partnerships to actively provide skills for, and recruit from underrepresented communities;
2. Remove barriers throughout our recruitment and onboarding experience;
3. Provide educational programmes to all People managers;
4. Deploy a new workplace adjustments process for employees with impairments and health conditions;
5. Implement inclusive employee policies, in particular for carers;
6. Support more women into leadership roles, this includes launching a sponsorship programme for emerging female leadership talent and piloting ‘Women In Leadership’ and ‘Emerging Leader’ programmes.

Target: to exceed the U.K. economic benchmark of underrepresented people working for Virgin Media.

Psychological Safety

We will only retain a diverse workforce if we create a place where people feel valued, engaged, trusted and able to bring their real selves to work.

We will:

1. Give our people a voice through six employee networks – Carers, Empower (underrepresented ethnicity), Gender Equality, Neurodiversity, Prouder (LGBTQ+) and Ultraviolet (disability);
2. Provide company-wide training on inclusive language, ally-ship and micro-aggression;
3. Leverage well-being tools to build resilience;
4. Create a culture in which our people feel confident to share their diversity information with us;
5. Celebrate diversity through a calendar of events and regular communication.

Target:

a. Employee diversity disclosure rate > 90% for all characteristics
b. Employee Belonging score > 90%

Leaving No-one Behind

We can only attract, retain and ensure the psychological safety of our employees and customers if we consistently identify and remove barriers in the everyday experience with Virgin Media.

We will:

1. Apply Equity Sequence's inclusion principles (a set of questions that can help reduce bias) to employee and customer policies, processes and products to ensure we leave no one behind;
2. Conduct inclusive user testing for new products;
3. Train frontline teams;
4. Ensure diversity in our advertising;
5. Develop customer propositions that serve more diverse market sectors.

Target: Equity Sequence principles applied to all projects impacting on employee and customer journeys

Better for Communities

We've never been so digitally connected. However, when it comes to building better, more connected communities, ultrafast connectivity is only part of the story. It's what we do with those connections that really counts. Why? Because despite us being on-line more than ever, British people are feeling increasingly isolated and alone - with 1/5 of us often or always feeling lonely. Our sense of community belonging is in decline too, with over two thirds of people describing their neighbours as 'strangers'.

Our plan: we think the antidote to loneliness and the decline in community belonging is more meaningful connections. So we've set our sights high, with a target to help 1.5 million people get more meaningfully connected to communities and each other by 2025. We call it *meaningful connections*, and it means bringing together people to connect with someone new, connect to support, connect to boost local belonging, or to connect to an entirely new community. We'll do this by:

- Building on our previous work on disability to give unpaid carers the time and tools to help them feel more connected to their own communities, because we know that as a result of being a carer this group is at much greater risk of loneliness and disconnection.

- Increasing our volunteering leave from one day to five days a year so that our people can support projects that help connect others in their communities. In 2021, over 1,000 employees took advantage of our new Take Five programme to volunteer at least once in their local communities.

- Connecting more people in local neighbourhoods digitally and in person, by improving community spaces, encouraging community participation and giving people the digital means to connect.

- Enabling organisations that are already helping reduce loneliness and bringing about local belonging to do even more.

In short, we're using the power of our people and our network to plug into communities, helping put an end to loneliness and boost belonging through what we do best - connecting people.

Unpaid Carers

Carers often go unseen in our communities. They look after loved ones, friends and neighbours who're older, disabled or seriously ill. It can be a full-time job, without the salary. But while they're busy thinking of others, few notice they're more at risk of feeling lonely and becoming isolated. That's why we've teamed up with Carers UK – the U.K.'s leading charity for unpaid carers – to help build meaningful connections that make life better. One of the main projects is to create better digital services for carers, supporting the design of platforms that connect them to other carers and help them stay connected to the important people in their lives.

In March 2021, we launched our partnership with a campaign to encourage self-identification for carers in advance of the 2021 UK Census. We also unveiled a major campaign to mark Carers Week followed by our support for the annual Carers UK State of Caring conference. Virgin Media's support of the Carers UK Helpline has allowed the charity to maintain increased operating hours in response to the surge in demand during the pandemic. Since the inception of our partnership, we have connected 15,068 unpaid carers with much-needed information and support via this channel. We've also been supporting Carers UK to roll out "Jointly", its care sharing and management app, which will enable more of the 6.5m unpaid carers in the UK to benefit.

We also know it's important to lead by example and Virgin Media has taken steps toward becoming a best practice employer for carers, including joining Employers for Carers and making the Carers UK Digital Resource for Carers available to all employees, which demonstrates organisational support for the working carer agenda. We launched an employee network called "We Care" which has grown to be the largest network within Virgin Media with over 400 members. The network has produced plans to enhance carer-friendly policies within Virgin Media and hosted several "Cuppa and a Chit Chat" support sessions during 2021.

Better for the Planet

As a digital enabler that serves millions of customers across the U.K., our ultrafast connectivity has the potential to significantly support the advancement of sustainability in our society by, for example, improving conditions for home and remote working, promoting smart energy-saving technology in the home and supporting intelligent transport systems.

We are also accelerating change within our own business and operations to make a zero carbon and zero waste future a reality. Our goal is to achieve net zero carbon and zero waste operations by the end of 2025. We have a strong track record of environmental performance, with continuous reductions in our carbon emissions and improvements made on our waste disposal since 2014.

"Net zero" future—to achieve "net zero" operations by the end of 2025

Virgin Media is committed to an approach that rewards both efficiency and investment in renewable energy. To promote this approach we have set the following targets:

- to reduce our operational carbon footprint by 25% from 2019 to end of 2025 by transitioning our fleet to electrical vehicles ("EV"). In 2021, we announced the start of our EV transition with an initial order for 280 vehicles and plans to install EV charging points in fleet drivers' homes. We also delivered a 15% reduction in location-based operational emissions and 24% in market-based operational emissions between 2020 and 2021;

- to support investments in renewable energy and carbon reduction from the atmosphere by achieving operations that are net zero by the end of 2025 by continuing to source 100% of our electricity from renewable energy and exploring carbon removal and offsetting schemes for our remaining carbon emissions;

- to work with our supply chain - with a particular focus on the lifecycle impact of our products - to reduce scope 3 carbon emissions by 50% from 2019 by the end of 2030;

- to support the decarbonisation of the U.K. economy by providing connectivity to underpin a low-carbon digital transformation, to support the roll out of on-street EV charging through the "Liberty Charge" joint venture and to utilise our TV platform and partnerships to amplify and encourage the streaming of engaging climate-related content; and

- to abide by our operational commitment to implement science-based targets on climate in accordance with the Responsible Media Form's Media Climate Pact, that we became a signatory to in November 2020.

Nothing wasted—to become a "zero waste" operation by end of 2025

We understand our responsibility to address the waste that our operations produce - from the provision of electrical products to customers' homes to our logistical operations that send equipment across the U.K. and the expansion of our network cables. We are committed to creating a more environmentally-friendly and circular operational model where the materials that we use are re-used so that they never become waste. We expect to save over 5,000 tonnes of waste by using recycled materials and by refurbishing and reusing returned customer products. We have therefore set ourselves the following targets to be achieved by the end of 2025:

- to reuse or recycle at least 95% of all waste created by our business operations;

- for every broadband or TV product sent to our customers to either (i) contain at least 75% recycled plastic content or (ii) be a refurbished product;

- to reuse or recycle 100% of returned broadband and TV products;

- to have 100% of customer packaging be recyclable and without containing any single use plastic; and

- to work with our network expansion and field partners to set a target to reduce the amount of waste that is produced by us when expanding our network cables.

Climate Risk Assessment

Regulations

One of the main regulations that we are subject to is the power standby regulation impacting our customer premises equipment. This regulation impacts the quality of service we provide our customers. If not well managed it can degrade the customer experience of our video, telephony, internet and other services. Another regulation that we are subject to is Article 8 of the Energy Efficiency Directive, which has now been transposed into U.K. law as the Energy Savings Opportunity Scheme ("ESOS"). As a result of this regulation, there is an obligation for an audit of our energy consumption to be conducted every four years to identify energy saving opportunities which would further reduce energy consumption, the associated greenhouse gas emissions, and save costs.

Acute Physical Risks

We consider our operations to be exposed to physical risks, largely related to the impact of weather-related events. Similar to many North- and Western- European businesses we must be prepared to adapt to the growing threats posed by storms, floods, hot summers and droughts and the associated increase in our insurance premiums.

Chronic Physical Risks

Average temperatures are expected to rise due to climate change. Increasing temperatures and increases in the frequency of extreme temperature events will have implications on the costs associated with running our technical sites. Technical sites such as data-centres already require a significant amount of energy to cool the equipment (up to 40% of the energy used in a

technical site can be for operating the cooling systems). As temperatures rise, so too will the amount of electricity needed to run our air conditioners for longer or more frequently.

Sustainability in the O2 Operations

In this "*Sustainability in the* O2 *Operations*" section, the terms "**we**," "**our**," "**our company**," and "**us**" refers to the O2 business, unless otherwise stated.

Overview

O2's sustainability strategy (the **Blueprint**) was launched in August 2020 and includes long-term targets that reflect our commitment to leveraging the enabling role of mobile in delivering a more sustainable and inclusive future. The Blueprint reflects O2's commitment to running its business responsibly for its customers, its people and other key stakeholders, by championing diversity and inclusion, and by building an open and ethical culture.

The Blueprint strategy has three primary commitments:

- **Building a greener future** by becoming a net zero business in our own operations by 2025 reducing value chain emissions by 39% by 2025 and achieving net zero emissions across the value chain by 2040, while offering mobile and digital innovation to customers to make a low-carbon world a reality;

- **Helping society thrive** by making fair and trusted products and services accessible for everyone, and keeping communities connected by helping people enjoy a safer and more positive experience with technology; and

- **Leading by example** by championing a fair and ethical business from the inside as an inclusive employer and adopting ethical decision making at all levels of the organisation, underpinned by our Business Principles (our ethical code).

The Blueprint strategy is aligned with, and contributes to, eight of the United Nations' Sustainable Development Goals, which aim to tackle pressing global challenges such as climate change, injustice and equality.

Environment: Building a Greener Future

We plan to reduce emissions, do what we can to protect the environment and encourage as many people as possible to reduce their impact through digital connectivity. Our goal for our own operations to be net zero by 2025 is an ambitious undertaking, but we believe in the importance of taking timely and decisive action to combat climate change. Our commitment is aligned to the SBTi, which assists companies in setting emission reduction goals in line with the Paris Agreement. In addition, we are working in partnership with the Carbon Trust to develop a clear roadmap to achieve our net zero goal.

We aim to remove all possible non-renewable energy usage across our business and network. Our network is already powered by 100% renewable energy, wherever we directly control the energy bill. For masts and sites where we do not have operational control, we are working with our landlords to promote the switch to renewable energy. In 2021 we conducted over 850 site visits and transitioned around 450 mast landlords to renewable energy. We also confirmed that over 550 mast sites are already powered by renewable energy.

We are also undertaking multiple energy efficiency measures, including advanced automation, and "turn off" technology on our networks when demand is low, LED lighting upgrades, and enhanced free air-cooling processes. The implementation of such energy efficiency measures has resulted in an 87% overall improvement in our energy efficiency since 2015. During 2021, we rolled out new smart cooling technology to better control the temperature at our data centres and boost our network efficiency delivering energy savings equivalent to one million kilograms of CO_2 year on year.

In addition to the O2 business being certified to the environmental management system ISO 14001, we are also certified to the Carbon Trust's Triple Standard for carbon, water and waste management. We are always looking for ways to remove or reduce our plastic use, both in our offices and in our stores. We do not use plastic bags in our shops, we have reduced the plastic used in SIM-card packaging and encouraged the use of re-usable tableware in our offices.

Our customers can take advantage of our relaunched Eco Rating scheme to find out more about the social and environmental impact of our handset range or to recycle their old devices with O2 Recycle, thereby extending the life of mobile phones and helping to save waste from going to landfill. We also work closely with our suppliers to help them set carbon goals. We also encourage suppliers to reduce their reliance on single-use plastics, to use renewable energy, and to proactively manage sustainability within their own supply chain.

We believe that mobile technology can deliver environmental benefits for society that outweigh our own impacts, by helping to make it easier for our business partners, suppliers and customers to make more sustainable choices. We are collaborating on several initiatives that put smart technology at the heart of emissions reduction, for example trialling drones for medical deliveries (saving transport emissions) or using SIM connectivity to optimise travel patterns. Our Green Savings Calculator helps businesses identify ways to reduce their carbon footprint and save money through the adoption of long-term flexible working solutions. The calculator can be found at the new Net Zero Hub that was launched in 2021 in partnership with the British Chamber of Commerce - offering small and medium businesses practical tools, tips and advice on how to cut emissions.

Social: Helping Society Thrive

We want to keep communities connected by making our products and services accessible to everyone and by helping people enjoy a positive experience with technology. We believe that everyone should be able to safely access our products and services, and we strive to ensure that we support the most vulnerable members of the communities in which we operate.

The COVID-19 pandemic underlined the importance of equal access to digital connectivity. To meet this need, in 2020 we established a new Community Calling scheme with environmental charity Hubbub to refurbish and gift smartphones and tablets to the most vulnerable people in six cities across the U.K. and in 2021 we continued the roll-out to more cities across the U.K. Working in partnership with local community organisations and reputable charities, we offer devices to those most in need, plus 12 months of free connectivity including unlimited minutes, unlimited texts and 6GB of data per month.

In 2021, we launched an innovative new collaboration with Good Things Foundation to launch the first ever National Databank, aimed at tackling data poverty by providing free mobile data to people in need - an issue exacerbated by the ongoing COVID-19 pandemic. Managed by a network of 5,000 community organisations, the National Databank launched with 7.5 million GB of O2 mobile data (equivalent to around 319 million hours of internet use) to help over 200,000 people get connected by the end of 2023.

We are also collaborating with the U.K. government and other mobile providers to deliver the SRN that will reach every part of the U.K., promoting digital inclusion and ensuring that the benefits of connectivity can be enjoyed by everyone.

After six years of close collaboration, delivering expert advice, support and resources to keep children safe online, O2's partnership with the U.K.'s leading child protection charity, the National Society for the Prevention of Cruelty to Children (NSPCC) came to an end in November 2021. Offering comprehensive online safety support to parents and families through Net Aware and O2 and NSPCC online hubs, we delivered 299,985 social impacts in 2021, which is how we describe ways in which we have helped people have a healthier, more positive relationships with technology through the tools, programmes, products and services we offer.

Our Content Standards Policy covers our approach to content classification, age-verification, and the work we do with the Internet Watch Foundation to block illegal content.

Governance: Leading by Example

We put responsibility at the heart of everything we do, by championing a fair, inclusive, and ethical business, and we believe we maintain the highest standards in our own decision making. In 2021, our Responsible Business Taskforce has overseen our social, ethical and environmental activity, identifying and prioritising the issues that matter most to our business and stakeholders. It includes senior representatives from each business area, is chaired by the Chief Communications and Corporate Affairs Officer and reports directly to our leadership team. To increase our senior management's commitment to achieving our sustainability ambitions, 20% of their annual variable remuneration is linked to sustainability performance.

Local risk registers are kept for all non-financial risks as part of the company-wide process. Identified risks for online safety are managed through our age verification and content classification procedures. The key environmental risks are

associated with climate change including the continued availability of renewable energy and the potential for floods to impact the delivery of our services.

Our employees are key in helping us deliver our responsible business goals. Each employee has an annual Blueprint objective and is encouraged to fundraise and volunteer their time to support our key causes.

Our ambition is to be a leading inclusive employer and to become a truly representative business by 2025. We aim to achieve a 50:50 gender balance, alongside Black, Asian and minority ethnic representation of at least 15%, across all levels of our business. To meet these goals, we are embedding inclusivity into everything we do from recruitment to engagement, development to progression. We publish annual gender and ethnicity pay gap reports. Our inclusivity scorecard tracks our progress to becoming a truly inclusive employer, and the long-term evolution of inclusive mind-set and behaviours.

We are also committed to ensuring the health and safety of all our employees, contractors, partners, customers and members of the public. Our Health and Safety Policy is implemented through an externally certificated Health and Safety Management System, BS ISO 45001:2018. In relation to RF Health and Electromagnetic Field (EMF) compliance, we design and operate our network according to the ICNIRP (2020) limits, which set out the internationally agreed standards for EMF exposure applicable to occupational workers and the general public.

We extend the standards and expectations around our own ethical and sustainable business practices to our supply chain. All of our suppliers are asked to respect our Business Principles and to adhere to our supplier-facing ethical code. We conduct risk-based due diligence to monitor compliance, such as by conducting desk-based checks of supplier processes and policies, assessing evidence-based questionnaires via EcoVadis (a third-party rating platform that assesses social responsibility and sustainability) and completing full on-site audits by trained sustainability auditors. We manage the risks of modern slavery as part of our routine supply chain management process, hold specific modern slavery risk management reviews where we identify heightened risks and publish an annual statement updating on our activities in this area.

Sustainability integration

Virgin Media and O2 both have strong track records of driving positive change for our people and planet. Through Virgin Media's Meaningful Connections Plan and O2's Blueprint sustainability strategy, both companies have set long-term goals to reduce emissions, protect natural resources, and create a meaningful impact on society. Together, we're building an ambitious new strategy that will deliver social, economic and environmental benefits so our people, customers and the communities we serve can continue to have confidence in our values, integrity and mission to create positive change.

Since combining our operations, we have:

Environment – developed our first value chain carbon footprint baseline for the combined business and conducted a number of communication and engagement activities to raise climate change awareness with our customers and employees during the COP26 Climate summit.

Social – launched the Virgin Media O2 Together Fund on 1st June 2021, which, working in partnership with Neighbourly and the Together Coalition, provided grants of £1,000 to 400 small charities across the UK that champion community spirit, belonging and togetherness.

Governance – developed combined Anti-bribery and corruption and ethical conduct policies.

Regulatory Matters

Overview

Legislative Framework

The European Electronic Communications Code (the **Code**) is the primary source of communications regulation in the **E.U.** It was adopted into U.K. law in 2020 prior to the withdrawal of the U.K. from the E.U.

The Code primarily seeks to develop open markets for communication services within Europe. It harmonises the rules within the E.U. for the establishment and operation of electronic communication networks, including cable television and traditional telephony networks, and the offer of electronic communication services, such as telephony (including OTT services), internet and, to some degree, television services. The Code also includes a number of provisions aimed at providing incentives to boost private sector investment in very high capacity networks and stimulating the harmonisation of spectrum licensing to encourage investment in mobile networks, with the intent to result in more advanced services. The Code does not generally address content matters, including radio and television programming, which are specifically regulated by the Audiovisual Media Services (**AVMS**) Directive which was also transposed into U.K. law in 2020.

In the U.K., the Code is implemented through (i) the Communications Act 2003 (as amended), which regulates all forms of communications technology, whether used for telecommunications or broadcasting, and (ii) the Wireless Telegraphy Act 2006, which regulates radio communications in the U.K. (including spectrum licensing arrangements, usage conditions and charges, licence bidding and trading and enforcement and penalties). In addition, the Privacy and Electronic Communications Regulations 2003 (as amended) implemented E.U. Directive 2002/58, which regulates the processing of personal data and the protection of privacy in the electronic communications sector.

Telecommunications companies in the U.K., including VMED O2, are also subject to regulation under the U.K. Broadcasting Acts 1990 and 1996 and other U.K. statutes and subordinate legislation, including the Competition Act 1998, the Enterprise Act 2002 and the Enterprise and Regulatory Reform Act 2013. Ofcom regulates both linear and on-demand programming, with regulatory requirements derived from the AVMS Directive.

In November 2021 the Telecommunications (Security) Act was passed, which introduces a regime for identifying and removing “High Risk Vendors” from the networks of UK networks, as well as increasing security and resilience requirements (Telecoms Security Requirements) through amendments to the Communications Act 2003.

U.K. Regulatory Authorities

Ofcom is the key regulatory authority for the communications sector in which we operate in the U.K. It is responsible for furthering the interests of citizens in relation to communications matters and furthering the interests of consumers, in relevant markets where appropriate, by promoting competition. Ofcom is also responsible for regulating the BBC, a role previously undertaken by the BBC Trust. The U.K. Competition and Markets Authority (**CMA**) has jurisdiction with respect to competition matters.

General Conditions of Entitlement

In addition to general consumer protection law obligations, various provisions of the General Conditions also provide specific protections to end-users (which includes residential and business consumers with up to ten employees) in the telecommunications sector. Under the General Conditions, all telecommunications operators must make available clear and up-to-date information on their prices and tariffs, and on their standard terms and conditions in respect of access to and use of their publicly available telecommunications services. The General Conditions also require certain information to be provided to end-users in contracts, at the point of sale and directly at the end of those contracts and periodically thereafter, impose a maximum contract length of two years and set conditions for termination of the contract.

In addition, every telecommunications operator in the U.K. must provide access to a dispute resolution procedure scheme for their residential and small business customers. There are two Ofcom-approved dispute resolution schemes (namely,

Ombudsman Services and the Communications and Internet Services Adjudication Scheme) to whom consumers may complain.

The implementation of the Code, with a final compliance deadline of April 2023, has enhanced the end-user protections set out in the General Conditions. These changes include, but are not limited to, new information required to be provided in the customer's contract and at the point of sale, new switching and porting requirements, limitations on the length and form of linked split contracts, and a lowered termination of contract thresholds for customers. With respect to a lowered termination of contract thresholds for customers, the customer will be able to terminate their contract for any non-beneficial contractual change that is not purely administrative in nature from June 2022.

Enhanced End User Protection

Ofcom has issued new regulatory requirements originating from the Code that, effective in February 2020, obligate providers to (i) alert customers who are approaching the end of a minimum contract term to the fact that their contract period is coming to an end and to set out the best new price that the provider can offer them and (ii) once a year, alert customers who are out of contract to that fact and again confirm the best new price the provider can offer them. In both cases, providers must also set out the price available to new customers for an equivalent service offering. These requirements have adversely impacted our revenue since their implementation.

Providers are also required to provide residential and business customers that are no longer subject to a fixed minimum contract term with annual notifications of the best tariff that providers can offer. These annual notifications will set out the fact that the customer is no longer within their fixed commitment period pursuant to their contract, provide details of the service they are being provided and inform them of the best tariff options available to them.

Number portability

All telecommunications operators are required by the General Conditions to facilitate the porting of telephone numbers, including mobile telephone numbers. The Auto-Switch process enables customers with a single mobile number to simply text their existing provider which will provide a "porting authorisation code" (**PAC**) or "service termination authorisation code" (**STAC**) as requested within one minute. The customer is then responsible for giving the PAC or STAC to the new provider which must arrange for the switch to be completed within one working day. Auto-Switch rules for customers with multiple mobile phone numbers are slightly different, with longer timescales.

Net Neutrality

Net neutrality is the principle that there should be no restriction on an individual's access to the networks that make up the infrastructure of the internet and no discrimination between the types and sources of data travelling across such networks.

Ofcom has historically taken a light-touch attitude to net neutrality regulation in the U.K. A voluntary code of practice has been adopted by the majority of significant telecommunications operators in the U.K. The code of practice essentially accepts that traffic management was a necessary part of managing a communications network while seeking to ensure that consumers were made aware of and understand any traffic management policies in place before entering into contracts.

The E.U. Roaming Regulation codified the principle of net neutrality for the first time into E.U. law and has been subsequently supplemented by the Open Internet Access Regulation (Regulation (EU) 2015/2120) as implemented in the U.K. by the Open Internet Access (EU Regulation) Regulations 2016. These provisions require that all traffic in the open internet must be treated equally by service providers, subject to strict and clearly identified public interest exceptions. These exceptions include filtering spam and the blocking of unlawful content or content containing viruses or malware. Any traffic management measures implemented pursuant to these exceptions must be transparent, non-discriminatory and proportionate, and they cannot be maintained longer than necessary.

The BEREC (Body of European Regulators of Electronic Communications) guidelines that sought to aid interpretation of these rules no longer carry any weight in the U.K. Ofcom has signalled a review of the regime in the Summer of 2022.

Broadband Internet Expansion

The U.K. government supports the market rollout of full fibre and 5G services. Such support includes public funding for the creation of a match-funded "full fibre deployment" fund, business rate relief for the deployment of new full fibre networks and public funding for a strategic programme of full fibre and 5G trials. As a result, the U.K. government's November 2017 budget included £190.0 million for the first and second phases of its local full fibre deployment fund and £160.0 million for the first phase of the 5G trials. In the second half of 2019, the U.K. government set out its ambition for all premises to have access to a gigabit capable service by the end of 2025. To facilitate this, it announced a gigabit capability public fund of £5 billion for areas that are not commercially viable. As further detailed in the U.K. government's Spending Review issued in November 2020, £1.2 billion of the £5 billion gigabit capability fund would be available to subsidise the rollout of gigabit capable broadband in the hardest to reach areas of the U.K. between now and 2025, with the possibility of additional draw downs from the gigabit capability fund if industry has the capacity to use such funds. In addition, the National Infrastructure Strategy, which was published alongside the Spending Review, highlighted that the U.K. government is now working with industry to target a minimum of 85% gigabit capable coverage by 2025, while seeking to accelerate rollout further to get as close to 100% as possible

The Telecommunications Infrastructure Bill received Royal Assent in February 2018, which gives effect to the U.K. government's plans to provide full business rate relief for new fibre infrastructure built during the 2017-2022 rating period. Secondary legislation followed in April 2018, clarifying that the relief also applies to new lit fibre and any plant and machinery used to build the infrastructure. In addition, the U.K. government published its Telecoms Infrastructure Review in July 2018. This Review explored whether the conditions for investment in fibre are optimal in the U.K. and what policy changes should be considered to encourage greater investment in new digital infrastructure. The Government concluded that, with the right policy support, infrastructure based competition will deliver FTTP/Gbit capable networks to approximately 90% of U.K. premises.

The Telecommunications Infrastructure (Leasehold Property) Act, which provides operators with interim code rights to access blocks of flats if a landlord has been unresponsive, received Royal Assent in March 2021 but has not yet come into force. A further technical consultation on the substance of the regulations was issued and closed in June 2021. We are awaiting the U.K Government's response, after which it will lay the secondary legislation.

The Product Security and Telecommunications Infrastructure Bill was introduced by the Government on 24 November 2021 and had its second reading on 26 January 2022. The Bill will allow the Secretary of State to make regulations to introduce mandatory security requirements for consumer connectable products (also described as smart devices or internet of things (IoT) devices) sold in the UK; and make changes to the electronic communications code (ECC) which governs the rights of telecoms companies to install infrastructure on land. The U.K Government issued a consultation on reforming streetworks regulations and introducing a new flexible permit scheme to reduce barriers to deployment. This consultation closed in July 2021. We are awaiting the U.K Government's response.

In November 2015, the U.K. government announced that everyone will, beginning in March 2020, have a legal right to request a broadband internet connection of at least 10 Mbps regardless of where they live. The government intends to achieve this by introducing a broadband internet Universal Service Obligation (**USO**). The USO is aimed, in particular, at addressing the final 5% of the population in the U.K. without access to a broadband internet connection of a reasonable speed. The U.K. government introduced legislation in July 2017 to facilitate the introduction of a broadband internet USO. At the same time, BT made an alternative offer to invest approximately £600.0 million to provide ubiquitous minimum broadband internet speeds of 10 Mbps by 2022. The U.K. government formally rejected BT's proposal in December 2017 favouring the imposition of a regulated USO. The U.K. government set out the design for the USO in secondary legislation in March 2018. Ofcom has responsibility for implementation (including designation of the Universal Service Providers (**USPs**) and deciding whether a USO constitutes an "unfair burden" on the USPs and, if so, designing an industry funding mechanism to compensate the USPs). In December 2018, Ofcom issued a consultation on its proposed designation of BT and KCOM Group PLC as the USPs. Ofcom consulted on its approach to assessing any unfair burden claims as well as determining which operators would be required to contribute to a universal service industry fund in late 2019. Ofcom proposed that the USPs would be able to request a review of potential compensation claims for any efficiently incurred 'unfair net cost burden' once per year, for Ofcom to assess. If Ofcom accepts the request for a review, it would consider whether it is fair for the USP to bear some or all of the burden, as well as consider the cost to Ofcom and the industry of establishing and administering an industry fund. The net burden would be assessed based on the incremental cost of delivering the USO, less the benefits associated with being the USP. Ofcom intends to determine which operators would contribute to the fund and how much they would contribute at a later date. Ofcom has also

indicated the USPs cannot make this request any earlier than March 2021. In the meantime, the number of consumers who would be eligible for the universal service is expected to decline, as providers continue to upgrade and expand their networks. From 20 March 2020, residents and businesses have been able to apply to the USPs and request a decent broadband connection, up to a cost threshold of £3,400 if they meet certain criteria.

Regulation of Television and Video-on-Demand Services

In the U.K., we are required to hold individual licences under the Broadcasting Acts 1990 and 1996 for any television channels (including barker channels) which we own or operate and for the provision of certain other services on our cable television platform, such as electronic programme guides. These television licensable content service (**TLCS**) licences are granted and administered by Ofcom. Under these licences, each covered service must comply with a number of Ofcom codes, including the Broadcasting Code, and with all directions issued by Ofcom. Breach of any of the terms of a TLCS licence may result in the imposition of fines on the licence holder and, ultimately, the licence being revoked.

As a provider of an on-demand programme service (**ODPS**), we must comply with a number of statutory obligations in relation to "editorial content" and notify Ofcom of our intention to provide an ODPS. Failure to notify Ofcom or comply with the relevant statutory obligations may result in the imposition of fines or, ultimately, the prohibition on providing an ODPS.

Regulation of Electronic Communication Services

In order to operate in the telecommunications sector in the U.K., a provider must comply with general conditions imposed by Ofcom. These general conditions cover a broad range of issues including interconnection standards, number portability, deployment of telephone numbers, access to emergency services, sales and marketing standards and general consumer protection measures. Any breach of these general conditions could lead to the imposition of fines by the national regulator and, ultimately, to the suspension or revocation of a company's right to provide electronic communications networks and services.

Ofcom also undertakes triennial reviews of the various economic markets within the telecommunications sector to establish whether any provider has "Significant Market Power", as defined by the Code, warranting the imposition of remedies.

Broadband Internet Services

Regulation of Broadband Markets

In March 2018, Ofcom completed its last review of the Wholesale Local Access market (incorporating physical or passive network access via methods such as LLU and duct access). Ofcom found that BT continues to hold Significant Market Power and imposed corresponding remedies on it until April 2021. These remedies include price controls on "virtual" access to its wholesale 40/10 Mbps FTTx product, the maintenance of access and pricing controls on its wholesale copper products and improvements to the existing physical infrastructure access product (third party access to BT's duct and pole estate).

Wholesale Fixed Telecoms Market Review 2021-26

In March 2021, Ofcom published its statement on Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26. Ofcom's intention is to encourage competition between different networks where viable and incentivise investment by giving regulatory certainty and allowing companies to make a fair return.

BT Openreach will continue to be required to allow all network operators to lay their own fibre networks using Openreach's infrastructure through its Physical Infrastructure Access product. Ofcom has categorised areas of the country depending on the level of competition in those areas for the purposes of regulating residential broadband products. In both non-competitive areas (~30% of premises) and in potentially competitive areas (~70% of premises), BT Openreach will continue to be required to provide wholesale access to its network. In both areas, Ofcom is setting a flat, inflation-adjusted, regulated prices for Openreach's entry-level superfast broadband service which has a download speed of up to 40 Mbps, but it will not regulate the prices of Openreach's higher speed services. In addition, Openreach will be able to charge more (£1.70 per month extra) for the 40 Mnps service if it is delivered over full fibre and once certain build thresholds per exchange are met. Ofcom does not expect to introduce cost-based price controls in either area until at least 2031. Should Ofcom set cost-based prices in the future, BT Openreach will be allowed to keep the upside (returns in excess of its cost of capital) up to that point. In areas where competition is established Ofcom does not expect to regulate BT Openreach's broadband products.

Ofcom intends to regulate BT Openreach's wholesale business connections (or 'leased lines') in a similar way to residential broadband internet by varying its approach geographically to reflect the level of current or prospective competition and increasing charges in line with inflation. In non-competitive areas, BT Openreach will be required to provide dark fibre links at cost to support mobile network growth and business connectivity.

Fixed-line Telephony Services

Virgin Media has been designated as a provider with Significant Market Power on fixed voice termination. As a result, the rates it charges other providers for termination on its network are subject to regulation. This requires, amongst other things, the provision of termination on fair and reasonable terms, conditions and charges, which must be no higher than BT's regulated charges, unless certain conditions are met.

Regulation Requiring Co-Operation With Law Enforcement

Telecommunications operators are subject to various laws that can require them to store and disclose customer data to law enforcement and the security services. In the U.K., these laws are in the process of being updated. A new Investigatory Powers Act, or "**the Act**," came into effect at the end of 2016 with transitional provisions covering most of 2018. In 2018, the Act was amended to limit the acquisition of data by law enforcement to serious crime, and require data requests to be authorised by an independent body (the Office for Communications Data Authorisations).

Non-Industry Specific Regulation

Our business activities are subject to certain environmental and health and safety laws and regulations. Failure to comply with these laws and regulations may result in us incurring fines or other penalties and we may incur expenditures to account for these fines or penalties, maintain compliance and/or undertake any necessary remediation. In addition, any breach of the aforementioned laws and/or regulations by our affiliates, vendors and/or contractors could result in liability for us.

Spectrum Licences

Although no licence or authorisation is required to operate a telecommunications network or provide a telecommunications service in the U.K., operators must obtain a licence under the Wireless Telegraphy Act 2006 in order to use radio frequency spectrum. Spectrum licences are revocable under certain circumstances, including for a breach of contract or for a number of spectrum efficiency reasons with provision of five years' notice.

Spectrum licences for an agreed block of spectrum can be awarded by auction or through negotiation with Ofcom. However, in recent years, Ofcom's policy has been to use auctions as the means of allocating spectrum. In particular, new radio spectrum becoming available and suitable for mobile technologies (e.g., 3G, 4G and 5G spectrum) has been allocated via spectrum auctions and use has been liberalised in some circumstances to enable spectrum originally allocated for a specific use to also be used for other technologies. In 2018, Ofcom completed a mobile spectrum auction pursuant to which licences were awarded in 2.3 GHz and 3.4 GHz bands suitable for 4G and 5G deployment. In 2020 Telefonica UK Limited acquired 25 MHz of 2.6 GHz spectrum from EE. In April 2021, Ofcom completed a mobile spectrum auction of the 700 MHz and 3.6 - 3.8 GHz bands, where Telefonica UK Limited acquired 20 MHz of paired 700 MHz spectrum and 40 MHz of 3.6 - 3.8 GHz spectrum. As part of the same auction, O2 agreed to trade holdings in the 3.4 - 3.8 GHz band with Vodafone in order to allow it to defragment its spectrum and create a contiguous block of 80 MHz in the same band.

Interconnection and Access

Interconnection is the linking of telecommunications networks so that customers of one network can communicate with customers of another network. It is important from a regulatory perspective for a number of reasons, including: (a) elimination of the need for a customer to subscribe to multiple networks in order to be able to communicate with all other customers; and (b) without regulation dominant operators could hinder or eliminate competition by delaying interconnection, degrading the quality of interconnection, or charging high prices for interconnection (often referred to as termination rates). All operators of public telecommunications networks are required by the General Conditions to negotiate interconnection arrangements when requested. Although technically this is an obligation to negotiate rather than to provide access, Ofcom has the power to impose an access obligation on operators in the form of an Significant Market Power condition. All mobile network operators in the

U.K. (including O2) have been found by Ofcom to have Significant Market Power in the market for termination of calls on their networks and are therefore subject to various Significant Market Power conditions. These conditions were last set in March 2021 at a rate of 0.379 pence per minute (ppm) until the end of March 2022. At the time, the maximum MCT (Mobile Voice Call Termination) rate will be adjusted by CPI less 2.2% applying until the end of March 2023, using the prevailing CPI at 31 December 2021.

Access to Land and Infrastructure

The Code contains provisions that permit telecommunications operators to acquire interests in land for installing telecommunications equipment. The Communications Act also sets out Ofcom's duties in respect of the Code.

The Code grants certain rights enabling electronic communications network providers to install and maintain electronic communications networks, whilst also making substantial changes to the valuation regime for the land on which that network equipment is installed in moving to a "no scheme" approach. Under the Code, operators have rights to install and keep electronic communications apparatus on land. Generally, the Code requires that telecommunications operators secure the agreement of the land owner before installing such apparatus, but where permission is not given by the land owner, a telecommunications operator can apply to a court for permission. The Code also provides new rights for telecommunications operators to upgrade and share infrastructure. These rights are designed to assist future deployment of technology such as 5G. Additional, administrative changes in the Code to court processes also allow for faster dispute resolution, with the intent that disputes do not delay construction and maintenance of communications infrastructure.

In addition to the Code, rights and obligations that arise in respect of infrastructure are also governed by the Communications (Access to Infrastructure) Regulations 2016 (**ATI Regulations**). The ATI Regulations implemented certain E.U. directive requirements on measures to reduce the cost of deploying high-speed electronic communications networks, with a particular focus on civil infrastructure works and use of existing infrastructure. For example, the ATI Regulations provide for a number of rights for access seekers in relation to physical infrastructure and civil works, including: a right to access information concerning existing physical infrastructure on proportionate, non-discriminatory and transparent terms; a right to access in-building physical infrastructure under fair and non-discriminatory terms and conditions, including price; and a right to information concerning civil works under proportionate, non-discriminatory and transparent terms.

Data Protection

Together, the U.K. Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019 (the **U.K. GDPR**), the U.K. Data Protection Act 2018 (**DPA**) and the Privacy and Electronic Communications Directive (EU) 2002/58/EC, as amended as implemented in the U.K. by the Privacy and Electronic Communications (EC Directive) Regulations 2003 (SI 2426/2003) (as amended) (**PECR**), contain the current general legal framework for privacy and data protection in the U.K. The DPA supplements the E.U.'s GDPR (General Data Protection Regulation) and also implements specific data protection provisions in relation to data processing by law enforcement and intelligence services entities in the U.K.

The U.K. GDPR establishes seven general principles relating to processing of personal data which include: (i) Lawfulness, fairness and transparency; (ii) Purpose limitation; (iii) Data minimisation; (iv) Accuracy; (v) Storage limitation; (vi) Integrity and confidentiality (security); and (vii) Accountability. The U.K. GDPR and the DPA have implications for all telecommunications operators in their capacities as data controllers and data processors and their customers, staff, partners and other stakeholders as data subjects. These implications include, but are not limited to, the U.K. GDPR and the DPA:

- requiring data controllers to provide more information to data subjects in their fair processing notices;
- requiring consent from a data subject to be freely given, specific, informed and unambiguous (involving a clear affirmative action on behalf of the data subject);
- providing more transparency for data subjects with respect to the processing of their data, as well as enhanced rights to rectify, delete, restrict or object to the data being processed;

- requiring data controllers to notify the Information Commissioner's Office as the relevant regulatory authority of personal data breaches within 72 hours (provided that PECR imposes a more stringent 24-hour reporting obligation for telecommunications providers); and

- providing for two tiers of sanctions for violations, with maximum fines of up to £17.5 million or 4% of annual worldwide turnover, whichever is greater.

PECR covers four main areas: (i) marketing by electronic means (including calls); (ii) the use of cookies and similar technologies; (iii) the security of public electronic communication services; and (iv) the privacy of individuals whilst using communication networks and services.

Telecommunications operators are also subject to requirements under the U.K. Regulation of Investigatory Powers Act 2000 as amended by the Investigatory Powers Act 2016 and The Data Retention and Acquisition Regulations 2018 (**IPA**). The IPA regulates the powers of the Secretary of State and law enforcement bodies with regard to any requests by them in respect of retention, disclosure and interception of communications and other related data.

For example, the IPA provides that a telecommunications operator may be required by a Secretary of State to retain certain communications data pursuant to the IPA for up to 12 months for the purposes of facilitating disclosure of that communications data. The IPA includes safeguards to protect personal data and certain kinds of communications data can only be disclosed for the purposes of preventing or detecting serious crime.

A Secretary of State (subject to judicial approval) may also issue lawful intercept warrants if information is needed to detect or prevent serious crime, in the interests of national security or to safeguard the economic well-being of the U.K. Interceptions can also lawfully take place without a warrant in specific circumstances, for example, where there are reasonable grounds to believe that all parties have consented to an interception. The IPA also imposes a duty on telecommunications operators to assist by way of technical interference capability as may be required to give effect to the requirements of a relevant warrant (again as approved by a Secretary of State and a Judicial Commissioner).

Financial Service Regulation

Our regulated financial service activities carried out in the U.K. consist of insurance distribution (carried out by Telefonica UK Limited and giffgaff) and consumer credit activities (carried out by Telefonica UK Limited, giffgaff, Tesco Mobile and Virgin Media Mobile Finance Limited (**VMMF**)). Telefonica UK Limited, giffgaff, Tesco Mobile and VMMF are authorised by the Financial Conduct Authority (the **FCA**) to carry out certain regulated activities under the FSMA (as defined below). This section sets out further details of the regulatory framework governing the regulated financial service activities that Telefonica UK Limited, giffgaff, Tesco Mobile and VMMF are permitted to undertake. However, it is necessarily an overview and is not intended to be an exhaustive summary.

Overview

*Financial Services and Markets Act 2000 (**FSMA**)*

The cornerstone of the financial service regulatory regime in the U.K. is the FSMA. However, the framework for supervision and regulation of banking and financial services in the U.K. has been, and continues to be, heavily influenced by E.U. legislation. See, however, "—Implications of the U.K.'s Departure from the E.U." below.

The FSMA prohibits any person from carrying on a "regulated activity", as defined in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the **RAO**), by way of business in the U.K. unless that person is authorised or exempt under the FSMA (referred to as the **General Prohibition**). Regulated activities under the RAO include, amongst others, insurance distribution and consumer credit activities. The FSMA also prohibits financial promotions in the U.K. unless the promotion is issued or approved by an authorised person or exempt from such requirements.

The Prudential Regulatory Authority (the **PRA**) and the FCA are the regulators in the U.K. responsible for the authorisation and supervision of regulated activities as defined in the RAO. Firms can be regulated by either only the FCA or the FCA and PRA jointly, depending on the activities they carry on. Banks, building societies, credit unions, insurers and major

investment firms are regulated by both the PRA and the FCA. The relevant VMED O2 entities are authorised and regulated solely by the FCA.

The Financial Conduct Authority

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms (including Telefonica UK Limited, giffgaff, Tesco Mobile and VMMF) that are not otherwise regulated by the PRA. The FCA also has market regulatory functions. Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA and set out in the FCA's Handbook of Rules and Guidance (**FCA Handbook**), which include having appropriate financial and non-financial resources and being capable of effective supervision by the FCA.

When discharging its general functions of rule-making, preparing and issuing rules under the FSMA, giving general guidance or determining general policy and principles, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of:

- securing an appropriate degree of protection for consumers (the consumer protection objective);
- protecting and enhancing the integrity of the U.K. financial system (the integrity objective); and
- in so far as is compatible with its consumer protection and integrity objectives, promoting effective competition in the interests of consumers in financial markets.

FCA Handbook

The FSMA imposes an ongoing system of regulation and control on FCA-authorised firms. The FCA Handbook is the collective name for the FCA's legislative and other provisions made under its rule-making powers. The Handbook is divided into several blocks (e.g. Business Standards), each containing a number of instruments (known as **Sourcebooks**) setting out detailed regulation on particular topics (e.g. the Consumer Credit sourcebook). Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply with the applicable sections of the FCA Handbook, including the FCA Principles for Businesses, which include conducting their business with due skill, care and diligence, treating customers fairly and communicating with customers in a manner that is clear, fair and not misleading. Example Sourcebooks of particular relevance to the VMED O2 business include the Systems and Controls Sourcebook, the Prudential Sourcebook for Insurance Intermediaries, the General Prudential Sourcebook, the Statements of Principle and Code of Practice for Approved Persons Sourcebook, the Dispute Resolution Complaints Sourcebook, the Perimeter Guidance manual, the Conduct of Business Sourcebook, the Insurance Conduct of Business Sourcebook and the Consumer Credit Sourcebook.

Supervision and Enforcement

The FCA has extensive powers to supervise and intervene in the affairs of a firm authorised and regulated under, or pursuant to, the FSMA. For example, the FCA can require firms to provide information or documents, require the production of a report by a "skilled person" or formally investigate a firm and take a range of disciplinary enforcement actions against the firm and certain individuals carrying out functions within the firm. These actions include public censure, restitution and consumer redress exercises, potentially unlimited fines or sanctions, the award of compensation and, ultimately, revocation of permission (authorisation) of a firm to carry on regulated activities or revocation of permission of a person within that firm to perform a controlled function (as defined below). The FCA also has criminal prosecution powers; criminal offences under FSMA include carrying on an FCA regulated activity without authorisation/exemption to do so, misleading the FCA, and fraud offences.

Senior Managers & Certification Regime

In addition to provisions applying to firms, the FCA has powers over individuals holding certain roles in those firms. The Senior Managers & Certification Regime (**SMCR**) applies to firms which are solo-regulated by the FCA, including Telefonica UK Limited, giffgaff, Tesco Mobile and VMMF. The SMCR requires firms to identify individuals performing certain senior management functions who must be approved by the FCA as performing a "**controlled function"**. The SMCR requires responsibility for that function to be accepted by the approved individual by means of a statement of responsibilities. Controlled

functions include both "governing functions", such as chief executive, executive directors and chair, and "required functions", including compliance oversight, and money laundering reporting officer. A person must have regulatory approval before they can perform any of these controlled functions and is subject to certain ongoing obligations for which they are personally accountable to the FCA.

In addition to the approval of senior managers exercising controlled functions, the SMCR also requires individuals performing certain relevant roles to be certified (**Certified Individuals**). Certified Individuals are responsible for critical FCA regulated activities. Anyone performing a Senior Management Function or a Certified Individual must be assessed for Fitness and Propriety (as defined by the FCA). Since 31 March 2021, the SMCR applies further conduct rules to employees of all levels who carry out financial services activities in a firm. The FCA has wide-ranging powers under the FSMA to act against any person who fails to satisfy the required standards of conduct or who ceases to be fit and proper, including withdrawal of their approved status, granting a prohibition order, disciplinary action and/or fines.

The Financial Ombudsman Service

The FSMA established the Financial Ombudsman Service (the **FOS**) which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licencees and certain other businesses in respect of activities and transactions under its jurisdiction, on the basis of what, in its opinion, is fair and reasonable in the circumstances. The maximum level of money awarded by the FOS is £350,000 for complaints received by the FOS which took place on or after 1 April 2019, £160,000 for complaints received by the FOS on or after 1 April 2019 but which took place before 1 April 2019, and £150,000 for any complaints received by the FOS before 1 April 2019 plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate. Customers of the regulated businesses within VMED O2 will have access to the FOS.

The Financial Services Compensation Scheme

Eligible complainants may be able to seek compensation from the Financial Services Compensation Scheme where an authorised financial services firm is unable, or likely to be unable, to pay claims against it.

Insurance

The Insurance Distribution Directive (**IDD**) came into force on 22 February 2016, repealing and replacing the insurance mediation directive (2002/92/EC). The IDD is designed to improve E.U. regulation in the insurance market by ensuring a level playing field amongst all participants involved in the sale of insurance products. In the U.K. the majority of the IDD provisions have been transposed by the FCA by way of amendments to the FCA Handbook. The IDD requires firms conducting insurance distribution activities to, amongst other things, comply with certain organisational and conduct of business requirements.

The following insurance distribution activities are subject to the General Prohibition and the FSMA authorisation regime discussed above, unless such activity is otherwise subject to an exemption:

- selling (or otherwise dealing in) contracts of insurance as agent;
- arranging deals in, and making arrangements with a view to transactions in, contracts of insurance;
- assisting in the administration and performance of a contract of insurance;
- advising on a contract of insurance; and
- agreeing to carry on any of the above activities.

Our subsidiary Telefonica UK Limited is authorised and currently undertakes insurance distribution activities in connection with the provision of mobile and tablet insurance. Our insurance activities are supplemented by a number of third parties who are each responsible for their own authorisation and are separately regulated by the FCA. We have an oversight responsibility in respect of these third parties.

Consumer Credit

Consumer credit activities are subject to the General Prohibition and the FSMA authorisation regime discussed above. Relevant to VMED O2 entities, this includes the requirement to be authorised by the FCA, firms and individuals falling within the SMCR regime being subject to supervision and enforcement by the FCA, and financial promotions restrictions. Our subsidiary Telefonica UK Limited undertakes consumer credit activities through O2's O2 Refresh (including Custom Plan), Device Plan and Business Essentials (closed book) offerings by entering into regulated credit agreements with O2's customers to finance the purchase of handsets, tablets and/or related mobile services. Our subsidiary VMMF carries out consumer credit activities under its Virgin Mobile Freestyle offering, to provide customers with finance to purchase handsets.

As of 1 April 2014 the FCA has been responsible for the oversight and regulation of consumer credit firms in the U.K. The regulatory framework comprises, in particular, the FSMA and its secondary legislation, retained provisions in the Consumer Credit Act 1974 (as amended, extended, or re-enacted from time to time) (**CCA**) and related retained secondary legislation, the Consumer Rights Act 2015 (**CRA**) and rules and guidance in the FCA Handbook, including the Consumer Credit sourcebook (for the purposes of this section, collectively the "Consumer Credit Regime"). This area of law is rapidly developing and new regulatory guidance and case law as a result of new legislation can be expected. No assurance can be given that any changes in legislation, guidance or case law in this area will not have a material adverse effect on our businesses and operations.

Under the Consumer Credit Regime, relevant "regulated activities" include credit broking and entering into a "regulated credit agreement" as lender. The Consumer Credit Regime requires relevant entities of VMED O2 to comply with detailed obligations covering areas such as financial promotions, customer communications, pre- and post-contractual requirements, responsible lending, cancellation, arrears, forbearance and debt advice. Where a credit agreement is subject to the Consumer Credit Regime, it must contain certain prescribed information and terms. Where these strict requirements are not met, such agreements may be unenforceable. Agreements entered into on or after 1 April 2007 may be enforceable with an order of the court. However, we cannot guarantee that such a court order can be obtained. Non-compliance with certain other provisions of the CCA may also render customer agreements unenforceable against the borrower. Failure to provide certain post-contractual documentation may also render the agreement unenforceable during the period of non-compliance.

In addition, the FCA has placed increasing emphasis on compliance with the principle that a firm must pay due regard to the interests of its customers and treat them fairly. The "Treating Customers Fairly" (**TCF**) obligation requires FCA regulated firms, amongst other things, to demonstrate that senior management are taking responsibility for ensuring that consumer outcomes relevant to the business are delivered through maintaining an appropriate firm culture and good practice.

Non-compliance with the CCA and/or non-compliance with the FCA's TCF or other principles may result in an enforcement action by the FCA.

Unfair Terms in Consumer Contracts

Furthermore, VMED O2 is subject to unfair contract terms legislation, namely the Unfair Terms in Consumer Contracts Regulations 1999 (the **UTCCRs**), which apply to business-to-consumer contracts entered into prior to 1 October 2015, and the CRA, which replaced the UTCCRs and applies to business-to-consumer contracts entered into or subject to a material amendment from 1 October 2015. Under the UTCCRs and the CRA, a consumer may challenge a standard term in a contract on the basis that it is unfair and not binding on the consumer or the regulator may take enforcement action to stop the use of terms which are considered to be unfair. The CRA is also applicable as of 1 October 2015, to consumer 'notices', such as variation of interest rate under contracts such that consumer notices will be subject to the CRA in the same manner as consumer contracts. These provisions apply to all types of contracts entered into by VMED O2 entities with consumers.

The UTCCRs will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be terms which define the main subject matter of the contract, such as terms imposing default charges or restricting refunds of fees if a customer cancels a service or settles early. For example, if a term permitting the lender to impose a default charge is found to be unfair, the borrower will not be liable to pay the default charge or, to the extent the borrower has paid it, will be able, as against the lender, to claim repayment of the default charge paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement the borrower has taken with the lender. Any such non-recovery, claim or set-off may adversely affect the business and operations of VMED O2.

VMED O2's regulators may also take action to enforce the CRA and UTCCRs. The CMA has a leadership role in this respect and coordinates enforcement with other U.K. regulators. The FCA, for example, can use its powers to seek an undertaking from a firm that it will amend or remove an unfair contract term from its future consumer contracts. Regulators can also apply to a court for an injunction to prevent a firm from using or enforcing the term against its existing customers

The CRA significantly reforms and consolidates consumer law in the U.K. The CRA has revoked the UTCCRs and introduced a new regime for dealing with unfair contractual terms as follows:

- Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer.

- Schedule 2 of the CRA contains an indicative and non-exhaustive "grey list" of terms of consumer contracts that may be regarded as unfair. Notably, paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract". Although paragraph 22 provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

Importantly, the CRA extends the application of the unfair contract terms regime to voluntary statements. Statements made voluntarily by a firm or its employees that are taken into consideration by the consumer when deciding whether to enter into a contract will now form part of the contract between the parties. This means that oral statements made by sales teams and financial promotions may form part of consumer contracts.

Where a term of a consumer contract is "unfair" it will not bind the consumer. However, the remainder of the contract will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible to multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings has explicitly raised the issue of fairness.

The extremely broad and general wording of the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any receivables covered by the CRA may also contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans.

The Consumer Protection from Unfair Trading Regulations 2008 ("**CPR**") implements the E.U. Unfair Commercial Practices Directive and prohibits certain practices that are deemed "unfair" within the terms of the CPR. Such practices include misleading actions or omissions, aggressive sales tactics and failures to comply with the requirements of professional diligence. Possible liabilities for misrepresentation or breach of contract, in relation to an underlying credit agreement, may result in unrecoverable losses on accounts to which such agreements apply. The regulator may also take enforcement action.

COVID-19 Payment Deferrals and Forbearance Measures

The FCA published temporary guidance on 9 April 2020 for consumer credit firms offering personal loans to consumers. The FCA subsequently published updated guidance in July, September and November 2020. This guidance applies in the exceptional circumstances arising out of the COVID-19 pandemic and its impact on the financial situation of consumers of personal loans. It is intended to provide exceptional and rapid support to consumers facing payment difficulties due to circumstances arising out of COVID-19.

The guidance falls into two categories:

Payment Deferral Guidance

From April 2020 to 31 March 2021, FCA regulated companies were required to have schemes in place to provide customers financially impacted by COVID-19 with emergency relief on their loan payments. Where a customer was experiencing or reasonably expected to experience payment difficulties as a result of circumstances relating to COVID-19, the customer was entitled to request and we were obliged to grant a "payment deferral" of up to three months (unless a deferral was obviously not in the customer's best interests). A payment deferral could be extended to a maximum of 6 months, at the customer's request. The mandatory scheme closed to new deferrals on 31 March 2021 and all deferrals ended 31 July 2021. After a payment deferral, the customer is still liable to pay the sums deferred.

*Tailored Support Guidance (**TSG**)*

From October 2020, the Payment Deferral Guidance was supplemented by this additional TSG guidance. The TSG requires FCA regulated firms like Telefonica UK Limited to offer consumer credit customers affected by COVID-19 a range of payment support options, to help them manage their loan payments while their finances are disrupted by the pandemic. The FCA also set out a number of "customer outcomes" which Telefonica UK Limited and other FCA regulated companies are expected to achieve through their implementation of the TSG.

Between October 2020 and March 2021, the Payment Deferral Guidance and TSG ran alongside each other, whereas after March 2021, only the TSG remains in place.

Both Telefonica UK Limited and VMMF have implemented schemes and processes to ensure adherence with the Payment Deferral Guidance and TSG.

Extended duration of payment deferrals as well as quantum of such payments and other forbearance measures may adversely affect the relevant entities of VMED O2 and may, amongst other things, result in a reduction of funds available to them and affect business performance. However, analysis of experience has found that there has been no strong evidence as yet that taking a deferral significantly affected the likelihood of a customer defaulting on their payments in the longer term. While our range of support does include additional debt write-offs, to date only minor amounts have been written off in relation to our implementation of the FCA COVID-19 guidance.

There is no guarantee that the FCA, or other U.K. Government or regulatory bodies, will not take further steps in response to the COVID-19 outbreak in the U.K., including further amending and extending the scope of the above guidance. However, (after two previous extensions) the FCA did not extend the Payment Deferral Guidance beyond 31 March 2021 and the FCA has made no statement since to indicate it intends to extend the existing TSG or reinstate the Payment Deferral Guidance.

PSD2 - Payments Services Directive

The FCA regulates us under the Second Payment Services Directive in relation to payment service such as a charge to a customer's mobile to purchase e.g. gaming, music, video and other services or other services from third party merchants. The customer then pays for the item as an add on to their O2 and Virgin Mobile airtime bill. Telefonica UK Limited and Virgin Media Limited are permitted by the FCA to rely on an exclusion that allows us to provide these payment services. As required, we notify the FCA annually of our intention to keep relying on this exclusion and submit a related annual audit report.

Implications of the U.K.'s Departure from the E.U.

The E.U. regulatory framework for telecommunications has been implemented into national legislation in the U.K. mainly via the Communications Act. Therefore, the expiration of the transition period and the U.K.'s exit from the E.U. did not have an immediate impact on the Communications Act. However, following the U.K.'s exit from the E.U., the U.K. Government has scope to repeal or amend the Communications Act without being limited by the requirements of the relevant E.U. directives, which could lead not only to substantive changes to the regulatory framework to which VMED O2 must adhere but also to a divergence in U.K. and E.U. regulation in the telecommunications sector in the medium to long term. During 2021, the U.K. Government passed the Telecommunications Security Act 2021, which amends the Communications Act to (i) increase OFCOM's powers to enforce a set of network security requirements on electronic communication networks and (ii) provide the

Secretary of State with the power to designate certain vendors as posing a “high risk” to national security. Such “high risk vendors” are to removed from electronic communications networks over the coming years. The precise timing of removal will be the subject of consultation by the Department of Digital, Culture, Media and Sport during 2022.

Following the U.K.’s departure from the E.U., the E.U. Roaming Regulation, which provided for wholesale and retail price caps, no longer applies in the U.K. However, the U.K. Government has retained the obligation on mobile operators to apply a cap of £45 on mobile data usage while abroad, unless the customer actively opts to continue paying for additional data. Consequently, VMED O2 is planning to negotiate commercial roaming surcharges with other operators in Europe rather than relying on regulatory requirements to set roaming surcharges. With respect to net neutrality, the U.K. Government has enacted the Open Internet Access (Amendment etc.) (EU Exit) Regulations 2018 at the U.K. domestic level to preserve open internet access after the U.K.’s exit from the E.U.

Since the beginning of 2021, we have been required to comply with the U.K. GDPR, which, together with the amended U.K. Data Protection Act 2018, retains the GDPR in U.K. national law (subject to some amendments). The U.K. GDPR mirrors the fines under the GDPR, e.g., fines up to the greater of £17.5 million or 4% of global turnover, which could result in duplicate regulatory action and fines in the U.K. and the E.U. Despite the transition period expiring at the end of 2020, the relationship between the U.K. and the E.U. in relation to certain aspects of data protection law remains unclear, for example whether the U.K. will follow the guidance from the E.U. regarding international transfers and the Schrems II decision, and the role of the U.K. Information Commissioner’s Office following the end of the transition period. The E.U. approved an Adequacy Decision under the GDPR on 28 June 2021 enabling data transfers from E.U. member states to the U.K.

The U.K.’s exit from the E.U. may also have a material impact on the financial services sector in the U.K., including the provision of consumer credit activities and insurance distribution. The nature and extent of that impact, and the specific consequences for the insurance distribution and consumer credit activities our company carries out, will depend on the outcome of negotiations between the E.U. and the U.K. In March 2021, the E.U. and the U.K. agreed to create a Joint E.U.-U.K. Financial Regulatory Forum to consider regulation for the sector. We do not presently anticipate a material change to the rules for our FCA regulated products. Currently applicable financial regulation continues to apply until any changes are made by the U.K. Government.

Legal Proceedings

From time to time, we have become involved in litigation relating to claims arising out of our operations in the normal course of business. For additional information, see note 24 to our consolidated financial statements included herein.

Disclosure Requests (O2)

O2 has been addressing a request for disclosure made by governmental authorities which is related to possible violations of anti-bribery laws and regulations. O2 continues to co-operate with the governmental authorities investigating this matter which is still ongoing. Whilst it is not possible at this time to predict the full scope or duration of this matter or its eventual outcome, O2 was able to make a reasonable estimate of the outcome, and recorded an accrual during 2019, which is included in our statements of financial position as of 31 December 2021. Additional disclosures of the matters required by International Accounting Standard (**IAS**) 37 have not been provided as permitted by IAS 37 para 92 as the directors believe that further disclosure will be seriously prejudicial to future developments on this matter.

Phones 4u claim (O2)

Legal proceedings have been issued in the High Court against the O2 business by the Administrators of Phones 4u. O2 has vigorously denied the allegations and filed its defence to this claim in April 2019. No provision has been made in relation to this matter.

Other

Effective 1 April 2017, the rateable value of our existing fixed-line network and other assets in the U.K. increased significantly. This increase affects the amount we pay for network infrastructure charges as the annual amount payable to the U.K. government is calculated by applying a percentage multiplier to the rateable value of assets. This change has significantly increased our network infrastructure charges, and we expect further but declining increases to these charges through to the first quarter of 2022. We continue to believe that these increases are excessive, and retain the right of appeal should more favourable agreements be reached with other operators. The rateable value of our fixed-line network and other assets in the U.K. remains subject to review by the U.K. government. Following a call for input in 2020, in June 2021, the U.K. Government launched a consultation on making business rates revaluations more frequent (reducing from a five to a three year cycle). In October 2021, as part of the Autumn 2021 Budget statement, the U.K. Government announced the conclusion of the consultation and set out its plans for business rates, including moving to a three year valuation cycle from 2023. On 30 November 2021, the U.K. Government announced a Technical consultation to run to 22 February 2022 on how it intends to give effect to the three year valuation cycle and other of the rating measures set out in the Autumn 2021 Budget statement.

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

STRATEGIC REPORT

The following discussion and analysis, which should be read in conjunction with our consolidated financial statements, is intended to assist in providing an understanding of our results of operations and financial condition and is organised as follows:

- *Overview.* This section provides a general description of our business and recent events.
- *Results of Operations.* This section provides an analysis of our actual or pro forma results of operations, as applicable, for the years ended 31 December 2021 and 2020.
- *Liquidity and Capital Resources.* This section provides an analysis of our corporate and subsidiary liquidity and consolidated statement of cash flows.
- *Quantitative and Qualitative Disclosures about Market Risk.* This section provides discussion and analysis of the foreign currency, interest rate and other market risk that our company faces.

Certain capitalised terms used below have been defined in the notes to our consolidated financial statements. In the following text, the terms "we," "our," "our company" and "us" refer to VMED O2 or collectively to VMED O2 and its subsidiaries.

Unless otherwise indicated, convenience translations into pound sterling are calculated as of 31 December 2021.

Overview

General

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

Operations

At 31 December 2021, our fixed-line network passed 15.6 million homes and served 5.8 million fixed-line customers with 5.6 million customers taking a broadband internet product. In addition, at 31 December 2021, we served 32.3 million retail mobile connections and 10.0 million wholesale mobile connections.

Competition and Other External Factors

We are experiencing competition from incumbent telecommunications operators, direct-to-home satellite operators and/or other providers. This competition, together with macroeconomic and regulatory factors, has adversely impacted our revenue, number of customers and/or average monthly subscription revenue per fixed-line customer or mobile subscriber, as applicable (**ARPU**).

The global COVID-19 pandemic continues to adversely impact the economy of the U.K. However, during the period from 1 June 2021 to 31 December 2021, the adverse impact on our company was relatively minimal as demand for our products and services remained strong. It is not currently possible to estimate the duration and severity of the COVID-19 pandemic or the full adverse economic impact resulting from the preventative measures taken to contain or mitigate its outbreak, therefore no assurance can be given that an extended period of global economic disruption would not have a material adverse impact on our business, financial condition and results of operations in future periods. For additional information regarding the impact of COVID-19 on our results of operations, see *Discussion and Analysis of our Results of Operations* below.

Discussion and Analysis of our Results of Operations

The discussion presented in this section provides an analysis of our revenue and operating costs (excluding depreciation and amortisation and share-based compensation expense) for the years ended 31 December 2021 and 2020 on a pro forma basis that gives effect to the JV Transaction as if such transaction had occurred on 1 January 2020. As further described in note 1 to our consolidated financial statements, the VMED O2 UK Limited joint venture was formed on 1 June 2021.

Our pro forma results for the years ended 31 December 2021 and 2020 are set forth below:

	Year ended 31 December	
	2021	2020
	pro forma (in millions)	
Revenue	£ 10,353.2	£ 10,470.1
Cost of sales	3,608.6	3,604.1
Personnel expenses	759.1	730.0
Other expenses	2,306.5	2,455.3
Costs to capture included in the above	(59.2)	(24.4)
Adjusted EBITDA	£ 3,738.2	£ 3,705.1
Costs to capture	59.2	24.4
Depreciation and amortisation	3,507.5	3,592.3
Share-based compensation expense	41.3	44.1
Restructuring and other operating	46.8	15.8
Operating income	£ 83.4	£ 28.5
Finance income	700.3	1,094.0
Finance costs	(1,005.4)	(2,223.0)
Share of profit of equity investments	0.2	1.1
Other income, net	1.9	—
Income tax benefit	237.9	232.8
Net Profit (Loss)	£ 18.3	£ (866.6)

General

Most of our revenue is subject to VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our Adjusted EBITDA and Adjusted EBITDA margin (Adjusted EBITDA divided by revenue) to the extent of any such tax increases. As we use the term, "**Adjusted EBITDA**" is defined as profit (loss) before income taxes, other income (expense), net, depreciation and amortisation, share-based compensation, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items. Other operating items include (i) gains and losses on the disposition of long-lived assets, (ii) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration and (iv) costs to capture. Costs to capture generally include incremental, third-party operating costs that are directly associated with integration activities, restructuring activities and certain other costs associated with aligning our business processes to derive synergies.

We pay interconnection fees to other telephony providers when calls or text messages from our subscribers terminate on another network, and we receive similar fees from such providers when calls or text messages from their customers terminate on our networks or networks that we access through MVNO or other arrangements. The amounts we charge and incur with respect to fixed-line telephony and mobile interconnection fees are subject to regulatory oversight. To the extent that regulatory authorities introduce fixed-line or mobile termination rate changes, we would experience prospective changes and, in very limited cases, we could experience retroactive changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our Adjusted EBITDA would be dependent on the call or text messaging patterns that are subject to the changed termination rates.

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

Revenue

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

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

Our pro forma revenue by major category is set forth below:

	Year ended 31 December		Increase (decrease)	
	2021	**2020**	**£**	**%**
	pro forma (in millions, except percentages)			
Mobile (a)	£ 5,812.1	£ 5,953.3	£ (141.2)	(2.4)
Handset (a)	1,629.0	1,619.9	9.1	0.6
Fixed	4,086.2	4,090.9	(4.7)	(0.1)
Consumer fixed (b)	3,448.1	3,430.9	17.2	0.5
Subscription (c)	3,369.9	3,371.1	(1.2)	—
Other	78.2	59.8	18.4	30.8
B2B fixed (d)	638.1	660.0	(21.9)	(3.3)
Other (e)	454.9	425.9	29.0	6.8
Total	£ 10,353.2	£ 10,470.1	£ (116.9)	(1.1)

(a) Mobile revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue. Pro forma mobile revenue decreased £141.2 million or 2.4% during the year ended 31 December 2021, as compared to the corresponding period in 2020, primarily due to the net effect of (i) lower service revenue due to the continuing impact of a change in the distribution channel mix and (ii) higher sales volumes. The higher mobile handset sales revenue in the period was the result of increased upgrade activity following mobile hardware launches from Samsung and Apple late in the third quarter of 2021.

(b) Consumer fixed revenue includes amounts received from subscribers, including SOHO subscribers, for ongoing services and the recognition of deferred installation revenue over the associated contract period. SOHO subscribers pay a premium price to receive expanded service levels that are the same or similar to the mass marketed products offered to our residential subscribers. Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment. Pro forma consumer fixed revenue increased £17.2 million or 0.5% during the year ended 31 December 2021, as compared to the corresponding period in 2020, primarily due to the £18.4 million increase in other revenue, which was driven by higher cancellation revenue and late fees. Subscription revenue was effectively flat year over year, reflecting the net impact of (i) an increase in fixed-line customers and (ii) a decrease in ARPU resulting from customer mix and regulated annual best tariff notifications.

(c) Consumer fixed subscription revenue includes revenue from subscribers who purchase bundled services at a discounted rate and is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(d) B2B fixed revenue includes (i) revenue from broadband internet, video and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network. Pro forma B2B fixed revenue decreased £21.9 million or 3.3% during the year ended 31 December 2021, as compared to the corresponding period in 2020. This decrease was primarily driven by a decline in the level of installation revenue for high-capacity data services that, combined with lower revenue for voice and WiFi services and equipment sales, more than offset the net increase in data revenue associated with long-term leases of a portion of our network.

(e) Other revenue includes revenue from SMIP and provision of information and communication technology services and associated connectivity to O2 business customers. Pro forma other revenue increased £29.0 million or 6.8% during the year ended 31 December 2021 as compared to the corresponding period in 2020, primarily due an increase in revenue from SMIP.

Cost of sales

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

Our cost of sales increased £4.5 million or 0.1% on a pro forma basis during the year ended 31 December 2021, as compared to the corresponding period in 2020, primarily due to:

- A decrease in interconnect and access costs of £112.5 million or 14.7%;

- An increase in programming and copyright costs of £37.9 million or 4.6%, primarily due to lower costs for certain premium and/or basic content during the prior year as a result of credits or rebates aggregating £41.1 million that were received in connection with the loss of exclusive programming content due to the COVID-19 pandemic;

- An increase in other direct costs of £32.8 million or 16.2%; and

- An increase in mobile handset and other device costs of £46.2 million or 2.6%, primarily due to higher sales volumes.

Personnel expenses

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

Our personnel expenses increased £29.1 million or 4.0% on a pro forma basis during the year ended 31 December 2021, as compared to the corresponding period in 2020, primarily due to:

- An increase in salary and payroll costs of £14.3 million or 2.4%, primarily due to (i) higher staffing levels as a result of certain activities that were outsourced in 2020 and (ii) lower costs due to the impact of an increase in the use of internal labour for certain network-related capital projects; and

- An increase in contingent labour costs of £11 million or 25.3%.

Other expenses

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

Our other expenses (exclusive of share-based compensation expense and depreciation and amortisation) decreased £148.7 million or 6.1% on a pro forma basis during the year ended 31 December 2021, as compared to the corresponding period in 2020, primarily due to:

- A decrease in sales costs of £238.3 million or 34.8%;

- An increase in external sales and marketing costs of £52.4 million or 16.1%, primarily due to higher costs associated with advertising campaigns; and

- An increase in customer service expense of £19.5 million or 6.5%.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents

At 31 December 2021, we had cash and cash equivalents of £48.3 million, all of which was held by our subsidiaries. The terms of the instruments governing the indebtedness of certain of these subsidiaries may restrict our ability to access the liquidity of these subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax and legal considerations and other factors.

Liquidity of VMED O2

Our sources of liquidity at the parent level include, subject to the restrictions noted above, proceeds in the form of (i) distributions or loans from our subsidiaries and (ii) contributions or loans from VMED O2 UK Limited. For information regarding limitations imposed by our subsidiaries' debt instruments, see note 11 to our consolidated financial statements. It is the intention of the Shareholders that the Joint Venture, and by extension VMED O2, will be a self-funding company capable of financing its activities on a stand-alone basis without recourse to either Shareholder.

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

Liquidity of our subsidiaries

In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and any borrowing availability under the VMED O2 Credit Facilities. For details of the borrowing availability of the VMED O2 Credit Facilities, see note 11 to our consolidated financial statements.

The liquidity of our operating subsidiaries generally is used to fund (i) property, plant and equipment additions, (ii) debt service requirements and (iii) other liquidity requirements that may arise from time to time, as well as to settle certain obligations that are not included on our 31 December 2021 consolidated statement of financial position. In this regard, we have significant commitments related to (a) purchases of customer premises and other equipment and services, (b) programming contracts and (c) network and connectivity commitments and other items. These obligations are expected to represent a significant liquidity requirement of our company, the majority of which is due over the next 12 to 24 months. For additional information regarding our commitments, see note 24 to our consolidated financial statements.

For additional information regarding our consolidated cash flows, see the discussion under *Consolidated Statement of Cash Flows* below. Our subsidiaries may also require funding in connection with (i) the repayment of outstanding debt, (ii) acquisitions and other investment opportunities or (iii) distributions or loans to VMED O2 UK Limited. No assurance can be given that any external funding would be available to our subsidiaries on favourable terms, or at all.

Capitalisation

At 31 December 2021, the outstanding principal amount of our consolidated debt, together with our lease obligations, aggregated £18.6 billion, including £2.4 billion that is classified as current on our consolidated statement of financial position and £14.9 billion that is not due until 2027 or thereafter. For additional information regarding our debt and lease maturities, see notes 11 and 12, respectively, to our consolidated financial statements.

As further discussed under *Quantitative and Qualitative Disclosures about Market Risk* below and in note 13 to our consolidated financial statements, we use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

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

Notwithstanding our negative working capital position at 31 December 2021, we believe that we have sufficient resources to repay or refinance the current portion of our debt and lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities. This and other risks with regard to our indebtedness are discussed below in "*Risk Factors - Risks Relating to Our Indebtedness, Taxes and Other Financial Matters*".

All of our consolidated debt and lease obligations at 31 December 2021 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and lease obligations, see notes 11 and 12, respectively, to our consolidated financial statements.

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows — Period from 1 June 2021 to 31 December 2021

Summary. Our consolidated statement of cash flows for the period from 1 June 2021 to 31 December 2021 are summarised as follows (in millions):

Net cash provided by operating activities	£	1,819.1
Net cash used by investing activities		(1,373.2)
Net cash used by financing activities		(552.2)
Effect of exchange rate changes on cash and cash equivalents		0.6
Net decrease in cash and cash equivalents and restricted cash	£	(105.7)

Operating Activities. The net cash provided by our operating activities for the period from 1 June 2021 to 31 December 2021 is primarily attributable to our Adjusted EBITDA and related working capital items.

Investing Activities. The net cash used by our investing activities for the period from 1 June 2021 to 31 December 2021 is primarily attributable to capital expenditures and net advances to related parties.

The capital expenditures we report in our consolidated statement of cash flows do not include amounts that are financed under capital-related vendor financing or lease arrangements. Instead, these amounts are reflected as non-cash additions to our property, plant and equipment when the underlying assets are delivered and as repayments of debt when the principal is repaid. In this discussion, we refer to (i) our capital expenditures as reported in our consolidated statement of cash flows, which exclude amounts financed under capital-related vendor financing or lease arrangements, and (ii) our total property, plant and equipment and intangible asset additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or lease arrangements. For further details regarding our property, plant and equipment and intangible asset additions, see note 7 to our consolidated financial statements. A reconciliation of our consolidated property, plant and equipment and intangible asset additions to our consolidated capital expenditures, as reported in our consolidated statement of cash flows for the period from 1 June 2021 to 31 December 2021 is set forth below (in millions):

Property, plant and equipment and intangible asset additions	£	1,349.9
Assets acquired under capital-related vendor financing arrangements		(361.2)
Assets acquired under leases		(63.9)
Changes in current liabilities related to capital expenditures, net		(176.7)
Capital expenditures, net	£	748.1

Our property, plant and equipment and intangible asset additions during the period from 1 June 2021 to 31 December 2021 include (i) investments in network capacity, technology facilities and information technology-related projects, (ii) expenditures for new build and upgrade projects and (iii) baseline expenditures, including network improvements and expenditures for property and facilities and information technology systems.

Financing Activities. The net cash used by our financing activities is primarily attributable to cash used of £544.3 million related to net repayments of debt and lease obligations.

Consolidated Financial Information — Senior Secured Notes

We present the following consolidated financial information as of 31 December 2021 and for the period from 1 June 2021 to 31 December 2021, as required by the applicable underlying indentures.

As of 31 December 2021, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- £675.0 million principal amount of 2027 VMED O2 Sterling Senior Secured Notes;
- $1,425.0 million (£1,052.8 million) principal amount of 2029 VMED O2 Dollar Senior Secured Notes;
- £340.0 million principal amount of 2029 VMED O2 Sterling Senior Secured Notes;
- $915.0 million (£676.0 million) principal amount of 2030 VMED O2 Dollar Senior Secured Notes;
- £480.0 million principal amount of 2030 VMED O2 4.125% Sterling Senior Secured Notes; and
- £635.0 million principal amount of 2030 VMED O2 4.25% Sterling Senior Secured Notes.

Our senior secured notes issued by Virgin Media Secured Finance outstanding as at 31 December 2021, rank pari passu with and, subject to certain exceptions, share in the same guarantees and security which have been granted in favour of our VMED O2 Credit Facilities. Our senior secured notes are guaranteed on a senior basis by:

- Virgin Media Investment Holdings Limited;
- Virgin Media Investments Limited;
- Virgin Media Bristol LLC;
- General Cable Limited;
- Virgin Media Business Limited;
- Virgin Media Finance PLC;
- Virgin Media Limited;
- Virgin Media Operations Limited;
- Virgin Media Payments Limited;
- Virgin Media Secured Finance;
- Virgin Media Senior Investments Limited;
- Virgin Media SFA Finance Limited;
- Virgin Media Wholesale Limited;
- Virgin Mobile Telecoms Limited;
- VMED O2 UK Holdco 4 Limited; and
- Telefonica UK Limited.

Statement of financial position	31 December 2021					
	VMED O2 UK Holdings Limited	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Eliminations	Total
	in millions					
ASSETS						
Non-current assets	£ 8.2	£ 3,977.1	£ 29,916.7	£ 8,347.6	£ (445.7)	£ 41,803.9
Other current assets	—	14.6	2,633.4	126.9	(90.3)	2,684.6
Total assets	£ 8.2	£ 3,991.7	£ 32,550.1	£ 8,474.5	£ (536.0)	£ 44,488.5
OWNER'S EQUITY AND LIABILITIES						
Owner's equity	£ 8.2	£ (98.5)	£ 17,620.1	£ 3,224.3	£ —	£ 20,754.1
Liabilities:						
Non-current liabilities	—	4,046.6	9,154.0	4,625.6	(445.8)	17,380.4
Current liabilities	—	43.6	5,776.0	624.6	(90.2)	6,354.0
Total liabilities	—	4,090.2	14,930.0	5,250.2	(536.0)	23,734.4
Total owner's equity and liabilities	£ 8.2	£ 3,991.7	£ 32,550.1	£ 8,474.5	£ (536.0)	£ 44,488.5

Statement of profit or loss	Period from 1 June 2021 to 31 December 2021				
	VMED O2 UK Holdings Limited	Virgin Media Secured Finance	Guarantors	Non-Guarantors	Total
	in millions				
Revenue	£ —	£ —	£ 5,735.8	£ 422.4	£ 6,158.2
Net profit (loss) attributable to parent	£ 0.2	£ (7.2)	£ (165.7)	£ 90.7	£ (82.0)
Comprehensive profit (loss) attributable to parent	£ 0.2	£ (7.2)	£ (126.7)	£ 90.6	£ (43.1)

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Cash

We invest our cash in highly liquid instruments that meet high credit quality standards. At 31 December 2021, £41.8 million or 86.5%, £4.6 million or 9.5% and £1.9 million or 3.9% of our consolidated cash balances were denominated in pounds sterling, U.S. dollars and euros, respectively.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risk with respect to our consolidated debt in situations where our debt is denominated in U.S. dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2021, substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 13 to our consolidated financial statements.

In addition to the exposure that results from the mismatch of our borrowings and our functional currency, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our functional currency (non-functional currency risk), such as equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) and certain services provided by our shareholders. Changes in exchange rates with respect to amounts recorded in our consolidated statements of financial position related to these items will result in unrealised (based upon period-end exchange rates) or realised foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our functional currency, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. Generally, we will consider hedging non-functional currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts and the payments or receipts are not otherwise hedged. In this regard, we have entered into foreign currency forward and option contracts to hedge certain of these risks. For additional information concerning our foreign currency forward and option contracts, see note 13 to our consolidated financial statements.

The relationship between (i) the euro and the U.S. dollar and (ii) the pound sterling, which is our reporting currency, is shown below, per one pound sterling:

	As of 31 December 2021
Spot rates:	
Euro	1.1887
U.S. dollar	1.3535

	Period from 1 June 2021 to 31 December 2021
Average rates:	
Euro	1.1727
U.S. dollar	1.3689

Inflation Risk

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

Interest Rate Risks

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include fixed-rate and variable-rate borrowings by our subsidiaries. Our primary exposure to variable-rate debt is through our LIBOR-indexed and EURIBOR-indexed VMED O2 Credit Facilities.

In general, we enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt. Accordingly, we have entered into various derivative transactions to manage exposure to increases in interest rates. We use interest rate derivative contracts to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount. We also use (i) interest rate cap agreements and swaptions to lock in a maximum interest rate if variable rates rise, but also allow our company to benefit from declines in market rates.

Under our current guidelines, we use various interest rate derivative instruments to mitigate interest rate risk, generally for the full term of the underlying variable rate debt.

In this regard, we use judgment to determine the appropriate composition and maturity dates of our portfolios of interest rate derivative instruments, taking into account the relative costs and benefits of different maturity profiles in light of current and expected future market conditions, liquidity issues and other factors. For additional information concerning the impacts of these interest rate derivative instruments, see note 13 to our consolidated financial statements.

In July 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Additionally, the European Money Markets Institute (the authority that administers EURIBOR) announced that measures would need to be undertaken by the end of 2021 to reform EURIBOR to ensure compliance with the E.U. Benchmarks Regulation. In November 2020, ICE Benchmark Administration (the entity that administers LIBOR) announced its intention to continue publishing USD LIBOR rates until 30 June 2023, with the exception of the one-week and two-month rates which, along with all GBP LIBOR rates, it ceased to publish after 31 December 2021.

While this extension allows additional runway on existing contracts using USD LIBOR rates, companies are still encouraged to transition away from using USD LIBOR as soon as practicable and should not enter into new contracts that use USD LIBOR after 2021. The methodology for EURIBOR has been reformed and EURIBOR has been granted regulatory approval to continue to be used.

In October 2020, the International Swaps and Derivatives Association (the ISDA) launched the Fallback Supplement, which, as of 25 January 2021, amended the standard definitions for interest rate derivatives to incorporate fallbacks for derivatives linked to certain key interbank offered rates (IBORs). The ISDA also launched the Fallback Protocol, a protocol that enables market participants to incorporate these revisions into their legacy non-cleared derivatives with other counterparties that choose to adhere to the protocol. The fallbacks for a particular currency apply following a permanent cessation of the IBOR in that currency, or in the case of a LIBOR setting, that LIBOR setting becoming permanently unrepresentative, and are adjusted versions of the risk-free rates identified in each currency.

Our credit agreements contain provisions that contemplate alternative calculations of the base rate applicable to our LIBOR indexed and EURIBOR-indexed debt to the extent LIBOR or EURIBOR (as applicable) are not available, which alternative calculations we do not anticipate will be materially different from what would have been calculated under LIBOR or EURIBOR (as applicable). Additionally, no mandatory prepayment or redemption provisions would be triggered under our credit agreements in the event that either the LIBOR rate or the EURIBOR rate is not available. Further, in December 2021, we amended our loan documents such that the reference rate for our sterling denominated loans would be determined based upon SONIA plus a credit adjustment spread once GBP LIBOR was no longer published and, through the Fallback Protocol, this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments.

Publication of GBP LIBOR and the one week and two-months USD LIBOR rates ceased on 31 December 2021 as planned. Currently there is no consensus amongst loan borrowers and investors as to which rates should replace USD LIBOR. It is possible, however, that any new reference rate that applies to our USD LIBOR-indexed debt could be different to any new reference rate that applies to our USD LIBOR-indexed derivative instruments. We anticipate managing this difference and any resulting increased variable-rate exposure through modifications to our debt and/or derivative instruments, however future market conditions may not allow immediate implementation of desired modifications and the company may incur significant associated costs.

Weighted Average Variable Interest Rate. At 31 December 2021, the outstanding principal amount of our variable-rate indebtedness aggregated £6.7 billion, and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 2.6%, excluding the effects of interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Assuming no change in the amount outstanding, and without giving effect to any interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, a hypothetical 50 basis point (0.50%) increase (decrease) in our weighted average variable interest rate would increase (decrease) our annual consolidated interest expense and cash outflows by £33.5 million. As discussed above and in note 13 to our consolidated financial statements, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

Counterparty Credit Risk

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

At 31 December 2021, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £31.5 million, (ii) cash and cash equivalent and restricted cash balances of £89.3 million and (iii) aggregate undrawn debt facilities of £1,378.0 million.

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

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

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

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

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

Sensitivity Information

Information concerning the sensitivity of the fair value of certain of our more significant derivative instruments to changes in market conditions is set forth below. The potential changes in fair value set forth below do not include any amounts associated with the remeasurement of the derivative asset or liability into the applicable functional currency. For additional information, see notes 13 and 15 to our consolidated financial statements.

Cross-currency and Interest Rate Derivative Contracts

Holding all other factors constant at 31 December 2021:

(i) an instantaneous increase (decrease) of 10% in the value of the pound sterling relative to the U.S. dollar would have decreased (increased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £993 million;

(ii) an instantaneous increase (decrease) of 10% in the value of the pound sterling relative to the euro would have decreased (increased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £350 million; and

(iii) an instantaneous increase (decrease) in the relative base rate of 50 basis points (0.50%) would have increased (decreased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £220 million.

RISK FACTORS

In addition to the information contained elsewhere in this annual report, you should consider the following risk factors in evaluating our results of operations, financial condition, business and operations.

The risk factors described in this section have been separated into five groups:

- risks relating to our industry and our business;
- risks relating to our regulatory and legislative matters;
- risks relating to our management, the Joint Venture Parents and related parties;
- risks relating to the Joint Venture transactions; and
- risk relating to our indebtedness, taxes and other financial matters.

Although we describe below and elsewhere in this annual report the risks we consider to be the most material, there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our results of operations, financial condition, business or operations in the future. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the events described below were to occur, our businesses, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected.

Risks Relating to our Industry and our Business

We operate in increasingly competitive markets, and there is a risk that we will not be able to effectively compete with other service providers. The markets for mobile, broadband internet, cable television and fixed-line telephony services in which we operate are highly competitive and, in certain markets, we compete with established companies that hold positions of market power in these and/or closely related markets. We face competition from these companies, other established companies and

potential new entrants. Technological advances may increase competition or alter the competitive dynamics of markets in which we operate. For example, we face increasing competition from video services provided by, or over the networks of, the incumbent telecommunications operators and other service providers. As the availability and speed of broadband internet and mobile connectivity increases, we also face competition from OTT voice and video call services (such as Skype, Apple FaceTime, Facebook Messenger, WhatsApp, Google Hangouts and Zoom) and video service providers utilising our or our competitors' high-speed internet connections. In the provision of telephony and broadband internet services, we are experiencing increasing competition from the incumbent telecommunications operators and other service providers in the U.K., as well as providers of mobile voice and data. In addition, continued consolidation within the media industry may permit more competitors to offer "triple-play" bundles of digital television, fixed-line telephony and broadband internet services, or "quad-play" bundles including mobile telephony services. Developments in DSL technologies, as well as investments into FTTx technology by the incumbent telecommunications operator and alternative providers, in particular the deployment of full fibre networks, have improved the attractiveness of our competitors' products and services and strengthened their competitive position. Developments in and extensive deployment of wireless technologies, such as 5G and fixed wireless access, are creating additional competitive challenges.

In order to compete effectively, we may be required to reduce the prices we charge for our services (for example, due to aggressive pricing from our SIMO competitors or increase the value of our services (for example, by offering increased data with handset bundles) without being able to recoup associated costs. We may also need to pursue legal and regulatory actions. In addition, some of our competitors offer services that we are unable to offer. We expect the level and intensity of competition to continue to increase from both existing competitors and the influx of new market entrants as a result of changes in the regulatory framework of the industries in which we operate, as well as strategic alliances and cooperative relationships amongst industry participants. Increased competition could result in increased customer churn, reductions of customer acquisition rates for some products and services and significant price and promotional competition in our markets. Additionally, we may see intensified competition in bidding processes for new and existing projects or customers, and potential losses of business, public sector customers or distributors to other market participants. In combination with difficult economic environments, these competitive pressures could have a material adverse effect on our business, cash flows, results of operations and financial condition.

Our ability to meet growing customer demand for mobile services and to expand our business depends, in part, on the capacity, speed and reliability of our mobile network which in turn depends on our ability to adequately manage network capacity and usage levels, successfully implement capacity expansion and yield management strategies, and acquire additional spectrum. We are currently one of two operators with the least amount of spectrum of any MNO in the U.K. alongside Three. Recent technological advances and changes in customer behaviour and demands, including the increasing prevalence of smartphones and tablets and the use of data intensive applications on such devices (such as streaming of high definition video and making video calls), have resulted in substantial growth in mobile data volumes. Total mobile data volumes in the U.K. have grown sharply in recent years, increasing to 4,271 petabytes in 2020 from 533 petabytes in 2014, a compound annual growth rate of 41.5% (source: Ofcom, July 2021). We currently experience periods where localised sections of our network become capacity constrained, particularly during peak usage times. While these existing localised capacity constraints are managed as part of our ordinary business operations, if mobile data volumes continue to grow at current rates, and we are unable to secure additional network capacity, our mobile network may become severely capacity constrained in the short-to medium-term. Such severe capacity constraints would create speed and reliability issues on our mobile network and could cause significant service issues for our customers. Such service issues would likely result in customer dissatisfaction and could potentially lead to increased customer deactivation rates (also referred to as customer churn rates) and damage to our reputation. This could, in turn, have a material adverse impact on our business strategy and brand, and may result in us losing market share and/or being unable to grow our business.

Although we may be able to grow our mobile network capacity and thereby alleviate some or all of these capacity constraints by acquiring additional spectrum, there is no assurance that we will be able to acquire additional spectrum on commercially reasonable terms or at all. In addition, while Ofcom may hold additional spectrum auctions in the future, no assurance can be given that such additional spectrum auctions will not also be delayed (whether due to legal challenges or otherwise at the discretion of Ofcom), or that they will be held at all. Although we intend to bid for additional spectrum if and when the auctions occur, we may be unsuccessful in acquiring spectrum at a commercially acceptable price, or at all, in particular given the number of other potential bidders for spectrum, some of which may have substantially greater financial resources than us. In the event we are unable to acquire spectrum as part of any future auction, we may be unable to acquire additional spectrum by means of a commercial agreement with another spectrum licence holder. Such spectrum trading is rare

in the U.K., any such agreement would be subject to Ofcom's consent and holders may be unwilling to sell spectrum to competitors for various strategic and commercial reasons.

We seek to manage capacity constraints and/or network speed and reliability on an ongoing basis through a variety of yield management techniques. However, there can be no assurance that such strategies and techniques will be effective, particularly in dense urban city areas where capacity constraints can be more acute. Any failure to obtain adequate spectrum and to successfully implement any capacity expansion and/or any yield management strategies in a timely manner or in a manner sufficient to address our network capacity constraints could have a range of adverse effects on our business. In particular, it could result in a deterioration of customer experience with our mobile network which would result in increased customer dissatisfaction and therefore increased customer churn rates, greater costs associated with attracting and retaining customers and potentially significant damage to our brand and reputation. We may also be unable to meet our service obligations under our existing MVNOs or enter into new MVNO arrangements. Any one or all of these outcomes may also adversely affect our ability to continue to grow our business or may even result in our business declining, and would likely have a material adverse effect on our business, cash flows, results of operations and financial condition.

Potential changes to the award of mobile Crown Commercial Services contracts could result in a loss of revenue. The Cabinet Office of the U.K. Government, through Crown Commercial Services (**CCS**), has undertaken a project examining the feasibility of creating a new Public Sector Mobile Service to replace the existing framework agreements under Lot 6 of the Network Services Framework through which O2 provides public sector services (for additional information, see "Business and Wholesale — Large Enterprise and Public Sector"). CCS has estimated the total value of this award being approximately £2 billion, based on a four year contract and up to a two year extension. U.K. MNOs and MVNOs were invited to participate in the discussions. Whilst CCS evaluates its longer-term options, it indicated in April 2021 that it intends to procure an interim replacement for Lot 6 of the Network Services Framework by May 2022, based on a 3-year contract, with one year extension valued at £650 million. In CCS's most recent announcement this has been deferred to November 2022 with tender documents expected to be issued in April 2022. Our company is engaging with CCS to prepare a bid for one of up to five places on the new framework. We currently derive significant revenue from our services under the current Network Services Framework and any potential changes to the award of mobile services contracts by CCS, or the failure to secure a position on future frameworks, could result in a loss of revenue and have a material adverse effect on our business, cash flows and results of operation and financial condition.

Changes in technology, and our ability to develop and introduce new and enhanced products, may limit the competitiveness of and demand for our services. Technology in the video, telecommunications and data services industries is changing rapidly, including advances in current technologies and the emergence of new technologies. New technologies, products and services may impact consumer or business customer behaviour and therefore demand for our products and services. The ability to anticipate changes in technology and consumer tastes and to develop and introduce new and enhanced products and services on a timely basis will affect our ability to continue to grow, increase our revenue and number of subscribers and remain competitive. New products and services, once marketed, may not meet consumer expectations or demand, can be subject to delays in development and may fail to operate as intended. A lack of market acceptance of new products and services that we may offer, or the development of significant competitive products or services by others, could have a material adverse impact on our business, financial condition, results of operations or cash flow. While we continue to work with various commercial and academic organisations on technological innovation and strategic areas of improvements, including the deployment of 5G to expand our capacity and capability, there is no assurance that such partnerships will continue in the future.

Customers have an ever increasing demand for our services and products. In order to continually deliver excellent customer experiences across our network and products, it is key that our systems keep pace with demand and service expectations. We will have to make significant investment in our transmission and core network to support future growth. A failure in our network capacity may result in, amongst other things, a partial or total failure of 2G, 3G, 4G and 5G coverage and associated costs, reputational damage, and potential breach of MVNO contracts relating to use of our network. As a result, we must also continue to increase and improve the functionality, availability, and characteristics of our network, particularly by improving its bandwidth capacity latency and coverage to meet the growing demand for the services that require very-high-speed, lower latency telephony, data and internet services as the telecommunications industry is facing challenges relating to: (i) rapid, significant technological evolution; (ii) frequent improvement of existing products or services resulting from the emergence of new technologies; and (iii) the establishment of new industry practices and standards that make current systems and technologies obsolete. There can be no assurance that we will have sufficient capital to finance such upgrades or that such upgrades will generate a positive return.

A failure to adequately manage our legacy technologies and transformation could result in a loss of existing customers, a failure to attract new customers and in an increased likelihood of data security incidents. We must adequately manage our legacy technologies, systems and platforms (including servers and software) which have reached, or are approaching, the "end of life" stage of their life-cycle and which, therefore, will no longer be supported. Capital expenditure will be required to ensure sufficient security is maintained in respect of legacy products and to ensure a smooth transition to supported replacements. A failure to adequately support legacy systems and to properly procure their replacement may result in a negative impact on the provision of services to customers, resulting in a loss of existing customers and making it more difficult to attract new customers, as well as an increased likelihood of data security incidents.

Our significant property, plant and equipment additions, namely in connection with our Network Extension, upgrade of our fixed-line network to full FTTP and deployment of our 5G network, may not generate a positive return. Significant additions to our property, plant and equipment are, or in the future may be, required to add customers to our networks and to upgrade or expand our broadband communications networks and upgrade CPE to enhance our service offerings and improve the customer experience. Additions to our property, plant and equipment, which are currently underway, including in connection with our Network Extension and deployment of our 5G network, or are planned such as our intention announced in July 2021 to upgrade our fixed-line network to full FTTP, require significant capital expenditures for equipment and associated labour costs to build out and/or upgrade our networks as well as for related CPE. In particular, we have incurred, and will in the future incur, significant capital expenses for the deployment of new technologies such as our 5G network related to the purchase of frequencies and the deployment of network infrastructures for our mobile operations. New technologies and the use of multiple applications increasing customers' bandwidth requirements could lead to saturation of the networks and require telecommunications operators to make additional investments to increase their infrastructure capacity. Additionally, significant competition, the introduction of new technologies, the expansion of existing technologies, such as FTTx and advanced DSL technologies, the impact of natural disasters, or adverse regulatory developments could cause us to decide to undertake previously unplanned builds or upgrades of our networks and CPE.

No assurance can be given that any rebuilds, upgrades or extensions of our network (including the Network Extension and deployment of our 5G network) will increase penetration rates, increase fixed-line or mobile revenue, or otherwise generate positive returns as anticipated, or that we will have adequate capital available to finance such rebuilds, upgrades or extensions. Additionally, costs related to our Network Extension, the FTTP upgrade of our fixed-line network, the deployment of our 5G network and property, plant and equipment additions could end up being greater than originally anticipated or planned. For example, the decision of the U.K. Government to require the removal of all Huawei equipment from 5G networks by 2027 may result in the incurrence of costs that were not originally contemplated in connection with our 5G network roll-out and may increase our reliance on certain other suppliers for the deployment of our 5G network. If our costs are greater than originally anticipated, we may require additional financing sooner than anticipated or we may have to delay or abandon some or all of our deployment, development and expansion plans or otherwise forgo market opportunities. Additional financing may not be available on favourable terms, if at all, and our ability to incur additional debt will be limited by our debt agreements. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding, extending or upgrading our networks or making our other planned or unplanned additions to our property, plant and equipment, or are delayed in making such investments, our growth could be limited and our competitive position could be harmed.

Adverse economic developments could reduce customer spending for our mobile, broadband internet, video and fixed-line telephony services and increase churn. Most of our revenue is derived from customers (from consumer to enterprise and multinational companies) who could be impacted by adverse economic developments globally, in Europe and the U.K. The U.K. officially entered an economic recession in August 2020 that lasted through to the second quarter of 2021 and ongoing struggles in Europe related to sovereign debt issues, amongst other things, has contributed to a challenging economic environment. The economic environment has been further challenged by the outbreak of COVID-19 and inflationary pressures such as increasing energy costs. Accordingly, unfavourable economic conditions may impact a significant number of our customers and, as a result, it may be (i) more difficult for us to attract new customers, (ii) more likely that customers will downgrade or disconnect their handsets, tariffs and/or services, (iii) less likely that customers will upgrade their handsets, tariffs and/or services and (iv) more difficult for us to maintain revenue at existing levels. The U.K. may also seek new or increased revenue sources due to fiscal deficits. Such actions may further adversely affect our results of operations. Accordingly, our ability to increase, or, in certain cases, maintain, our revenue, margins and liquidity could be materially adversely affected if the economic environment in U.K. or Europe remains uncertain or declines (including as a result of the U.K.'s departure from the E.U.). We are currently unable to predict the extent of any of these potential adverse effects. For a description of the risks

associated with the U.K.'s departure from the E.U., see "*The U.K.'s departure from the E.U. could have a material adverse effect on our business, financial condition, results of operations or liquidity*" below. For a description of the risks associated with COVID-19, see "*The effects of the COVID-19 outbreak could adversely impact our business and results of operations*" below.

Our fixed-line telephony revenue is declining and unlikely to improve. Business and residential fixed-line telephony usage is declining across the industry. There is a risk that business and residential customers will migrate from using fixed-line telephony to using other forms of telephony, such as VoIP, or mobile. There is no assurance that our fixed-line telephony customers will migrate to our mobile phones and they may eventually shift to other providers of mobile telephony services. Such a migration could have a material adverse effect on our results of operations, revenue and financial condition.

A failure in our network and information systems, whether caused by a natural failure or a security breach, could significantly disrupt our operations. Certain network and information systems are critical to our business activities. Network and information systems may be affected by cyber security incidents that can result from deliberate attacks or system failures. These may include, but are not limited to computer hackings, computer viruses, worms, ransomware or other destructive or disruptive software, or other malicious activities against our systems as well as third party sites, which could affect the security of our customers' accounts. Cyber security breaches, internal security breaches, physical security breaches or other unauthorised or accidental access to our servers, other information systems or databases could result in tampering with, or the theft or publication of, sensitive business information or personal consumer information or the deletion or modification of records, or could otherwise cause interruptions in our operations. Our network and information systems may also be the subject of power outages, fire, natural disasters, terrorist attacks, war or other similar events. Theft of metals is particularly acute in the U.K. due to high prices for scrap metal, and our network is not immune to such thefts. Such events could result in a degradation of, or disruption to, our fixed-line and mobile services, and could prevent us from billing and collecting revenue due to us or could damage our equipment and data or could result in damage to our reputation. Disruption to services could result in excessive call volumes to call centres that may not be able to cope with such volume, which could in turn have a material adverse effect on our reputation and brands. Our plans for recovery from, and resilience to, such challenges may not be sufficient. The amount and scope of insurance we maintain against losses resulting from these events may not be sufficient to cover our losses or otherwise adequately compensate us for any disruptions to our business that may result. To date, other than the non-permitted access of one of our databases, we have not been subject to cyberattacks or network disruptions that, individually or in the aggregate, have been material to our operations or financial condition. Although we have not detected another material security breach or cybersecurity incident to date, we have been the target of events of this nature and expect to be subject to similar attacks in the future. For more information, see "*Business of VMED O2 - IT Systems and Security*"**.** See also "*A failure to comply with data protection laws may result in significant fines and reputational damage*" below.

Sustained or repeated failures of our own or third-party systems that interrupt our ability to provide services to our customers, prevent us from billing and collecting revenue, or that otherwise prevent us from meeting our obligations in a timely manner, could materially adversely affect our reputation and result in a loss of customers and revenue. These network and information systems-related events could also require significant expenditures to repair or replace damaged networks or information systems or to protect them from similar events in the future and/or the payment of compensation or other goodwill payments to affected customers. Further, any security breaches, such as misappropriation, misuse, penetration by viruses, worms or other destructive or disruptive software, leakage, falsification or the accidental release or loss of information maintained in our information technology systems and networks or those of our business partners (including customer, personnel and vendor data) could damage our reputation, result in legal and/or regulatory action against us, and require us to expend significant capital and other resources to remedy any such security breach. As a result of the increasing awareness concerning the importance of safeguarding personal information, the potential misuse of such information and legislation that has been adopted or is being considered regarding the protection, privacy and security of personal information, the liability associated with information-related risks is increasing, particularly for businesses like ours that handle a large amount of personal customer data. The occurrence of any such network or information system-related events or security breaches could have a material adverse effect on our business and results of operations.

A failure to comply with data protection laws may result in significant fines and reputational damage. We process a substantial amount of customer data as part of our day-to-day business. In the event of a data breach (of any kind) which impacts personal data, we have notification obligations to the Information Commissioner's Office (**ICO**), impacted data subjects, and in some cases under our commercial contracts. The ICO has the power to fine companies up to 4% of global group turnover in respect of a data breach where the company is found to be at fault and any impacted data subject can levy claims for

compensation (which can be aggregated into a "class style" litigation). In addition, we may be liable under certain of our commercial contracts in the event of certain data breaches. In the event of any large-scale data breach, we may incur significant time and expense in investigating and remedying any such breach. Furthermore, the reputational impacts of a data breach, especially in an industry where customer trust is paramount and the processing of customer data is essential, are likely to be extensive and could have a material adverse effect on our business and results of operations. See "*We are subject to significant regulation, and changes in U.K. and E.U. laws, regulations, governmental policy affecting the conduct of our business, or other risks relating to claims, may have a material adverse effect on our ability to set prices, enter new markets or control our costs*" below.

Unauthorised access to our network resulting in piracy could result in a loss of revenue. We rely on the integrity of our technology to ensure that our services are provided only to identifiable paying customers. Increasingly sophisticated means of illicit piracy of television, broadband internet and telephony services are continually being developed in response to evolving technologies. Furthermore, billing and revenue generation for our pay television services rely on the proper functioning of our encryption systems. While we continue to invest in measures to manage unauthorised access to our networks, any such unauthorised access to our cable television service could result in a loss of revenue, and any failure to respond to security breaches could raise concerns under our agreements with content providers, all of which could have a material adverse effect on our business and results of operations.

We depend on third-party suppliers and licensors to supply necessary equipment, software and certain services required for our businesses. We rely on third-party vendors for the equipment, software and services that we require in order to provide services to our customers, and maintain significant outsourcing partnerships in connection with our customer services and management obligations. We are also heavily reliant on both certain handset suppliers to provide in-demand models to be offered in conjunction with our mobile services, and certain suppliers in relation to maintenance of our network and services and the provision of parts. Our suppliers often conduct business worldwide and their ability to meet our needs is subject to various risks, including political and economic instability, natural calamities, interruptions in transportation systems, terrorism, labour issues and pandemics (including the COVID-19 pandemic). While it is not currently possible to estimate the duration and severity of the COVID-19 pandemic or the adverse economic impact resulting from the preventative measures taken to contain or mitigate its outbreak, an extended period of global economic disruption could have a material adverse impact on the ability of our suppliers and vendors to provide products and services to us. As a result, we may not be able to obtain the equipment, software and services required for our businesses on a timely basis or on satisfactory terms. Any shortfall in CPE could lead to delays in completing extensions to our networks and in connecting customers to our services and, accordingly, could adversely impact our ability to maintain or increase our customers, fixed and mobile connections, revenue and cash flows. Also, if demand exceeds the suppliers' and licensors' capacity or if they experience financial difficulties, the ability of our businesses to provide some services may be materially adversely affected, which in turn could affect our businesses' ability to attract and retain customers or our ability to maintain our relationships with distributors and MVNOs. Although we actively monitor the creditworthiness of our key third-party suppliers and licensors, the financial failure of a key third-party supplier or licensor could disrupt our operations and have an adverse impact on our revenue and cash flows. We rely upon intellectual property that is owned or licensed by us to use various technologies, conduct our operations and sell our products and services. Legal challenges could be made against our use of our licensed intellectual property rights (such as trademarks, patents and trade secrets) and we may be required to enter into licensing arrangements with licensors on unfavourable terms, incur monetary damages or be enjoined from use of the intellectual property rights in question.

Failure of our suppliers to comply with our social and environmental guidelines may result in harm to our reputation and brands, which may have a negative impact on our business, sustainability rating and financial position. If we experience a need to replace an existing supplier, including due to their non-compliance with our social and environmental guidelines, there can be no assurance that additional manufacturing capacity will be available when required on terms acceptable to us. In addition, even if we were able to find new suppliers on acceptable terms, we may encounter delays in production and added costs as a result of the time it would take to train such suppliers in our methods, products, quality control standards, labour, health and safety standards, which could have a material adverse effect on our business and results of operations.

We face risks associated with the activities of device manufacturers, including disintermediation and commoditisation risks, and risks relating to our ability to secure adequate and timely supply of handsets that experience high demand. The importance of device manufacturers in the handset market gives rise to disintermediation and commoditisation risks. Our business is dependent on our customer relationships. Therefore, any strategies or technologies that enable such device manufacturers, particularly those with significant market presence, to leverage their existing brand awareness to dominate

customer relationships, or which otherwise compete with our offerings, could undermine the effectiveness of our customer-focused strategies. In particular, the development of technologies that enable device manufacturers to offer handsets with embedded, reprogrammable SIMs, (often referred to as **e-SIMs**) or no physical SIM card at all (referred to as **soft-SIMs**), such that those handsets are compatible with, and therefore can be used on, any mobile network, presents a risk to our current business strategy. Soft-SIMs or e-SIMs would enable customers to select a mobile service provider, or switch mobile service providers, directly via their handset without the need to directly engage with an MNO or MVNO. The availability of such soft-SIMs or e-SIM, combined with competitive handset financing terms offered by certain device manufacturers, may lead customers to view their core relationship as being with the device manufacturer rather than with their mobile service provider and may undermine our investment in our customer relationships and our ability to acquire new, and retain existing, customers. There is no assurance that customer preferences may not shift such that they purchase handsets directly through device manufacturers rather than from us, as a result of which our opportunity to cross-sell additional services and products in adjacent markets will also be significantly limited.

Our results of operations and financial condition have also been and are expected to continue to be influenced by the availability and perceived attractiveness of new handsets, and particularly new generations of smartphones. Accordingly, our success depends in part on the ability to secure timely access to, and sufficient supplies of, handsets and other products that experience high demand. While we have entered into agreements for the supply of such products with device manufacturers and other suppliers, in certain cases the relevant supplier is under no obligation to supply us with a specific or minimum number of devices. On the contrary, we are under an obligation to order certain minimum agreed volumes under some of our contracts, and a failure to make such minimum orders may result in contractual penalties being imposed. This discrepancy between the supplier's obligations and the minimum order quantity obligation on us results in uncertainty regarding the volume or timing of supply. In addition, if our competitors were able to secure access to, and begin selling, handsets ahead of us, or if device manufacturers or other suppliers were to provide preferential treatment to, or were to enter into exclusive agreements with, one or more of our competitors, then we may be unable to secure an adequate supply of handsets on a timely basis to meet customer demand, which may result in decreased revenue, a loss of market share, reputational damage and a loss of customer loyalty.

In addition, several factors may result in decreased demand for new handsets, including any decrease in the actual or perceived attractiveness and levels of innovation in new generations of handsets or their operating systems, an increase in sustainability concerns amongst customers, including a heightened awareness of the environmental impact of routine handset consumption, or a slowing of new release cycles. This may reduce our ability to acquire new customers and retain existing customers as well as to cross-sell other products and services, as customers become less eager to enter into new contracts with us as a means of financing their purchases of new handsets. Under such circumstances, customers may also seek out competitively priced SIM-only contracts, which may result in decreased revenue which could have a material adverse effect on our results of operations and financial condition.

Our mobile services rely on the radio access networks of third-party wireless network providers to carry our mobile communications traffic. Our services to mobile customers rely on the use of network sharing and network extension arrangements in which we utilise the radio access networks of third-party wireless network providers to carry our mobile communications traffic, including our network sharing arrangement with Vodafone which has enabled the roll-out of 5G through site sharing, and the partnership between the U.K. Government, Ofcom and other MNOs which helps to deliver increased coverage for remote areas. If any of our network sharing or network extension arrangements are terminated, or if the respective third-party wireless network provider fails to provide the services required under a network sharing or network extension arrangement, or if the respective third-party wireless network provider fails to deploy and maintain its network, and we are unable to find a replacement network operator on a timely and commercially reasonable basis or at all, we could be prevented from continuing the mobile services relying on such network sharing or network extension arrangement. In turn, this could potentially affect our ability to support the MVNOs relying on our network to offer their own services to customers. Additionally, as our network sharing and network extension arrangements come to term, we may not be able to renegotiate renewal or replacement arrangements on the same or more favourable terms.

Our failure to maintain and further develop our direct and indirect distribution channels may affect our ability to acquire new customers and retain existing customers. We acquire new customers, and upgrade existing customers, both via direct distribution channels (i.e. our shops, franchised shops, our website and mobile app and telesales) and indirect distribution channels (i.e. third-party retailers, as well as business partners, distributors, wholesale partnerships and MVNOs). There can be no assurance, however, that we will be able to maintain, grow or invest in our direct distribution channels. For example, we may be unable to maintain a competitive online presence, enter into new shop leases or renew existing shop leases on

favourable terms, or at all. Similarly, we may be unable to find suitable replacement premises if leases of any of our existing premises are terminated prior to their stated expiration date. In addition, there can be no assurance that our current or future franchisees will continue to partner with us on favourable terms, or at all. Furthermore, there can be no assurance that we will recover any costs associated with investments in our direct distribution channels or that investing in maintaining or expanding our distribution channels will result in an increase in our revenue. In addition, investments required to implement new guidance and/or restrictions in connection with the COVID-19 pandemic may reduce the amount of resources available to us to fund other investments in our distribution channels. Any failure to maintain, grow or invest in our direct distribution channels could adversely affect our business, cash flows, results of operations and financial condition.

We rely heavily on indirect distribution as a means of reaching to a broader range of customers and as a supplement to our direct distribution channels. Our consumer trading arrangement with Dixons Carphone (a leading independent specialist mobile retailer in the U.K.), previously one of our major partners, expired in April 2020 and was not renewed. There is no assurance that our existing arrangements with direct distribution partners will continue beyond their terms. Indirect distributors may sell mobile contracts on behalf of a number of different MNOs, offering similar packages to those sold by the MNOs through their own direct distribution channels. As a result, indirect distributors may be viewed by some consumers as a price comparison hub for different tariff plans between MNOs and as offering more independent advice regarding the relative merits of such plans. This positioning of indirect distributors may give such distributors a degree of bargaining power in the negotiation of agreements with MNOs (including their agreements with us) and their commission fee. There is no assurance that the indirect distributors will not enter into preferential agreements with our competitors or decline to continue to enter into agreements with us, either on terms acceptable to us or at all. Our failure to maintain key indirect distribution relationships or expand our direct and indirect distribution presence (both through physical stores and online), or any failure by indirect distribution partners to procure new customers, could result in our being unable to retain or grow our market share and increase the costs of acquiring and retaining customers. Conversely, if indirect distribution partner growth is not appropriately directed, there is a risk of "substitution", where customers switch from our direct channels to the channel provided by an indirect partner, thereby adversely impacting profitability. Any, or a combination, of the foregoing could have a material adverse effect on our business, cash flows, results of operations and financial condition.

The "Virgin" and "O2" brands are not owned by us and the activities of the Virgin Group, O2 Worldwide Limited and other licencees of either brand (whether operating in the same industry or in other industries) could have a material adverse effect on the goodwill of customers towards us as a licencee. The "Virgin" and "O2" brands are integral to our corporate identity. We do not own these brands and use them under licences from a third party and a related party, respectively. We are also reliant on the general goodwill of consumers towards such brands.

The "Virgin" brand licences from Virgin Enterprises Limited can be terminated in certain circumstances. For example, Virgin Enterprises Limited can terminate the licence, after providing us with an opportunity to cure, (i) if we or any of our affiliates commit persistent and material breaches or a flagrant and material breach of the licences, (ii) if Virgin Enterprises Limited has reasonable grounds to believe that the use (or lack of use) of the licensed trademarks by us has been or is likely to result in a long-term and material diminution in the value of the "Virgin" brand, or (iii) if a third-party who is not (or one of whose directors is not) a "fit and proper person," such as a legally disqualified director or a bankrupt entity, acquires "control" of Liberty Global.

In addition, our O2 business currently markets the vast majority of its products and services under the "O2", "O2 Refresh" and "Priority" brands and related rights (the **O2 Brand Rights**). However, our O2 business does not own the O2 Brand Rights, but rather has a right to use the O2 Brand Rights in the U.K. pursuant to the terms of a licence (the **O2 Trademark Licence**) between Telefonica UK Limited and O2 Worldwide Limited, a Telefonica subsidiary and related party, which is for an indefinite term.

VMED O2 has the right to use the O2 Brand Rights in the U.K. pursuant to the terms of a licence (the **O2 JV Trademark Licence**) entered into between O2 Worldwide Limited and VMED O2. The O2 Trademark Licence, which entitles VMED O2 to use the O2 Brand Rights and related intellectual property, has been granted on a royalty-bearing basis, also for an indefinite term. The O2 Trademark Licence and the O2 JV Trademark Licence may be terminated in certain circumstances, including material non-use for a period of 24 months or material breach.

If VMED O2 was unable to continue to use the O2 Brand Rights or the "Virgin" brand due to a termination of the O2 Trademark Licence, the O2 JV Trademark Licence and/or the brand licence from Virgin Enterprises Limited for any reason,

significant time, effort and resources would be required to establish a new brand identity which could have a material adverse effect on our business and results of operations.

Adverse publicity in relation to Virgin Group or its principals, particularly Sir Richard Branson who is closely associated with the "Virgin" brand, or in relation to another licencee of the "Virgin" name and logo in another industry (particularly in the U.K.) could have a material adverse effect on our reputation, business and results of operations. The "O2" brand is also used in markets outside of the U.K. over which we will have no control. The management of the O2 brand globally resides with O2 Worldwide Limited and not our O2 business. Any adverse publicity as a result of actions of licencees of the "O2" brand in such markets could have a material adverse effect on our reputation, business and results of operations.

We depend almost exclusively on our relationships with third-party programming providers and broadcasters for programming content, and a failure to acquire a wide selection of popular programming on acceptable terms could adversely affect our business. We enter into agreements for the provision of television programmes and channels distributed via our entertainment service (some of which are also offered as O2 Extras alongside a customer's tariff) with programme providers, such as public and commercial broadcasters, or providers of pay or on-demand television and services. We have historically obtained a significant amount of our premium programming and some of our basic programming and pay-per-view sporting events from Sky. Sky is also one of our main competitors in the television services business. Sky is a leading supplier of programming to pay television platforms in the U.K. and is the exclusive supplier of some programming, including its Sky Sports channels and Sky Cinema channels, which are the most popular premium subscription sports and film channels available in the U.K.

The Sky Sports channels, Sky Cinema channels and the BT Sport channels are available in our entertainment service, however, there can be no assurance that we will be able to continue carrying such channels at a reasonable cost after the current contracts end.

Other significant programming and app suppliers include the BBC, ITV, Channel 4, UKTV, Viacom Inc. (including Five), Discovery Communications Inc., Disney, Sky, Turner (a division of Time Warner Inc.), Netflix, Calm, Cafeyn and Amazon. Our dependence on these and other suppliers for television programming could have a material adverse effect on our ability to provide attractive programming at a reasonable cost. We also rely on the products of some of these suppliers of television programming to incentivise customers to enter into contracts for our mobile services. Without their offering, the number of customer subscriptions may be adversely affected. Additionally, we are frequently negotiating and renegotiating programming agreements and our annual costs for programming can vary. There can be no assurance that we will be able to renegotiate or renew the terms of our programming agreements on acceptable terms or at all. There has also been a rise in the number of direct-to-consumer offerings from content owners which impacts negotiations and the content, rights and restrictions available. Programming and copyright costs represent a significant portion of our operating costs and are subject to increases in future periods due to various factors, including (1) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, and (2) rate increases.

If we are unable to obtain or retain attractively priced competitive content, demand for our existing and future video services could decrease, thereby limiting our ability to attract new customers, maintain existing customers and/or migrate customers from lower tier programming to higher tier programming, thereby inhibiting our ability to execute our business plans. Furthermore, we may be placed at a competitive disadvantage if certain of our competitors obtain exclusive programming rights, particularly with respect to popular sports and movie programming, and as certain players in the OTT market, for example Netflix, Amazon and Disney, increasingly produce their own exclusive content and distribute direct to consumers.

VMED O2 does not currently insure the underground portion of its fixed-line network and various pavement-based electronics associated with its fixed-line network and we may not insure such assets in the future. Our fixed-line network is one of our key assets. However, we do not currently insure the underground portion of our fixed-line network or various pavement-based electronics associated with our fixed-line network. Almost all of our fixed-line network is constructed underground. As a result, in the event we do not insure such assets in the future, any catastrophe that affects our underground fixed-line network or our pavement-based electronics could prevent us from providing services to our customers and result in substantial uninsured losses that would have a material adverse effect on our business and results of operations.

The U.K.'s departure from the E.U. could have a material adverse effect on our business, financial condition, results of operations or liquidity. On 23 June 2016 the U.K. held a referendum in which voters approved, on an advisory basis, an exit from the E.U., commonly referred to as "Brexit." The U.K. formally exited the E.U. on 31 January 2020. On 24 December 2020 the U.K. and the E.U. reached the "Trade and Cooperation Agreement," referred to as the "**E.U.-U.K. Agreement**." On 30 December 2020 the E.U.-U.K. Agreement was approved by the U.K. Parliament, with the E.U. Parliament ratifying the agreement on 28 April 2021. The E.U.-U.K. Agreement focuses on four main sectors, namely trade, economic and social cooperation, security and governance. For more information regarding the E.U.-U.K. Agreement, see "Regulatory Matters-Implications of the U.K.'s Departure from the E.U.". Examples of the potential impact Brexit could have on our business, financial condition or results of operations include:

- changes in foreign currency exchange rates and disruptions in the capital markets. For example, a sustained period of weakness in the British pound sterling could have an adverse impact on our liquidity, including our ability to fund U.S. dollar or euro denominated liquidity requirements;

- shortages of labour necessary to conduct our business, including our Network Extension;

- disruption to our supply chain and related increased cost of supplies (both in relation to devices, handsets and network maintenance);

- a weakened U.K. economy resulting in decreased consumer demand for our products and services;

- legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws and directives to replace or replicate, or where previously implemented by enactment of U.K. laws or regulations, to retain, amend or repeal; and

- various geopolitical forces may impact the global economy and our business, including, for example, other E.U. member states proposing referendums to, or electing to, exit the E.U.

Unless or until a mutual recognition agreement is reached in the future, it is likely to be more problematic for U.K. restructuring and insolvency proceedings to be recognised in E.U. member states and for U.K. office holders to effectively deal with assets located in E.U. member states. The general position outlined above will apply and recognition will depend on the private international law rules adopted in the relevant E.U. member state and the need may well arise to open parallel proceedings, increasing the element of risk as well as costs. In particular in cases where the appointment of a U.K. office holder is made in reliance on a U.K. domestic approach rather than COMI (Centre of Main Interest) rules, it is much less certain that such appointment will be recognised in other E.U. member states.

As a consequence, the recognition of English insolvency and restructuring proceedings across the E.U. member states may be different from what investors in our debt may have experienced in the past when the U.K. was a member state of the E.U. It is not possible to predict with certainty if and to what extent proceedings will be recognised and whether investors in our debt may adversely affected as a result.

We are exposed to the risks arising from widespread epidemic diseases, such as the outbreak of COVID-19, which could have a material adverse impact on our business, financial condition and results of operations. The COVID-19 pandemic and the emergency measures imposed by governments worldwide, including travel restrictions, restrictions on social activity and the shutdown of non-essential businesses, have adversely impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. While it is not currently possible to estimate the duration and severity of the COVID-19 pandemic or the full extent of the adverse economic impact resulting from the preventative measures taken to contain or mitigate its outbreak, an extended period of global economic disruption could have a material adverse impact on our business, financial condition and results of operations in future periods, including with respect to, amongst other items, (i) our ability to access capital necessary to fund property, plant and equipment additions, debt service requirements, acquisitions and other investment opportunities or other liquidity needs, (ii) the ability of our customers to pay for our products and services, (iii) our ability to maintain or increase our residential and business subscriber levels, (iv) our ability to offer attractive programming, and (v) the ability of our suppliers and vendors to provide products and services to us. We may also be adversely impacted by any U.K. Government-mandated regulations on our business that could be implemented in response to the COVID-19 pandemic. In addition, the U.K. Governments may seek new or increased revenue sources due to fiscal deficits

that result from measures taken to mitigate the adverse economic impacts of COVID-19, such as by imposing new taxes on the products and services we provide. We are currently unable to predict the extent of any of these potential adverse effects.

Our business may be affected by perceived health risks associated with electromagnetic radiation from base stations and associated equipment. Concerns have been expressed that electromagnetic signals emitted by base stations may pose health risks. All operational base stations have been installed in compliance with criteria established by the International Commission on Non-Ionizing Radiation Protection, the independent advisory body to the World Health Organization, which include electromagnetic field exposure limits. We and other MNO's in the U.K have experienced masts being vandalised and there is no guarantee that individuals who perceive network equipment to pose a health risk will not engage in further activities which may disrupt service to our customers, resulting in customer dissatisfaction, and consequently adversely affect our results of operations.

Risks Relating to Regulatory and Legislative Matters

We are subject to significant regulation, and changes in U.K. laws, regulations, governmental policy affecting the conduct of our business, or other risks relating to claims, may have a material adverse effect on our ability to set prices, enter new markets or control our costs. Our principal business activities are regulated and supervised by Ofcom, the FCA, the ICO and the Competition and Markets Authority, amongst other regulators. Regulatory change is an ongoing process in the communications sector at both the U.K. and E.U. level. Following the U.K.'s departure from the E.U. and completion of the transition period on 31 December 2020, the direct impact of changes in E.U. regulation on the U.K. regulatory environment has ended. The relationship with the E.U. is now governed by the relevant sections of the E.U.-U.K. Agreement. Changes in laws, regulations or governmental policy affecting our activities and those of our competitors could significantly influence how we operate our business and introduce new products and services. For example, regulatory changes relating to our activities and those of our competitors, such as changes relating to the form of our commercial propositions, third party access to infrastructure, the costs of interconnection with other networks, our relationships with third-party programming providers and broadcasters, the prices of competing products and services, or any change in policy allowing more favourable conditions for other operators, could adversely affect our ability to set prices, enter new markets or control our costs. In particular, Ofcom may attempt to require us to make available access to our ducts or may attempt to impose regulation on the fixed-line network, which is currently unregulated. Ofcom may also attempt to impose regulation to address any competition concerns in the future.

Our ability to introduce new products and services may also be affected if we cannot predict how existing or future laws, regulations or policies would apply to such products or services. In addition, our business and the industry in which we operate are subject to investigation by regulators and claims brought by private parties, which could lead to enforcement actions, fines and penalties (including restrictions imposed on, or the removal of, both licences to offer regulated propositions and persons licensed under the Senior Managers & Certification Regime) or the assertion of private litigation claims and damages. For example, in the past, Ofcom has conducted enforcement investigations into our O2 business regarding the availability of its network and billing practices. Any such action in the future could harm our reputation and result in increased costs to the business, which could have a material adverse effect on our financial position, our results of operations or our cash flows.

We are also subject to accreditation requirements with respect to certain of our business products and services provided to public sector organisations in the U.K. We have security accreditations across a range of business products and services for public sector organisations in the U.K., which are granted subject to periodic reviews of our policies and procedures by U.K. governmental entities. If we were to fail to maintain an accreditation or to obtain a new one when required, it could impact our ability to provide certain offerings to the public sector.

We are required to comply with payment card industry standards on data security. In order to provide card payment services to our customers, we are required to comply with the Payment Card Industry Data Security Standards (the **PCI-DSS**) implemented by major card schemes, including Visa, Master Card, American Express, Discover and JCB. These standards are in addition to our regulatory obligations. PCI-DSS is a set of requirements intended to ensure that all companies that process, store or transmit card information maintain secure systems and processes that protect payment card data.

Under PCI-DSS, VMED O2 is classified as a Level 1 merchant and is required to undertake annual certification assessment, which consist of an external audit performed by a Qualified Security Assessor. VMED O2 has gain and maintained its PCI-DSS certification for the E-Commerce and Face to Face payment channels and has an agreed programme of work

covering the remaining payment channels, which has been shared with the acquiring bank (the bank processing payments on our behalf). VMED O2 has implemented tokenisation solutions to reduce our exposure to card data compromise and its effects.

Any failure to comply with PCI-DSS may result in fines and obligations to implement remediation measures to ensure compliance. Any sustained failure to comply with PCI-DSS or to meet any remediation obligations within the time frames imposed could result in our authority to take card payments being revoked. This would mean that our customers would be unable to pay for purchases via card payment, resulting in significant reputational damage, increased customer churn rates and reduced revenue, all of which could have a material adverse effect on our business, cash flows, results of operations and financial condition.

We are exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programmes. We are subject to various anti-corruption laws (including the United Kingdom Bribery Act of 2010), and economic sanctions programmes, including those administered by the United Nations. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. We may deal with entities the employees of which are considered government officials. In addition, economic sanctions programmes restrict our business dealings with certain sanctioned countries, individuals and entities.

Although we have internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, including policies applicable to third parties with whom we deal as franchisees and outsourced service providers, there can be no assurance that such policies and procedures will be sufficient or that our employees, directors, officers, partners, agents and service providers will not take actions in violation of our policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which we or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to our reputation and other consequences that could have a material adverse effect on our business, cash flows, results of operations and financial condition. *See "Business of VMED O2—Legal Proceedings".*

Certain of our employees are represented by trade unions and we may be affected by strikes or collective action by such unionised employees. A number of our employees within our general population and middle management levels are represented by trade unions, being the Communications Workers Union and Prospect, respectively, and we are party to voluntary collective agreements with those unions. We generally have a good relationship with the trade unions that represent our employees and have not, to date, experienced any material issues or been involved in any significant disputes with these unions or the employees they represent. However, there can be no assurance that such issues or disputes will not arise in the future, including breakdowns in the bargaining process between us and the trade unions concerned. Any such disagreement or dispute could result in our being unable to continue to negotiate wages, salaries, bonuses and work time flexibility on terms that we consider to be acceptable and appropriate, or could lead to strikes or other industrial action (or the threat of strikes or industrial action) which could damage our brands and reputation and could, in turn, have a material adverse effect on our business, growth prospects, results of operations and financial condition.

Regulatory and/or government action on climate change may drive medium-to-long-term increases in operational cost. Due to the nature of our operations, we are subject to regulatory developments and government action on climate change through energy-specific regulations and/or legislation in the U.K. Examples include circular economy regulations for electrical products and packaging, regulation of greenhouse gas emissions, carbon pricing, fuel mix, energy and fuel cost, and energy policy. Changes in regulations and/or legislation results in changes in the market. Increased fuel or energy prices could make it more expensive to purchase energy to power or networks and data centres. An increase in the tax on fuel could increase the cost associated with operating our large vehicle fleet where those vehicles are dependent on traditional fuels. Implementation of a carbon taxation policy could impact VMED O2 by directly putting a price on our emissions, which would impact our operational costs.

Regulators' increased focus on environmental factors could also mean that our business becomes more scrutinised and that any failure to comply with such new regulations and laws could result in financial sanctions or fines. If we violate or fail to comply with these laws and regulations, we could be subject to civil and administrative sanctions and liabilities, including substantial fines and orders, or a partial or total shutdown of our operations, as well as litigation, any of which could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Management, the Joint Venture Parents and Related Parties

The loss of certain key personnel could harm our business. We have experienced employees at both the corporate and operational levels who possess substantial knowledge of our business and operations. There can be no assurance that we will retain the services of these employees or that we would be successful in hiring and training suitable replacements without undue costs or delays. As a result, the loss of any of these key employees could cause significant disruptions in our business operations, which could materially adversely affect our results of operations.

We may fail to attract or retain qualified, high quality personnel. Given the substantial competition in the market for skilled and qualified personnel with relevant technical, industry and operational experience, there can be no assurance that we will be able to attract or retain suitably qualified, high quality replacements on similar terms to those on which it currently engage our employees. We may also incur significant additional costs in recruiting and retaining suitable replacements. Any loss of experienced personnel or a failure to recruit suitably qualified, high quality personnel could therefore have a material adverse effect on our business, cash flows, results of operations and financial condition.

The interests of the Joint Venture Parents, the direct or indirect parent companies of the Joint Venture, may conflict with our interests and those of the holders of our debt. Liberty Global and Telefónica are the Shareholders in our parent company, directly or indirectly owning all of the voting interests in VMED O2 UK Limited. When business opportunities, or risks and risk allocation arise, the interests of the Joint Venture Parents (or other entities controlled by the Joint Venture Parents) may be different from, or in conflict with, our interests on a stand-alone basis or the interests of holders of our debt. Because we are indirectly controlled by the Joint Venture Parents, the Joint Venture Parents may allocate certain or all of their risks to us and there can be no assurance that the Joint Venture Parents will permit us to pursue certain business opportunities.

The sustainability programme of the Joint Venture's operations may be viewed as inadequate with regard to our environmental impacts by customers, regulators and government, leading to damage to our reputation and brands. Based on the nature of our operations and electricity required to run our network, customers could perceive the Virgin Media and O2 brands as detracting from a transition to a lower-carbon economy, particularly if we fail to successfully demonstrate efforts to reduce our environmental impact. Our customers, employees, and other stakeholders expect us to be environmentally responsible and take appropriate measures to minimise the impact of our operations on the environment. While we have publicly committed to achieving emissions reduction, net zero, waste and circularity targets, failure to achieve these targets or increasing expectations of a company's contribution to tackling the climate crisis may lead to damage of our brands and reputation that could have a material adverse effect on our business, growth prospects, results of operations and financial condition.

Our business may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect our business and our reputation. To maintain and improve its position in the market in comparison to its competitors, it is vital that our business has the ability to anticipate and adapt to the evolving needs and demands of its customers, and that it avoids commercial actions that may generate a negative perception of VMED O2 or the products and services it offers, or that may have or be perceived to have a negative impact on society. In addition to harming our business' reputation, such actions could also result in fines and other sanctions. There is growing societal and regulatory demand for companies to behave in a socially responsible manner. In addition, the risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have. If our business is not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of VMED O2.

Climate change may drive medium-term to long-term increases in operational costs to address the impact of changing climate and weather patterns, including changing levels of precipitation, mean temperatures and sea level rise and/or the impact of regulation. Medium-to-long-term our operational costs may increase as a result of shifts in climate patterns, and the threat of these issues may impact current and future business decisions related to our network, data centres and facilities. It could also impact our operational costs through increased energy usage and spend to prepare or repair facilities. Rising and extreme temperatures could cause our cooling infrastructure to run more frequently and, in turn, present an additional burden to local power and water resources. Increased risk of flooding to low-lying facilities and infrastructure due to longer-term increases in precipitation patterns could increase operating costs to maintain and/or repair facilities and network equipment. Decreased precipitation could generate drought conditions that could create an increased burden to local water resources, which

are required to operate our cooling infrastructure. These impacts could also result in drops in productivity or increased operational costs for our suppliers that would be passed on to us, which could have a material adverse effect on our business and results of operations.

Possible environmental, social and governance, regulatory or political changes could lead us to recognise assets as impaired. VMED O2 will review on an annual basis, or more frequently when the circumstances require it, the value of assets and our cash-generating unit, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases, synergies in connection with acquisition costs. Potential changes in our regulatory, business, economic or political environment, in particular in relation to ESG (Environmental, Social and Governance) issues, may result in the need for us to introduce changes in recognition of impairments in goodwill, intangible assets, property, plant and equipment or financial assets.

Our operations and properties are subject to extensive laws, ordinances, regulations and other legal requirements relating to the protection of people and the environment. These laws and regulations are also subject to constant review by lawmakers and regulators which may result in further, including more stringent, environmental or health and safety legal requirements. This could lead to an asset depreciation or reduction in the useful life of our assets, which could have a material adverse effect on our business and results of operations.

Risks Relating to the Joint Venture Transactions

The expected benefits and synergies from the Joint Venture Transactions may not materialise. As a result of the Joint Venture Transactions, we expect to achieve certain benefits and synergies discussed elsewhere in this annual report relating to the operations of Virgin Media and O2. We may not realise any or all of the anticipated synergies of the Joint Venture Transactions that we currently anticipate. For more information regarding the synergies we expect to achieve, see "*The Joint Venture—Joint Venture Summary*". Our estimated synergies from the Joint Venture Transactions are subject to a number of assumptions about the timing, execution and costs associated with realising such synergies as well as the business model of the Joint Venture. In addition, we may be presented with significant costs and challenges in connection with the integration of Virgin Media and O2. Such assumptions are inherently uncertain and are subject to a wide variety of significant business, economic and competition risks and uncertainties. There can be no assurance that such assumptions will turn out to be correct and, as a result, the amount of synergies that we will actually realise and/or the timing of any such realisation may differ significantly from (and may be significantly lower than) the ones that we currently estimate. In addition, there can be no assurance that the business objectives of the Joint Venture Transactions will be achieved, particularly as the achievement of the benefits are, in many important respects, subject to factors that we do not control, including the responses of third parties with whom Virgin Media and O2 enter into contracts and do business.

The integration of Virgin Media and O2 will be a significant exercise and could adversely affect the Joint Venture's business. Integrating the operations of Virgin Media and O2 may divert the attention of the Joint Venture's management away from other business operations. Successful integration of Virgin Media's and O2's operations, products and personnel may place a significant burden on our management and other internal resources. The diversion of management's attention, and any difficulties encountered in the transition and integration process, could harm our business, financial conditions and operating results. In addition, we may lose employees who are instrumental for the integration and further development of the Joint Venture, as well as customers and suppliers. Any of these risks could have a material adverse impact on our results of operations. The Joint Venture Transactions involve the integration of two groups that have previously operated independently. Such integration may be difficult, unpredictable and subject to delay because of possible company culture conflicts and different opinions on the Joint Venture's strategy and operations. We may not be successful in integrating some or all these businesses as currently anticipated, which may have a material adverse effect on our business and operations.

The Joint Venture will depend on Liberty Global and Telefónica as well as third-party suppliers and licensors to supply necessary equipment, software and certain services required for the Joint Venture's business. The Joint Venture will rely on the Joint Venture Parents for the continued provision of key services, processes, resources and other assets (collectively, the **Business Services**) to support the business operations of VMED O2. Material services, resources or other assets will be provided either: (i) directly to the Joint Venture by the Joint Venture Parents (or other entities within their respective groups); or (ii) provided by third parties under arrangements in place with the Joint Venture Parents (or other entities within their respective groups). The continued provision of these services will be addressed by a services agreement between the Joint Venture and each of its Joint Venture Parents. If either Joint Venture Parent (or any other service provider within their respective groups)

fails to perform its obligations under the services agreement, the Joint Venture will be required to provide those Business Services itself or to obtain substitute arrangements with third parties. The Joint Venture may be unable to provide the Business Service internally because of technical, financial or other constraints and may be unable to implement substitute arrangements with third parties on a timely basis on terms that are commercially acceptable and cost-effective. A failure by either Joint Venture Parent to provide Business Services in accordance with the services agreement could have a material adverse impact on the operations of VMED O2.

As a result of the Joint Venture Transactions, we have recorded a significant amount of goodwill, which could be subject to impairment. We have recorded substantial amounts of goodwill and intangible asset values in connection with the Joint Venture Transactions. The intangibles have been recorded based upon our estimates of their fair values, and goodwill has been recorded based on the excess of the amounts paid as part of the Joint Venture Transactions based on the fair value of the Joint Venture's net assets at the date of the respective Contributions. As of 31 December 2021, an amount of £9.2 billion and £12.8 billion of intangibles subject to amortisation, net, and goodwill, respectively, was recorded with respect to the Joint Venture Transactions. Following the recording of the fair value of the net assets contributed in connection with the Joint Venture Transactions, we may subsequently experience unforeseen issues with VMED O2's business, which may adversely affect the anticipated returns or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets related to the Joint Venture Transactions. If management's projections used in its fair value calculations change, the estimated fair value could decline significantly and result in impairment. While impairments do not impact our measure of Adjusted EBITDA, Operating Free Cash Flow or reported cash flows, the related non-cash charge in the income statement could have a material adverse effect on our results of operations, net equity or financial condition.

The Pro Forma Financial Information may not necessarily reflect what the results of operations, financial condition and cash flows of VMED O2 would have been if Virgin Media and O2 had been operated on a combined basis. The respective business operations of Virgin Media and O2 were operated separately prior to the consummation of the Joint Venture Transactions. We have no history operating as a combined entity and our operations have not previously been managed on a combined basis. Therefore the pro forma financial information and other data presented in this annual report prepared on a combined basis in accordance with the requirements of Regulation S-X Article 11 may not reflect what our results of operations, financial position and cash flows would have been had we operated on a combined basis and may not be indicative of what our results of operations, financial position and cash flows will be in the future. The pro forma financial information has not been audited, reviewed or verified by any independent accounting firm. The pro forma financial information is based on available information and assumptions that we believe are reasonable under the circumstances. This information is inherently subject to risks and uncertainties and does not purport to project our results of operations or financial condition for any future period nor does it purport to represent what our actual results of operations or financial condition would have been had the Joint Venture Transactions occurred on the dates indicated.

Risks Relating to Our Indebtedness, Taxes and Other Financial Matters

Base Erosion and Profit Shifting. Further changes in the tax laws of the jurisdictions in which we operate could arise as a result of the base erosion and profit shifting project that has been undertaken by the Organisation for Economic Co-operation and Development (**OECD**) or the European Commission Anti-Tax Avoidance Package. The OECD, which represents a coalition of member countries that encompass the jurisdictions in which we operate, and the European Commission have undertaken studies and are publishing action plans that include recommendations aimed at addressing what they believe are issues within tax systems that may lead to tax avoidance by companies. It is possible that jurisdictions in which we do business could react to these initiatives or their own concerns by enacting tax legislation that could adversely affect us through increasing our tax liabilities.

We have substantial indebtedness that may have a material adverse effect on our available cash flow, our ability to obtain additional financing if necessary in the future, our flexibility in reacting to competitive and technological changes and our operations. We have a substantial amount of indebtedness. As of 31 December 2021, the outstanding principal amount of our consolidated debt, together with our lease obligations, aggregated £18.6 billion, including £2.4 billion that is classified as current on our consolidated statements of financial position and £14.9 billion that is not due until 2027 or thereafter.

Our ability to pay principal and interest on or to refinance the outstanding indebtedness depends upon our operating performance, which will be affected by, amongst other things, general economic, financial, competitive, regulatory and other factors, some of which are beyond our control. Moreover, we may not be able to refinance or redeem such debt on commercially reasonable terms, on terms acceptable to us, or at all.

The level of our indebtedness could have important consequences, including the following:

- a substantial portion of our cash flow from operations will have to be dedicated to the payment of interest and principal on existing indebtedness, thereby reducing the funds available for other purposes;
- our ability to obtain additional financing in the future for working capital, capital expenditures, product development, acquisitions or general corporate purposes may be impaired;
- our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we operate, and to technological and other changes may be limited;
- we may be placed at a competitive disadvantage as compared to our competitors that are not as highly leveraged;
- our substantial degree of leverage could make us more vulnerable in the event of a downturn in general economic conditions or adverse developments in our business; and
- we are exposed to risks inherent in interest rate and foreign exchange rate fluctuations.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, which could adversely affect our business and operations.

We may not be able to fund our debt service obligations in the future. We have significant outstanding indebtedness that could require a partial or comprehensive refinancing in future periods. Borrowings under our credit facilities are currently due between 2023 and 2029, while the maturities of our outstanding senior and senior secured notes currently range from 2026 to 2031. See note 11 to our consolidated financial statements.

Our ability to implement such a refinancing successfully would be significantly dependent on stable debt capital markets. In addition, we may not achieve or sustain sufficient cash flow in the future for the payment of principal or interest on our indebtedness when due. Consequently, we may be forced to raise cash or reduce expenses by doing one or more of the following:

- raising additional debt;
- restructuring or refinancing our indebtedness prior to maturity and/or on unfavourable terms;
- selling or disposing of some of our assets, possibly on unfavourable terms;
- issuing equity or equity-related instruments that will dilute the equity ownership interest of existing stockholders; or
- foregoing business opportunities, including the introduction of new products and services, acquisitions and joint ventures.

We cannot be sure that any of, or a combination of, the above actions would be sufficient to fund our debt service obligations, particularly in times of turbulent capital markets.

The covenants under our debt agreements place certain limitations on our ability to finance future operations and how we manage our business. The agreements that govern our indebtedness contain restrictive covenants and, under certain circumstances, a maintenance covenant that restrict our ability to incur additional debt and limit the discretion of our management over various business matters. For example, the financial maintenance tests, if applicable, comprise of leverage ratios, and the restrictive covenants impact our ability to:

- pay dividends or make other distributions, or redeem or repurchase equity interests or subordinated obligations;
- make investments;

- sell assets, including the capital stock of subsidiaries;
- enter into certain sale and leaseback transactions and certain vendor financing arrangements;
- create liens;
- enter into agreements that restrict some of our subsidiaries' ability to pay dividends, transfer assets or make related-party loans;
- merge or consolidate or transfer all or substantially all of our assets; and
- enter into certain transactions with affiliates.

These limitations are subject to significant exceptions and qualifications, including the ability to pay dividends, make investments or to make significant prepayments of shareholder debt. However, these covenants could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. In addition, our ability to comply with the provisions of our debt instruments may be affected by events beyond our control.

If we breach any of these covenants, or are unable to comply with any required financial ratios if the drawings under our revolving credit facility exceed a certain percentage of the commitments under such revolving credit facility, we may be in default under our debt instruments. A significant portion of our indebtedness may then become immediately due and payable, and we may not have sufficient assets to repay amounts due thereunder. In addition, any default under these facilities could lead to an event of default and acceleration under other debt instruments that contain cross default or cross acceleration provisions, including the indentures governing our Senior Secured Notes and our Senior Notes.

These restrictions could also materially adversely affect our ability to finance future operations or capital needs or to engage in other business activities that may be in our best interest. We may also incur other indebtedness in the future that may contain financial or other covenants more restrictive than those applicable under our current indebtedness.

We are a holding company dependent upon cash flow from operating entities to meet our obligations. Certain entities within VMED O2 are holding companies with no independent operations or significant assets other than investments in their operating entities. Each of these holding companies depends upon the receipt of sufficient funds from their operating entities to meet their obligations.

The terms of our senior credit facility and other indebtedness limit the payment of dividends, loan repayments and other distributions to or from these companies under certain circumstances. Various agreements governing our debt may restrict and, in some cases, may also prohibit the ability of these operating entities to move cash within their restricted group. Applicable tax laws may also subject such payments to further taxation. Applicable law may also limit the amounts that some of our operating entities will be permitted to pay as dividends or distributions on their equity interests or as loans, or even prevent such payments.

We are exposed to pension liability for the defined benefit scheme of Telefonica UK Limited's pension plan and to risk around demographic, financial and other actuarial assumptions on all of our defined benefit schemes. The defined benefit section of the pension plan of Telefonica UK Limited (the **TUK Pension Plan**) had a net liability (deficit) of £415.7 million on a technical provisions valuation basis as of 30 September 2020, compared to a £35 million surplus recognised on the statements of financial position under IAS 19 as at 31 December 2020. Deficit contributions totalling £425 million have been agreed in relation to the technical provisions valuation as at 30 September 2020, with £212.5 million remaining to be paid as at 31 December 2021 due during 2022. Funding for these contributions will be provided by Telefónica and its subsidiaries, subject to repayment of any tax saving arising from the payment of such contributions into the TUK Pension Plan that would not otherwise have arisen. Accordingly we have recognised a receivable of £212.5 million on our statements of financial position as of 31 December 2021.

The funding positions of our defined benefit schemes, i.e. the TUK Pension Plan, the National Transcommunications Limited Pension Plan and the defined benefit scheme of the NTL 1999 Pension Scheme, are based on a variety of assumptions and factors outside of our control, including discount rates, inflation, asset returns, life expectancy and other actuarial assumptions. Any variation in these assumptions could require us to make further contributions to our defined benefit schemes.

Such contributions could be significant and have a negative impact on our financial condition and results of operations. While our defined benefit schemes are closed to further benefit accrual, we are committed to paying a defined level of benefits to eligible participants. In the event that the assets of our defined benefit schemes will not be sufficient to cover the value of the benefits owed, our company will be required to finance such deficit and/or may be subject to investigation or enforcement action by the U.K. Pensions Regulator, which could have a material adverse effect on our financial condition and results of operations.

We are subject to foreign currency exchange rate risks. We are subject to foreign currency exchange rate risks because substantially all of our revenue and operating expenses are paid in pounds sterling, but we pay interest and principal obligations with respect to portions of our indebtedness in U.S. dollars and euros. To the extent that the pound sterling declines in value against the U.S. dollar and the euro (including as a result of Brexit, as discussed above), the effective cost of servicing our U.S. dollar and euro-denominated debt will be higher. Changes in the exchange rate result in foreign currency gains or losses.

We also incur costs in U.S. dollars and euro in the ordinary course of our business, including for CPE and network maintenance services. Any deterioration in the value of the pound sterling relative to the U.S. dollar or the euro could cause an increase in the effective cost of purchases made in these currencies as only part of these exposures are hedged.

We are exposed to interest rate risks and other adverse changes in the credit market. Shifts in such rates may adversely affect our debt service obligations. We require a significant amount of capital to operate and grow our business. We fund our capital needs in part through borrowings in the public and private credit markets. Adverse changes in the credit markets, including increases in interest rates, could increase our cost of borrowing and/or make it more difficult for us to obtain financing for our operations or refinance existing indebtedness. In addition, our borrowing costs can be affected by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on our performance as measured by customary credit metrics. A decrease in these ratings would likely increase our cost of borrowing and/or make it more difficult for us to obtain financing. A severe disruption in the global financial markets could impact some of the financial institutions with which we do business, and such instability could also affect our access to financing.

We are subject to interest rate risks as we have certain interest determined on a variable basis, either through unhedged variable rate debt or derivative hedging contracts. We are exposed to the risk of fluctuations in interest rates, primarily through the credit facilities of certain of our subsidiaries, which are indexed to the London Interbank Offered Rate (**LIBOR**), Sterling Overnight Index Average (**SONIA**), Euro Interbank Offered Rate (**EURIBOR**) or other base rates. Although we enter into various derivative transactions to manage exposure to movements in interest rates, there can be no assurance that we will be able to continue to do so at a reasonable cost or at all. If we are unable to effectively manage our interest rate exposure through derivative transactions, any increase in market interest rates would increase our interest rate exposure and debt service obligations, which would exacerbate the risks associated with our leveraged capital structure.

The phasing out of LIBOR will result in a new reference rate being applied to our LIBOR indexed, which may not be the same as the new reference rate applied to our LIBOR-indexed derivative instruments, and will have to be adjusted for. In July 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Additionally, the European Money Markets Institute (the authority that administers EURIBOR) announced that measures needed to be undertaken by the end of 2021 to reform EURIBOR to ensure compliance with E.U. Benchmarks Regulation. In November 2020, ICE Benchmark administration (the entity that administers LIBOR) announced its intention to continue publishing USD LIBOR rates until 30 June 2023, with the exception of the one week and two-month rates which, along with all GBP LIBOR rates, it intended to cease publishing after 31 December 2021.

While this extension allows additional runway on existing contracts using USD LIBOR rates, companies are still encouraged to transition away from using USD LIBOR as soon as practicable and should not enter into new contracts that use USD LIBOR after 2021. The methodology for EURIBOR has been reformed and EURIBOR has been granted regulatory approval to continue to be used.

In October 2020, the International Swaps and Derivatives Association (the ISDA) launched a new supplement (the “Fallback Supplement”), which as of 25 January 2021, amended the standard definitions for interest rate derivatives to incorporate fallbacks for derivatives linked to certain key interbank offered rates IBORs). The ISDA also launched a new protocol (the “Fallback Protocol”), also effective 25 January 2021, that enables market participants to incorporate these

revisions into their legacy non-cleared derivatives with other counterparties that choose to adhere to the protocol. The fallbacks for a particular currency will apply following a permanent cessation of the IBOR in that currency and will be adjusted versions of the risk-free rates identified in each currency.

Our loan documents contain provisions that contemplate alternative calculations of the base rate applicable to our LIBOR-indexed and EURIBOR-indexed debt to the extent LIBOR or EURIBOR (as applicable) are not available, which alternative calculations we do not anticipate will be materially different from what would have been calculated under LIBOR or EURIBOR (as applicable). Additionally, no mandatory prepayment or redemption provisions would be triggered under our loan documents in the event that either the LIBOR rate or the EURIBOR rate is not available. Further, in December 2021, we amended our loan documents such that the reference rate for our sterling denominated loans would be determined based upon SONIA plus a credit adjustment spread once GBP LIBOR was no longer published and, through the Fallback Protocol, this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments.

Publication of GBP LIBOR and the one week and two-months USD LIBOR rates ceased on 31 December 2021 as planned. Currently there is no consensus amongst loan borrowers and investors as to which rates should replace USD LIBOR. It is possible, however, that any new reference rate that applies to our USD LIBOR-indexed debt could be different to any new reference rate that applies to our USD LIBOR-indexed derivative instruments. We anticipate managing this difference and any resulting increased variable-rate exposure through modifications to our debt and/or derivative instruments, however future market conditions may not allow immediate implementation of desired modifications and the company may incur significant associated costs.

We are exposed to sovereign debt and currency instability risks that could have an adverse impact on our liquidity, financial condition and cash flows. Our operations are subject to macroeconomic and political risks that are outside of our control. For example, high levels of sovereign debt, combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our company. With regard to currency instability issues, concerns exist in the eurozone with respect to individual macro-fundamentals on a country-by-country basis, as well as with respect to the overall stability of the European monetary union and the suitability of a single currency to appropriately deal with specific fiscal management and sovereign debt issues in individual eurozone countries. The realisation of these concerns could lead to the exit of one or more countries from the European monetary union and the re-introduction of individual currencies in these countries, or, in more extreme circumstances, the possible dissolution of the European monetary union entirely, which could result in the redenomination of a portion or, in the extreme case, all of our euro-denominated assets, liabilities and cash flows to the new currency of the country in which they originated. This could result in a mismatch in the currencies of our assets, liabilities and cash flows. Any such mismatch, together with the capital market disruption that would likely accompany any such redenomination event, could have a material adverse impact on our liquidity and financial condition. Furthermore, any redenomination event would likely be accompanied by significant economic dislocation, particularly within the eurozone countries, which in turn could have an adverse impact on demand for our products and services, and accordingly, on our revenue and cash flows. In light of the significant exposure that we have to the euro through our euro-denominated borrowings, derivative instruments, cash balances and cash flows, a redenomination event could have a material adverse impact on our company.

We are subject to increasing operating costs and inflation risks, which may adversely affect our results of operations. While our operations attempt to increase our subscription rates to offset increases in programming and operating costs, there is no assurance that they will be able to do so. Our ability to increase subscription rates is subject to regulatory controls in the U.K. Further, our ability to increase subscription rates may be constrained by competitive pressures. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on our cash flow and net earnings (loss). We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs in the U.K.

We are subject to tax in more than one tax jurisdiction and our structure poses various tax risks. We are subject to taxation in the U.K. and the U.S. Our effective tax rate and tax liability will be affected by a number of factors in addition to our operating results, including the amount of taxable income in particular jurisdictions, the tax rates in those jurisdictions, tax treaties between jurisdictions, the manner in which and the extent to which we transfer funds to and repatriate funds from our subsidiaries, accounting standards and changes in accounting standards, and future changes in the law. We may incur losses in one jurisdiction that cannot be offset against income earned in a different jurisdiction and, as a result, may pay income taxes in one jurisdiction for a particular period even though on an overall basis we incur a net loss for that period.

We may have exposure to additional tax liabilities. We are subject to income taxes as well as non-income based taxes, such as VAT in the U.K. and the U.S. In addition, the tax jurisdictions that we operate in have complex and subjective rules regarding the valuation of intercompany services, cross-border payments between affiliated companies and the related effects on income tax, VAT and transfer tax. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities in the jurisdictions in which we operate. Although we believe that our tax estimates are reasonable, any material differences as a result of final determinations of tax audits or tax disputes could have an adverse effect on our financial position and results of operations in the period or periods for which determination is made.

We are subject to changing tax laws, treaties and regulations in and between countries in which we operate, including treaties between and amongst the U.K. and the U.S. Also, various income tax proposals in the jurisdictions in which we operate could result in changes to the existing laws on which our deferred taxes are calculated. A change in these tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher income or non-income tax expense, and any such material changes could cause a material change in our effective tax rate. In this regard, there have been significant changes or proposed changes to the tax laws in jurisdictions in which we operate, the impacts of which have been reflected accordingly in our financial statements.

Adverse changes in our financial outlook may result in negative or unexpected tax consequences which could adversely affect our net income. Future adverse changes in the underlying profitability and financial outlook of our operations could cause us to decrease the level of recognition of our deferred tax assets, which could materially and adversely affect our consolidated statements of financial position and statement of profit or loss. A change in the level of deferred tax recognition will not result in any change to the amount of cash payments we make to the tax authorities.

Strategic transactions present many risks, and we may not realise the financial and strategic goals that were contemplated at the time of any transaction. From time to time we have made acquisitions, dispositions and have entered into other strategic transactions (including spectrum auctions). In connection with such transactions, we may incur unanticipated expenses, fail to realise anticipated benefits and synergies, have difficulty integrating the combined businesses, disrupt relationships with current and new employees, customers and suppliers, incur significant indebtedness or experience delays or fail to proceed with announced transactions. These factors could have a material adverse effect on our business and/or our reputation.

Macroeconomic events, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics or epidemics and other similar events, including the ongoing invasion of Ukraine by Russia, may have an adverse effect on our business. Our operations are subject to macroeconomic risks, including but not limited to political unrest, instability in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and epidemics, that are outside of our control. For example, high levels of sovereign debt, combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our business.

We are exposed to the risk of default by the counterparties to our cash investments, derivative and other financial instruments, and undrawn debt facilities. Although we seek to manage the credit risks associated with our cash investments, derivative and other financial instruments, and undrawn debt facilities, we are exposed to the risk that our counterparties will default on their obligations to us. While we regularly review our credit exposures and currently have no specific concerns about the creditworthiness of any counterparty for which we have material credit risk exposures, we cannot rule out the possibility that one or more of our counterparties could fail or otherwise be unable to meet its obligations to us. Any such instance of default or failure could have an adverse effect on our cash flows, results of operations, financial condition and/or liquidity. In this regard, (i) we may incur losses to the extent that we are unable to recover debts owed to us, including cash deposited and the value of financial losses, (ii) we may incur significant costs to recover amounts owed to us, and such recovery may take a long period of time or may not be possible at all, (iii) our derivative liabilities may be accelerated by the default of our counterparty, (iv) we may be exposed to financial risks as a result of the termination of affected derivative contracts, and it may be costly or impossible to replace such contracts or otherwise mitigate such risks, (v) amounts available under committed credit

facilities may be reduced and (vi) disruption to the credit markets could adversely impact our ability to access debt financing on favourable terms, or at all.

At 31 December 2021, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £31.5 million, (ii) cash and cash equivalent and restricted cash balances of £89.3 million and (iii) aggregate undrawn debt facilities of £1,378.0 million. For more information on our derivative contracts, see note 13 to our consolidated financial statements.

Independent Auditors’ Report

To the Board of Directors
VMED O2 UK Holdings Ltd:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VMED O2 UK Holdings Ltd and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2021 and June 1, 2021, and the related consolidated statement of profit or loss, comprehensive loss, owner’s equity, and cash flows for the seven-month period ended December 31, 2021, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and June 1, 2021, and its financial performance and its cash flows for the seven-month period ended December 31, 2021 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP.

London, UK
25 March 2022

VMED O2 UK HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note References	31 December 2021	1 June 2021
		in millions	
ASSETS			
Non-current assets:			
Property, plant and equipment, net	7 and 12	£ 9,757.9	£ 9,889.3
Intangible assets, net	7	22,036.7	22,614.8
Investments	6	8.9	8.8
Deferred tax assets	20	73.0	73.2
Related-party notes receivable	23	8,796.3	8,061.9
Retirement benefit asset	17	369.0	217.3
Derivative instruments	13 and 15	398.9	274.1
Trade receivables and other non-current assets	8 and 18	363.2	620.1
Total non-current assets		41,803.9	41,759.5
Current assets:			
Trade receivables and other current assets	8, 18, 20 and 23	2,160.0	1,926.6
Derivative instruments	13 and 15	95.6	55.3
Inventory	9	157.6	137.7
Related-party receivables	23	223.1	173.9
Cash and cash equivalents		48.3	154.1
Total current assets		2,684.6	2,447.6
Total assets		£ 44,488.5	£ 44,207.1
OWNER'S EQUITY AND LIABILITIES			
Owner's equity:			
Accumulated losses		£ (58.6)	£ —
Accumulated other comprehensive income		38.9	—
Additional paid-in capital		20,773.8	20,773.8
Total owner's equity		20,754.1	20,773.8
Non-current liabilities:			
Non-current debt and lease obligations	11, 12 and 15	16,211.0	15,784.6
Retirement benefit obligation	17	4.5	4.3
Non-current portion of provisions	16	171.4	190.5
Derivative instruments	13 and 15	734.5	903.3
Deferred tax liability	20	7.5	3.1
Trade payables and other non-current liabilities	10, 17 and 18	251.5	194.4
Total non-current liabilities		17,380.4	17,080.2
Current liabilities:			
Trade payables and other current liabilities	10, 16 and 18	3,336.8	3,300.8
Accrued capital expenditures		415.6	285.9
Derivative instruments	13 and 15	191.5	186.0
Provisions	16	31.1	14.9
Current portion of debt and lease obligations	11, 12 and 15	2,379.0	2,565.5
Total current liabilities		6,354.0	6,353.1
Total liabilities		23,734.4	23,433.3
Total owner's equity and liabilities		£ 44,488.5	£ 44,207.1

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

VMED O2 UK HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note References		Period from 1 June 2021 to 31 December 2021
			in millions
Revenue	5 and 18	£	6,158.2
Cost of sales	23		(2,217.6)
Gross profit			3,940.6
Personnel expenses	23		(419.3)
Other expenses	12, 22 and 23		(1,432.3)
Depreciation and amortisation	7		(2,041.8)
Operating profit			47.2
Finance costs	19 and 23		(729.4)
Finance income	19 and 23		549.7
Net finance costs			(179.7)
Other income, net	6		1.2
			(178.5)
Loss before income taxes			(131.3)
Income tax benefit	20		49.3
Net loss		£	(82.0)

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

VMED O2 UK HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Note References	Period from 1 June 2021 to 31 December 2021
		in millions
Net loss		£ (82.0)
Other comprehensive income, net of taxes:		
Foreign currency translation adjustments		13.3
Pension-related adjustments and other	17	25.6
Other comprehensive income		38.9
Total comprehensive loss		£ (43.1)

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

VMED O2 UK HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF OWNER'S EQUITY

	Note References	Accumulated losses	Accumulated other comprehensive income	Additional paid-in capital (a)	Total owner's equity
			in millions		
Balance at 1 June 2021		£ —	£ —	£ 20,773.8	£ 20,773.8
Net loss		(82.0)	—	—	(82.0)
Other comprehensive income		—	38.9	—	38.9
Share-based compensation	22	23.4	—	—	23.4
Balance at 31 December 2021		£ (58.6)	£ 38.9	£ 20,773.8	£ 20,754.1

(a) Additional paid-in capital (**APIC**) includes share premium (see note 21) and the merger reserve resulting from the September 2021 Transactions (as defined and described in note 2). The total value recognised in APIC represents the value required to be recognised after purchase price accounting as a result of the JV Transaction (as defined and described in note 1).

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

VMED O2 UK HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

	Note References		Period from 1 June 2021 to 31 December 2021
			in millions
Cash flows from operating activities:			
Net loss		£	(82.0)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Share-based compensation expense	22		23.4
Depreciation and amortisation	7		2,041.8
Impairment, restructuring and other operating items, net	12 and 16		37.4
Amortisation of deferred financing costs and non-cash interest	11		(5.5)
Realised and unrealised gains on derivative instruments, net	13 and 19		(379.1)
Foreign currency transaction losses, net	19		310.5
Loss on debt modification and extinguishment, net	11 and 19		0.3
Deferred income tax benefit	20		(2.2)
Interest paid			(368.5)
Income taxes paid			(6.9)
Changes in operating assets			(612.6)
Changes in operating liabilities			862.5
Net cash provided by operating activities			1,819.1
Cash flows from investing activities:			
Capital expenditures, net	7		(748.1)
Net advances to related parties	23		(625.1)
Net cash used by investing activities			(1,373.2)
Cash flows from financing activities:			
Repayments of debt and lease obligations	11 and 12		(3,447.7)
Borrowings of debt	11		2,903.4
Payment of financing costs and debt premiums			(27.6)
Net cash received related to derivative instruments	13		26.9
Other financing activities, net			(7.2)
Net cash used by financing activities			(552.2)
Effect of exchange rate changes on cash and cash equivalents and restricted cash			0.6
Net decrease in cash and cash equivalents and restricted cash			(105.7)
Cash and cash equivalents and restricted cash:			
Beginning of period			195.0
End of period		£	89.3
Details of end of period cash and cash equivalents and restricted cash:			
Cash and cash equivalents		£	48.3
Restricted cash included in other current assets and other assets, net			41.0
Total cash and cash equivalents and restricted cash		£	89.3

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

(1) Basis of Presentation

VMED O2 UK Holdings Limited (**VMED O2**) is domiciled in England and Wales (registration number 13047827). The registered address of the Company is 500 Brook Drive, Reading, RG2 6UU. VMED O2 is an integrated communications provider of mobile, broadband internet, video and fixed-line telephony services to residential customers and businesses in the United Kingdom (**U.K.**). In these notes, the terms "we," "our," "our Company" and "us" may refer, as the context requires, to VMED O2 or collectively to VMED O2 and its subsidiaries. As of 31 December 2021, the primary subsidiaries of VMED O2 include (i) Virgin Media Inc. and its subsidiaries (collectively, **Virgin Media**) and (ii) O2 Holdings Limited and its subsidiaries (collectively, **O2**).

VMED O2 is a wholly-owned subsidiary of VMED O2 UK Limited (the **Joint Venture**), which is a 50:50 joint venture that was formed on 1 June 2021 between Liberty Global plc (**Liberty Global**) and Telefónica, SA (**Telefónica**) (the **JV Transaction**). In these consolidated financial statements, Liberty Global and Telefónica are each referred to as a "**Shareholder**". Prior to the completion of the JV Transaction, (i) Virgin Media was a wholly-owned subsidiary of Liberty Global that provided fixed and mobile communications services in the U.K. and (ii) O2 was a wholly-owned subsidiary of Telefónica that provided mobile communications services in the U.K. For additional information on the formation of the Joint Venture and certain common control transfers that were completed in September 2021, see note 2.

As a consequence of the September 2021 Transactions (as defined in note 2), VMED O2 became the entity responsible for providing annual and quarterly reporting under the relevant provisions of the credit facilities agreement and bond indentures governing our outstanding indebtedness. VMED O2 has prepared the Annual Report these consolidated financial statements form part of to satisfy the annual reporting obligations. These consolidated financial statements, the first for VMED O2, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (**IFRS**) as of and for the seven month period ending 31 December 2021 to cover the period from the Joint Venture formation on 1 June 2021 (see note 2) through to the end of 2021. These consolidated financial statements were authorised for issue by the Leadership Team of the Joint Venture (as set out in the "*Company Information - Leadership Team*" section of the Annual Report accompanying these consolidated financial statements) following review by the Audit Committee of the Joint Venture. These consolidated financial statements for VMED O2 have been prepared a going concern basis under the historical cost convention and are presented in pound sterling, which is our functional currency. Unless otherwise indicated, convenience translations into pound sterling are calculated as of 31 December 2021.

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through 25 March 2022.

(2) Joint Venture Formation

The JV Transaction was completed on 1 June 2021. We have accounted for the JV Transaction in accordance with IFRS 3 - *Business Combinations*, using the acquisition method of accounting. The identifiable net assets of both Virgin Media and O2 were assessed for their respective fair values in accordance with purchase price allocation (**PPA**) accounting and the excess of VMED O2's business enterprise value over the fair value of these identifiable net assets was allocated to goodwill. The following table sets forth selected financial information related to the assets, liabilities and equity of the VMED O2 contributed businesses, as of 1 June 2021 (in millions):

Enterprise value (a)	£	39,122.3
Fair value (b):		
Borrowings		(17,296.3)
Lease liabilities		(978.9)
Cash and cash equivalents		154.1
Other assets and liabilities (c)		(227.4)
Equity balance as at 1 June 2021	£	20,773.8

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(a) Represents the estimated enterprise value as of 1 June 2021 of the Joint Venture. For additional information regarding certain fair value inputs used in the enterprise valuation, see note 15.

(b) The amounts represent estimated fair values as of 1 June 2021. For additional information regarding certain fair value inputs used in the enterprise valuation see note 15.

(c) Other assets and liabilities primarily consist of net pension assets and derivative assets and liabilities. For additional information regarding certain fair value inputs used in the enterprise valuation see note 15.

Common Control Transfer

On 16 September 2021, as part of certain joint venture reorganisation transactions, VMED O2 UK Limited made a contribution to VMED O2 comprising VMED O2 UK Limited's then ownership interests in (i) Virgin Media and (ii) certain other entities, including the parent of O2, in exchange for two additional shares issued at a premium (the **September 2021 Transactions**). We have accounted for the September 2021 Transactions as common control transfers under the pooling of interest method and, accordingly, have reflected these transactions at carry-over basis as of 1 June 2021.

As a result of the September 2021 Transactions, the reporting entity associated with the annual reporting provisions of the credit facilities agreement and bond indentures governing our outstanding indebtedness is VMED O2 and, accordingly, the financial position, results of operations and cash flows of VMED O2 UK Limited are not included in these consolidated financial statements.

(3) Summary of Significant Accounting Policies

Critical Accounting Policies, Judgements and Estimates

In connection with the preparation of the consolidated financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Critical accounting policies are defined as those policies that are reflective of significant judgments, estimates and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe the following accounting policies are critical in the preparation of the consolidated financial statements because of the judgment necessary to account for these matters and the significant estimates involved, which are susceptible to change:

- Impairment of property, plant and equipment and intangible assets (including goodwill);

- Costs associated with construction and installation activities;
- Fair value measurements;
- Joint arrangements; and
- Income tax accounting.

Impairment of Property, Plant and Equipment and Intangible Assets

Carrying Value. The aggregate carrying value of our property, plant and equipment and intangible assets that was held for use comprised 71.5% of our total assets at 31 December 2021.

When circumstances warrant, we review the carrying amounts of our property, plant and equipment and our intangible assets (other than goodwill) to determine whether such carrying amounts continue to be recoverable. Such changes in circumstance may include (i) an expectation of a sale or disposal of a non-current asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the markets in which we operate and (iv) operating or cash flow losses. For purposes of impairment testing, non-current assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset or asset group, an impairment adjustment is recognised. Such adjustment is measured by the amount that the carrying value of such asset or asset group exceeds its fair value. We generally measure fair value by considering (a) sale prices for similar assets, (b) discounted estimated future cash flows using an appropriate discount rate and/or (c) estimated replacement cost. Assets to be disposed of are recorded at the lower of their carrying amount or fair value less costs to sell.

We evaluate goodwill for impairment at least annually and whenever facts and circumstances indicate that the carrying amount of goodwill may not be recoverable. If fair value is less than carrying value, any excess would be charged to operations as an impairment loss.

The cash generating unit (**CGU**) we use to evaluate goodwill for impairment is our sole reportable segment reflecting our mobile, broadband internet, video and fixed-line telephony business delivered across our fixed-line and mobile networks in the U.K.. When required, considerable management judgment is necessary to estimate the fair value of our sole CGU and underlying non-current and indefinite-lived assets. We typically determine fair value using an income-based approach (discounted cash flows) based on assumptions in our long-range business plans. With respect to our discounted cash flow analysis used in the income-based approach, the timing and amount of future cash flows under these business plans require estimates of, amongst other items, subscriber growth and retention rates, rates charged per product, expected gross margin and Adjusted EBITDA margin and expected property, plant and equipment additions. The development of these cash flows, and the discount rate applied to the cash flows, is subject to inherent uncertainties, and actual results could vary significantly from such estimates. Our determination of the discount rate is based on a weighted average cost of capital (**WACC**) approach, which uses a market participant's cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows.

If, amongst other factors, the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill and, to a lesser extent, other non-current assets. Any such impairment charges could be significant.

Costs Associated with Construction and Installation Activities

We capitalise costs associated with the construction of new fixed-line and mobile transmission and distribution facilities and the installation of new fixed-line services. Installation activities that are capitalised include (i) the initial connection (or drop) from our fixed-line system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as broadband internet, video or fixed-line telephony services. The costs of other customer-facing activities, such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred.

The nature and amount of labour and other costs to be capitalised with respect to construction and installation activities involves significant judgment and estimate. In addition to direct external and internal labour and materials, we also capitalise

other costs directly attributable to our construction and installation activities, including dispatch costs, quality-control costs, vehicle-related costs and certain warehouse-related costs. The capitalisation of these costs is based on time sheets, time studies, standard costs, call tracking systems and other verifiable means that directly link the costs incurred with the applicable capitalisable activity. We continuously monitor the appropriateness of our capitalisation policies and update the policies when necessary to respond to changes in facts and circumstances, such as the development of new products and services and changes in the manner that installations or construction activities are performed.

Fair Value Measurements

IFRS provides guidance with respect to the recurring and non-recurring fair value measurements and for a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Recurring Valuations. We perform recurring fair value measurements with respect to our derivative instruments and our fair value method investments, which are carried at fair value. We use cash flow valuation models to determine the fair values of our interest rate and foreign currency derivative instruments. We use quoted market prices when available and, when not available, we use a combination of an income approach (discounted cash flows) and a market approach (market multiples of similar businesses) to determine the fair value of our fair value method investments. For a detailed discussion of the inputs we use to determine the fair value of our derivative instruments, see note 15. See also note 13 for information concerning our fair value method derivative instruments.

Changes in the fair values of our derivative instruments have had, and we believe will continue to have, a significant and volatile impact on our results of operations. During the period from 1 June 2021 to 31 December 2021, we recognised a net gain of £379.1 million attributable to changes in the fair values of our derivative instruments.

As further described in note 15, actual amounts received or paid upon the settlement of our derivative instruments may differ materially from the recorded fair values at 31 December 2021.

Non-recurring Valuations. Our non-recurring valuations are primarily associated with (i) the application of acquisition accounting and (ii) impairment assessments, both of which require that we make fair value determinations as of the applicable valuation date. Accounting for the Joint Venture formation has also required a non recurring valuation. In making these determinations, we are required to make estimates and assumptions that affect the recorded amounts, including, but not limited to, expected future cash flows, market comparables and discount rates, remaining useful lives of non-current assets, replacement or reproduction costs of property, plant and equipment and the amounts to be recovered in future periods from acquired net operating losses and other deferred tax assets. To assist us in making these fair value determinations, we may engage third-party valuation specialists. Our estimates in this area impact, amongst other items, the amount of depreciation and amortisation, impairment charges and income tax expense or benefit that we report. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain. All of our non-current assets are subject to impairment assessments. For additional information, see note 15. For information regarding our non-current assets, see note 7 to our consolidated financial statements.

Joint Arrangements

We participates in a number of joint arrangements where control of the arrangement is shared with one or more other parties. Judgement is required to classify joint arrangements in a separate legal entity as either a joint operation or as a joint venture. This judgement will depend on management's assessment of the legal form and substance of the arrangement taking into account relevant facts and circumstances such as whether the owners have rights to substantially all the economic outputs and, in substance, settle the liabilities of the entity.

The classification can have a material impact on our consolidated financial statements. We account for an interest in a joint operation by recognising the assets and liabilities and the related revenue, expenses and share of commitments in proportion to our contribution to and participation in the joint operation.

Our investment and share of results of joint ventures are accounted for under the equity method where the share of results of joint ventures are shown within single line items in the consolidated statements of financial position and consolidated statement of profit or loss, respectively.

We have determined our interests in Cornerstone Telecommunications Infrastructure Limited (**CTIL**), which is principally engaged in maintaining and managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone Limited and Telefonica UK Limited (a subsidiary of VMED O2), to be classified as a joint operation. As a result, the assets, liabilities, related revenue, expenses and share of commitments have been recognised in proportion to VMED O2's contribution to and participation in the joint operation within our consolidated financial statements.

We have determined our interests in Tesco Mobile Limited (**Tesco Mobile)** to be classified as a joint venture. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in VMED O2's share of net assets of the Joint Venture since the acquisition date. The statement of comprehensive income reflects VMED O2's share of the results of operations of the Joint Venture.

Income Tax Accounting

We are required to estimate the amount of tax payable or refundable for the current year and the deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilising tax losses and tax credit carryforwards, using enacted or substantially enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. This process requires our management to make assessments regarding the timing and probability of the ultimate tax impact of such items.

Net deferred tax assets are recognised to the extent that the realisation of them is considered probable. Recognising deferred tax assets requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning strategies. The actual amount of deferred income tax benefits realised in future periods will likely differ from the net deferred tax assets reflected in our 31 December 2021 consolidated statements of financial position due to, amongst other factors, possible future changes in income tax law or interpretations thereof in the jurisdictions in which we operate and differences between estimated and actual future taxable income. Any such factors could have a material effect on our current and deferred tax positions as reported in our consolidated financial statements. A high degree of judgment is required to assess the impact of possible future outcomes on our current and deferred tax positions.

Tax laws in jurisdictions in which we have a presence are subject to varied interpretation, and many tax positions we take are subject to significant uncertainty regarding whether the position will be ultimately sustained after review by the relevant tax authority. We recognise the financial statement effects of a tax position when it is considered probable that the position will be sustained upon examination. The determination of whether the tax position meets the probable threshold requires a facts-based judgment using all information available. Where we have concluded that the probable threshold is not met, the amount of tax benefit recognised in our consolidated financial statements is different than the amount taken or expected to be taken in our tax returns.

Principles of Consolidation

The accompanying consolidated financial statements comprise the financial statements of the Company, its subsidiaries and its share of jointly controlled entities as at 31 December 2021.

Subsidiaries are all entities over which VMED O2 has control. VMED O2 controls an entity if we are exposed to variable returns from our involvement with the entity and we have the ability to affect those returns through our power over the respective entity. Such entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intra-group balances and transactions have been eliminated in preparing the consolidated financial statements. When control over an entity is lost, we derecognise the assets and liabilities of the entity, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the entity is measured at fair value when control is lost.

Joint arrangements are defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities required the unanimous consent of the parties sharing control. For additional information regarding VMED O2's joint arrangements, see the relevant section above within *Critical Accounting Policies and Estimates*.

Cash and Cash Equivalents and Restricted Cash

Cash equivalents consist of money market funds and other investments that are readily convertible into cash and have maturities of three months or less at the time of acquisition. We record money market funds at the net asset value as there are no restrictions on our ability, contractual or otherwise, to redeem our investments at the stated net asset value.

Restricted cash consists of cash held in restricted accounts, including cash held in escrow related to our pension plans. All other cash that is restricted to a specific use is classified as current or non-current based on the expected timing of the disbursement.

Our significant non-cash investing and financing activities, if any, would be disclosed in our consolidated statement of owner's equity and in notes 7, 11, 12 and 13.

Trade Receivables

Our trade receivables are initially measured at fair value and subsequently reported at amortised cost, net of an allowance for impairment of trade receivables. The allowance for impairment of trade receivables is estimated based upon our current estimate of lifetime expected credit losses. We use a number of factors in determining the allowance, including, amongst other things, collection trends, prevailing and anticipated economic conditions, and specific customer credit risk. The allowance is maintained until either payment is received or the likelihood of collection is considered to be remote. For additional information regarding our trade receivable and allowance for impairment of trade receivables, see note 8.

Concentration of credit risk with respect to trade receivables is limited due to the large number of residential and business customers. We also manage this risk by disconnecting services to customers whose accounts are delinquent.

Non-Derivative Financial Instruments

Cash and cash equivalents, current trade and other receivables, current related-party receivables and payables, certain other current assets, accounts payable, certain accrued liabilities and value-added taxes (**VAT**) payable represent financial instruments that are initially recognised at fair value and subsequently carried at amortised cost. Due to their relatively short maturities, the carrying values of these financial instruments approximate their respective fair values.

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such loans and other receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

VMED O2 initially recognises loans and receivables on the date they are originated. All other financial assets (including assets designated as fair value through the statement of profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

VMED O2 derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

VMED O2 initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

VMED O2 derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

For information concerning the fair values of our derivatives and debt, see notes 13 and 11, respectively. For information concerning how we arrive at certain of our fair value measurements, see note 15.

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

Derivative Instruments

All derivative instruments, whether designated as hedging relationships or not, are recorded in the statements of financial position at fair value. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognised in earnings. If the derivative instrument is designated as a fair value hedge, the changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognised in earnings. If the derivative instrument is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative instrument are recorded in other comprehensive income or loss and accumulated in other reserves, and subsequently reclassified into our consolidated statement of profit or loss when the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognised in earnings. Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instruments expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. 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. We do not currently apply hedge accounting to our derivative instruments.

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our consolidated statement of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. For derivative contracts that are terminated prior to maturity, the cash paid or received upon termination that relates to future periods is classified as a financing activity in our consolidated statement of cash flows.

For information regarding our derivative instruments, see note 13.

Property, Plant and Equipment

Property, plant and equipment are measured at initial cost less accumulated depreciation and any accumulated impairment losses. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. We capitalise costs associated with the construction of new fixed-line and mobile transmission and distribution facilities and the installation of new fixed-line services. Capitalised construction and installation costs include materials, labour and other directly attributable costs. Installation activities that are capitalised include (i) the initial connection (or drop) from our fixed-line system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as telephone or broadband internet service. The costs of other customer-facing activities, such as reconnecting and disconnecting customer locations and repairing or maintaining drops, are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of each major component of an item of property, plant and equipment. Assets in the course of construction are carried at cost, less any recognised impairment losses if required. Depreciation of these assets commences when the assets are ready for their intended use. Assets held under leases are amortised on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. The useful lives of fixed-line and mobile distribution systems that are undergoing a rebuild are adjusted such that property, plant and equipment to be retired will be fully depreciated by the time the rebuild is completed. Useful lives used to depreciate our property, plant and equipment are reviewed at each reporting date and are adjusted if appropriate. The useful lives assigned to property, plant and equipment are:

- Land and buildings - 2 to 50 years
- Plant and machinery - 2 to 30 years
- Furniture, tools and other items - 3 to 11 years

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will be achieved and when the cost can be measured reliably. All other expenditures for repairs and maintenance are expensed as incurred.

Gains and losses due to disposals are included in impairment, restructuring and other operating items, net.

Intangible Assets

Our primary intangible assets relate to goodwill, customer relationships, radio communications licences, and software costs.

Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortised, but carried at cost less any accumulated impairment losses. Goodwill is recognised as an asset denominated in the currency of the business acquired and is tested for impairment annually, or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable. The potential impairment loss is determined by assessing the recoverable amount of the cash generating unit to which the goodwill is allocated from the acquisition date.

Intangible assets with finite lives are amortised on a straight-line basis over their respective estimated useful lives, and reviewed for indications of impairment at each reporting date. Amortisation methods and useful lives are reviewed at each reporting date and are adjusted if appropriate.

Customer relationships, arising from the Joint Venture formation, have been initially recorded at its fair value and amortised over its estimated useful life of 9 years on a straight line basis, and reviewed for indications of impairment on an ongoing basis as discussed above.

License fees paid to the Government, which permit telecommunications activities to be operated for defined periods, are capitalised at costs less impairment losses and are amortised from the date of commercial launch of the services over the initial 20 year term of the license on a straight line basis.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that are expected to generate economic benefits beyond one year, are recognised as intangible assets. Capitalised internal-use software costs include only external cost of sales of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with the project. Capitalisation of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Internally-generated intangible assets are amortised on a straight-line basis over their useful lives of between 1 to 10 years. Costs associated with maintaining computer software are recognised as an expense as incurred.

Subsequent expenditures related to intangible assets are capitalised only when the expenditures increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated brands, are expensed as incurred.

Leases

On the lease commencement date, we recognise (i) right-of-use (**ROU**) assets representing our right to use an underlying asset and (ii) lease liabilities representing our obligation to make lease payments over the lease term. Lease and non-lease components in a contract are generally accounted for separately.

We initially measure lease liabilities at the present value of the remaining lease payments over the lease term. Options to extend or terminate the lease are included only when it is reasonably certain that we will exercise that option. As most of our leases do not provide enough information to determine an implicit interest rate, we generally use a portfolio level incremental borrowing rate in our present value calculation. We initially measure ROU assets at the value of the lease liability, plus any initial cost of sales and prepaid lease payments, less any lease incentives received.

ROU assets are generally depreciated on a straight-line basis over the useful life of the asset. Interest expense on the lease liability is recorded using the effective interest method.

We use the "low value" asset lease recognition exemption for office equipment and the short-term lease recognition exemption for all leases with a term of 12 months or less. Therefore, lease payments in such cases are recognised as an expense on a straight-line basis over the lease term.

We determine the lease term as the non-cancellable term of the contract, together with any period covered by an extension (or termination) option whose exercise is discretionary, if there is reasonable certainty that it will be exercised (or it will not be exercised). In our assessment, we consider all available information by asset class in the industry and evaluate all relevant factors (technology, regulation, competition, business model) that create an economic incentive to exercise or not a renewal/cancellation option. In particular, we take into consideration the time horizon of the strategic planning of its operations. After the commencement date, we reassess the lease term if there is a significant event or change in circumstances that is within our control that may affect our ability to exercise (or not to exercise) an option to extend or terminate (for example, a change in business strategy).

In some instances, we act as lessor, notably in respect of agreements with Business-to business (**B2B**) customers for use of various network assets. For arrangements which meet the criteria to be recognised as a finance lease-out, we derecognise the asset, recognising revenue arising from the lease component when control of the network asset is transferred to the customer.

Provisions

A provision is recognised when a present legal or constructive obligation as a result of a past event exists, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate reflecting, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

A provision for restructuring is recognised when management has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced to the parties concerned. For additional information on our restructuring provisions, see note 16.

A provision for asset retirement obligations is recognised related to dismantling and removing items at leased property and restoring the site on which these items are located after termination of the lease agreement.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, we recognise an impairment loss on the assets associated with the respective contract.

Employee Benefits - Retirement Benefit Obligations

We operate both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that sets the amount of pension benefit an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which VMED O2 makes contributions on behalf of employees to their individual pension accounts which are held by a third party trustee. The ultimate benefit the employee will receive upon retirement is dependent on the contributions made during the employee's service period as well as the performance of the investments in each employee's individual account. After an employee's service period has ended, VMED O2 has no further obligation to contribute to a defined contribution plan. Only our defined contributions schemes remain open to new participants.

For our defined benefit plans, we recognise each pension or post retirement plan's funded status as either an asset or liability in the consolidated balance sheet. The net pension asset or net pension liability recognised represents the present value of the projected benefit obligation less the fair value of the plan assets at the reporting date. The projected benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the projected benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds. The corporate bonds used for this calculation are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the term of the projected benefit obligation. Expected return on plan assets is determined by applying the return on assets assumptions to the actual fair value of plan assets. Also we measure any unrecognised prior service costs and credits that arise during the period as a component of Accumulated other comprehensive income, net of applicable income tax.

Foreign Currency Translation and Transactions

Transactions denominated in currencies other than our or our subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in our consolidated statements of financial position related to these non-functional currency transactions result in transaction gains and losses that are reflected in our consolidated statement of profit or loss as unrealised (based on the applicable period end exchange rates) or realised upon settlement of the transactions.

Inventories

Inventories comprise mainly handsets and are stated at the lower of cost and net realisable value on a first-in, first-out basis, after provisions for obsolescence. Cost comprises costs of purchase and costs incurred in bringing inventory to its current location and condition.

Revenue Recognition

Service Revenue — Fixed-line Network. We recognise revenue from the provision of broadband internet, video and fixed-line telephony services over our fixed-line network to customers in the period the related services are provided, with the exception of revenue recognised pursuant to certain contracts that contain promotional discounts, as described below. Installation fees related to services provided over our fixed-line network are generally deferred and recognised as revenue over the contractual period, or longer if the upfront fee results in a material renewal right.

Sale of Multiple Products and Services. We sell broadband internet, video and fixed-line telephony and mobile services to our customers in bundled packages at a rate lower than if the customer purchased each product on a standalone basis. Revenue

from bundled packages generally is allocated proportionally to the individual products or services based on the relative standalone selling price for each respective product or service.

Mobile Revenue: Consideration from mobile contracts is allocated to the airtime service component and the handset component based on the relative standalone selling prices of each component. When we offer handsets and airtime services in separate contracts entered into at the same time, we account for these contracts as a single contract with revenue allocated as described above. Revenue is recognised as each performance obligation is complete – on transfer of the asset for the handset, and over the term of service for airtime.

Revenue from pre-pay customers is deferred prior to the commencement of services and recognised as the services are rendered or usage rights expire. Some of our mobile handset contracts that permit the customer to take control of the handset upfront and pay for the handset in instalments over a contractual period may contain a significant financing component. For contracts with terms of one year or more, we recognise any significant financing component as revenue over the contractual period using the effective interest method. We do not record the effect of a significant financing component if the contractual period is less than one year.

Other hardware sales (e.g. smartphones, tablets) follow the same recognition policies as handset sales. Other mobile service revenue includes revenue earned for subscription fees (including those earned from our mobile virtual network operator (**MVNO**) partners), inbound roaming (earned from foreign mobile operators whose customers roam onto our mobile network), outbound roaming (earned from customers roaming outside their domestic coverage area) and interconnect revenue (earned from other telecommunication operators whose customers terminate calls on our network). Subscription fees are recognised over the life of the contract. Roaming and Interconnect revenue is recognised over time on usage by the customer.

B2B Revenue: B2B contracts are comprised of multiple elements, bespoke to the customer. In line with our recognition of revenue for consumer services, where multiple products and services are sold in a B2B environment, we allocate revenue proportionally to each performance obligation within the contract based on the relative standalone selling price, recognising revenue as each performance obligation is satisfied. For hardware sales, this is on transfer of the asset, for connectivity services over the contract period as the service is used by the customer.

We defer upfront installation and certain non-recurring fees received on B2B contracts where we maintain ownership of the installed equipment. The deferred fees are amortised into revenue on a straight line basis, generally over the longer of the term of the arrangement or the expected period of performance.

From time to time, we also enter into agreements with certain B2B customers pursuant to which they are provided the right to use certain elements of our network. If these agreements are determined to contain a lease that meets the criteria to be considered a finance lease-out, we recognise revenue from the lease component when control of the network element is transferred to the customer.

Other Revenue. Other revenue consists of linked sales to the core business discussed above e.g. insurance sales, mobile and accessories. This revenue is recognised on the provision of both goods and services, with revenue recognition on delivery of each separate performance obligation.

Contract Assets. Incremental costs to obtain a contract with a customer, such as incremental sales commissions, are generally recognised as assets and amortised over the applicable period benefited, which generally is the contract life. If, however, the amortisation period is less than one year, we expense such costs in the period incurred.

If we transfer goods or services to a customer but do not have an unconditional right to payment, we record a contract asset. Contract assets typically arise from the uniform recognition of introductory promotional discounts over the contract period and accrued revenue for handset sales.

Contract Liabilities. We record contract liabilities when we receive payment prior to transferring goods or services to a customer. We primarily recognise contract liabilities for (i) installation and other upfront services and (ii) other services that are invoiced prior to when services are provided

Promotional Discounts. For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognised uniformly over the contractual period if the contract has substantive termination penalties. If a contract does not have substantive termination penalties, revenue is recognised only to the extent of the discounted monthly fees charged to the subscriber, if any.

Subscriber Advance Payments. Payments received in advance for the services we provide are deferred and recognised as revenue when the associated services are provided.

Sales and Other VAT. Revenue is recorded net of applicable sales and other VAT.

Contract Life / Timing of recognition. A large portion of our revenue is derived from customers who are not subject to contracts. Revenue from customers out contract is recognised on a month-to-month basis as the service is consumed. Revenue from customers who are subject to contracts is generally recognised over the term of such contracts, which is typically 12 months for our residential service contracts, one to three years for our mobile service contracts and one to five years for our B2B service contracts.

For additional information regarding our revenue recognition and related costs, see note 18. For a disaggregation of our revenue by major category, see note 5.

Share-based Compensation

We recognise all share-based payments from Liberty Global and Telefónica to our employees, including grants of employee share-based incentive awards, based on their grant-date fair values and our estimates of forfeitures. We recognise share-based compensation expense as a charge to operations over the vesting period based on the grant-date fair value of outstanding awards, which may differ from the fair value of such awards on any given date. Where borne by our Company, payroll taxes incurred in connection with the vesting or exercise of share-based incentive awards are recorded as a component of share-based compensation expense in our consolidated statement of profit or loss. The fair value of share-based payments are calculated at the grant date using an adjusted statistical model. We consider historical trends in our calculation of the expected life of options, where applicable. We use the straight-line method to recognise share-based compensation expense for outstanding share awards to our employees that do not contain a performance condition and the accelerated expense attribution method for our outstanding share awards that contain a performance condition and vest on a graded basis.

For additional information regarding our share-based compensation, see note 22.

(4) Recent Pronouncements

New Accounting Standards, Not Yet Effective

At the date of preparation of these consolidated financial statements, the following accounting standards, and amendments to existing standards, had been published, but their application is not mandatory:

Standards and amendments	Title	Mandatory application: annual periods beginning on or after
Amendments to International Accounting Standard (**IAS**) 37	Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements 2018-2020 Cycle		1 January 2022
Amendments to IAS 16	Proceeds Before Intended Use	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IAS 1	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023

Based on the assessment made to date, we do not expect the adoption of these new pronouncements to have a significant impact on our consolidated financial statements.

(5) Segment Reporting

We have one reportable segment that provides mobile, broadband internet, video and fixed-line telephony services in the U.K.

Our revenue by major category for the period from 1 June 2021 to 31 December 2021 is set forth below (in millions):

Mobile (a)	£	3,514.0
Handset		1,051.7
Fixed		2,372.2
Consumer fixed (b)		2,009.1
Subscription (c)		1,961.1
Other		48.0
B2B fixed (d)		363.1
Other (e)		272.0
Total	£	6,158.2

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

(b) Consumer fixed revenue includes amounts received from subscribers, including certain small or home office (**SOHO**) subscribers, for ongoing services and the recognition of deferred installation revenue over the associated contract period. SOHO subscribers pay a premium price to receive expanded service levels that are the same or similar to the mass

marketed products offered to our residential subscribers. Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from sale of equipment.

(c) Consumer fixed subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

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

(e) Other revenue includes revenue from the Smart Metering Implementation Programme (**SMIP**) and provision of information and communication technology services associated connectivity to O2 business customers.

(6) Investments

We hold a 50% interest in Tesco Mobile, an MVNO, which is accounted for using the equity method in our consolidated financial statements. The carrying amount of our equity method investment in Tesco Mobile was £8.9 million and £8.8 million as of 31 December 2021 and 1 June 2021, respectively. We have recognised comprehensive income of £0.1 million during the period from 1 June 2021 to 31 December 2021 related to this investment.

(7) Property, Plant and Equipment and Intangible Assets

Property, Plant and Equipment, Net

Changes in the carrying amounts of our property, plant and equipment, net, during the period from 1 June 2021 to 31 December 2021 are as follows:

	Plant and machinery	Property, plant and equipment in progress	Land and buildings	Furniture, tools and other items	Total
			in millions		
Cost:					
1 June 2021	£ 7,701.4	£ 349.3	£ 982.9	£ 855.7	£ 9,889.3
Additions	551.7	527.5	72.1	39.3	1,190.6
Retirements and disposals	(47.6)	—	(11.9)	(0.4)	(59.9)
Reclassification and other	120.7	(204.8)	9.4	74.7	—
31 December 2021	£ 8,326.2	£ 672.0	£ 1,052.5	£ 969.3	£ 11,020.0
Accumulated depreciation:					
1 June 2021	£ —	£ —	£ —	£ —	£ —
Depreciation	(1,035.5)	—	(122.9)	(145.0)	(1,303.4)
Retirements and disposals	36.2	—	4.7	0.4	41.3
31 December 2021	£ (999.3)	£ —	£ (118.2)	£ (144.6)	£ (1,262.1)
Property, plant and equipment, net:					
31 December 2021	£ 7,326.9	£ 672.0	£ 934.3	£ 824.7	£ 9,757.9

During the period from 1 June 2021 to 31 December 2021, we recorded non-cash increases to our property, plant and equipment related to vendor financing arrangements of £361.2 million, which exclude related VAT of £65.5 million, that was also financed by our vendors under these arrangements.

Intangible Assets

Changes during the period from 1 June 2021 to 31 December 2021 in the carrying amounts of our goodwill and intangible assets subject to amortisation are as follows:

	Goodwill	Customer relationships	Service concession arrangements and licences	Computer software	Intangible assets in progress	Total
			in millions			
Cost:						
1 June 2021	£ 12,847.9	£ 7,713.0	£ 1,461.7	£ 524.5	£ 67.7	£ 22,614.8
Additions	—	—	—	73.2	86.1	159.3
Retirements, disposals and other	—	—	—	(6.5)	—	(6.5)
Assets transferred into service	—	—	—	63.4	(63.4)	—
31 December 2021	£ 12,847.9	£ 7,713.0	£ 1,461.7	£ 654.6	£ 90.4	£ 22,767.6
Accumulated amortisation:						
1 June 2021	£ —	£ —	£ —	£ —	£ —	£ —
Amortisation	—	(499.9)	(78.3)	(160.2)	—	(738.4)
Retirements, disposals and other	—	—	—	7.5	—	7.5
31 December 2021	£ —	£ (499.9)	£ (78.3)	£ (152.7)	£ —	£ (730.9)
Intangible assets, net:						
31 December 2021	£ 12,847.9	£ 7,213.1	£ 1,383.4	£ 501.9	£ 90.4	£ 22,036.7

Goodwill is not amortised but instead tested for impairment at least annually for our sole CGU, as further discussed within our *Summary of Significant Accounting Policies*.

We evaluated our CGU's performance to identify potential goodwill impairments. The strategic plan of the CGU has been used to perform the impairment test at 31 December 2021. The process of preparing the CGU strategic plan takes into consideration the current condition of the market, analysing the macroeconomic, competitive, regulatory and technological climate together with the CGU's position in this context and the growth opportunities given the market projections and the CGU's competitive positioning.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets. Value-in-use is calculated based on approved budget and forecasts reflecting the view of our prospects at 31 December 2021, taking into account certain variables such as the earnings before interest, depreciation and amortisation (**EBITDA**) margin, capital expenditure (**Capex**) ratio for non-current assets, expressed as a percentage of revenue, and discount and perpetuity growth rates.

The EBITDA margin and long-term capex ratio used to calculate the terminal values, are based on the business plan approved for the CGU, as well as external estimates of trends in operating indicators, and the outlook for the outlook for our business and market. The EBITDA margin and long-term capex ratios, as defined above, applied to the cash flow projections as at 31 December 2021 were 41.0% and 16.0%, respectively.

The discount rate used by management, applied to measure free cash flow, is the WACC, determined by the weighted average cost of equity and debt according to the finance structure established for our CGU. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 6.8%.

Cash flow projections to the end of the asset's useful life are estimated using a rate of growth for future years. Terminal value is calculated from the projected cash flows in the period, using the perpetuity growth rate consensus estimates amongst analysts for the business based on the maturity of the industry depending on technology and the degree of development. Each indicator is compared to the forecasted long-term gross domestic product growth and adjusted for any specific characteristics of the business. The perpetuity growth rate applied to the cash flow projections as at 31 December 2021 was 1.0%.

(8) Trade receivables and other assets

The details of our other current and non-current assets are set forth below:

	31 December 2021	1 June 2021
	in millions	
Trade receivables and other current assets:		
Trade receivables	£ 1,207.9	£ 1,115.9
Unbilled revenue	161.5	146.1
Prepayments	260.6	327.8
Contract assets (note 18)	194.3	182.2
Other	335.7	154.6
Total	£ 2,160.0	£ 1,926.6
Trade receivables and other non-current assets:		
Trade receivables	£ 76.2	£ 361.2
Prepayments	10.6	14.7
Contract assets (note 18)	116.3	106.3
Other	160.1	137.9
Total	£ 363.2	£ 620.1

The details of our trade receivables as of 31 December 2021 are set forth below (in millions):

Trade receivables, gross	£ 1,355.7
Allowance for expected credit losses of trade receivables	(71.6)
Trade receivables, net	£ 1,284.1

The allowance for expected credit losses is based upon our assessment of probable loss related to uncollectible trade receivables. We use a number of factors in determining the allowance, including, amongst other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

The detailed ageing of trade receivables and the related allowance for future expected credit losses as of 31 December 2021 are set forth below:

	Trade receivables, gross	Allowance for future expected credit losses
	in millions	
Not past due	£ 1,218.7	£ (31.4)
1 - 90 days	75.2	(10.4)
90 - 360 days	28.4	(14.4)
Over 360 days	33.4	(15.4)
Total trade receivables	£ 1,355.7	£ (71.6)

The following table shows the development of the allowance for future expected credit losses of trade receivables (in millions):

Allowance at 1 June 2021	£ —
Increase in allowance for expected credit losses of trade receivables	(101.9)
Write-off of receivables	30.3
Allowance at 31 December 2021	£ (71.6)

When a trade receivable is determined to be uncollectible, it is written off against the allowance for future expected credit losses. The allowance for future expected credit losses of trade receivables is included in other expenses in our consolidated statement of profit or loss.

(9) Inventory

Our inventory primarily consists of mobile devices and is presented net of provisions for obsolescence. As of 31 December 2021 and 1 June 2021, our inventory was £157.6 million and £137.7 million, respectively. There is no material difference between the carrying value of inventories and their replacement cost.

(10) Trade payables and other liabilities

The details of our other accrued and current liabilities and other non-current liabilities are set forth below:

	31 December 2021	1 June 2021
	in millions	
Trade payables and other current liabilities:		
Trade payables	£ 1,312.7	£ 1,059.0
Contract liabilities (note 18)	592.2	634.9
Accrued expenses	426.4	432.6
Other payables	1,005.5	1,174.3
Total	£ 3,336.8	£ 3,300.8
Trade payable and other non-current liabilities:		
Contract liabilities (note 18)	£ 164.5	£ 171.2
Other	87.0	23.2
Total	£ 251.5	£ 194.4

(11) Debt

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

	31 December 2021		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	31 December 2021	1 June 2021
		in millions		
VMED O2 Credit Facilities (c)	2.84 %	£ 1,378.0	£ 5,954.2	£ 6,781.0
VMED O2 Senior Secured Notes	4.50 %	—	7,964.8	6,798.4
VMED O2 Senior Notes	4.52 %	—	1,104.0	1,080.9
Vendor financing (d)	4.30 %	—	2,104.7	2,288.8
Other	1.00 %	—	206.1	203.8
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest (e)	3.87 %	£ 1,378.0	£ 17,333.8	£ 17,152.9

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

	31 December 2021	1 June 2021
	in millions	
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest	£ 17,333.8	£ 17,152.9
Deferred financing costs, discounts and premiums, net	67.0	—
Total carrying amount of third-party debt	17,400.8	17,152.9
Lease obligations (note 12)	927.2	976.0
Total third-party debt and lease obligations	18,328.0	18,128.9
Accrued interest	189.8	148.3
Related-party debt (note 23)	72.2	72.9
Total debt including interest and lease obligations	18,590.0	18,350.1
Current maturities of debt and lease obligations	(2,379.0)	(2,565.5)
Non-current debt and lease obligations	£ 16,211.0	£ 15,784.6

(a) Represents the weighted average interest rate in effect at 31 December 2021 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of deferred financing costs, the weighted average interest rate on our aggregate third-party variable- and fixed-rate indebtedness was 4.58% at 31 December 2021. For information regarding our derivative instruments, see note 13.

(b) The VMED O2 Credit Facilities include the Revolving Facility, a multi-currency revolving facility with maximum borrowing capacity equivalent to £1.378 billion, which was undrawn at 31 December 2021. Unused borrowing capacity represents the maximum availability under the VMED O2 Credit Facilities at 31 December 2021 without regard to covenant compliance calculations or other conditions precedent to borrowing. At 31 December 2021, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the full £1.378 billion equivalent of unused borrowing capacity was available to be borrowed and there were no restrictions on our ability to make loans or distributions from this availability to other VMED O2 subsidiaries and ultimately to VMED O2 UK Limited. Upon completion of the relevant 31 December 2021 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect the full £1.378 billion equivalent of unused borrowing capacity will continue to be available, with no restrictions to loan or distribute. Our above expectations do not consider any actual or potential changes to our borrowing levels or any amounts loaned or distributed subsequent to 31 December 2021, or the impact of additional amounts that may be available to borrow, loan or distribute under certain defined baskets within the VMED O2 Credit Facilities.

(c) Principal amount includes £17.8 million of borrowings pursuant to excess cash facilities under the VMED O2 Credit Facilities. These borrowings are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.

(d) Represents amounts owed to various creditors pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, plant and equipment additions and operating expenses. These arrangements extend our repayment terms beyond a vendor's original due dates (e.g. extension beyond a vendor's customary payment terms) and as such are classified outside of accounts payable as debt on our consolidated statements of financial position. These obligations are generally due within one year and include VAT that was also financed under these arrangements. For

purposes of our consolidated statements of cash flows, operating-related expenses financed by an intermediary are treated as constructive operating cash outflows and constructive financing cash inflows when the intermediary settles the liability with the vendor as there is no actual cash outflow until we pay the financing intermediary. During the seven-month period ended 31 December 2021, the constructive cash outflow included in cash flows from operating activities and the corresponding constructive cash inflow included in cash flows from financing activities related to these operating expenses was £893.1 million. Repayments of vendor financing obligations are included in repayments and repurchases of third-party debt and lease obligations in our consolidated statement of cash flows.

(e) As of 31 December 2021, our debt had an estimated fair value of £17.4 billion. The estimated fair values of our debt instruments are generally determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 15.

General Information

Credit Facilities. We have entered into a senior secured credit facility agreement with certain financial and other institutions and senior credit facility agreements with certain non-consolidated special purpose financing entities (as described under VMED O2 Credit Facilities below) (the "**credit facilities**"). Our credit facilities contain certain covenants, the more notable of which are as follows:

- Our credit facilities contain certain consolidated net leverage ratios, as specified in the relevant credit facility, which are required to be complied with (i) on an incurrence basis and/or (ii) in respect of our senior secured credit facilities, when the associated revolving credit facilities have been drawn beyond a specified percentage of the total available revolving credit commitments on a maintenance basis;

- Subject to certain customary and agreed exceptions, our credit facilities contain certain restrictions which, among other things, restrict the ability of certain of our subsidiaries to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over their assets and (iv) make certain restricted payments to their direct and/or indirect parent companies through dividends, loans or other distributions;

- Our credit facilities require that certain of our subsidiaries (i) guarantee the payment of all sums payable under the relevant credit facility and (ii) in respect of our senior secured credit facilities, grant first-ranking security over substantially all of their assets to secure the payment of all sums payable thereunder;

- In addition to certain mandatory prepayment events, the instructing group of lenders under our senior secured credit facilities, under certain circumstances, may cancel the lenders' commitments thereunder and declare the loan(s) thereunder due and payable after the applicable notice period following the occurrence of a change of control (as specified in the senior secured credit facilities);

- In addition to certain mandatory prepayment events, the individual lender under each of our senior credit facilities, under certain circumstances, may cancel its commitments thereunder and declare the loan(s) thereunder due and payable at a price of 101% after the applicable notice period following the occurrence of a change of control (as specified in the relevant senior credit facility);

- Our credit facilities contain certain customary events of default, the occurrence of which, subject to certain exceptions, materiality qualifications and cure rights, would allow the instructing group of lenders to (i) cancel the total commitments, (ii) declare that all or part of the loans be payable on demand and/or (iii) accelerate all outstanding loans and terminate their commitments thereunder;

- Our credit facilities require that we observe certain affirmative and negative undertakings and covenants, which are subject to certain materiality qualifications and other customary and agreed exceptions;

- In addition to customary default provisions, our senior secured credit facilities include cross-default provisions with respect to the other indebtedness of certain of our subsidiaries, subject to agreed minimum thresholds and other customary and agreed exceptions; and

- Our senior credit facilities provide that any failure to pay principal at its stated maturity (after the expiration of any applicable grace period) of, or any acceleration with respect to, other indebtedness of the borrower or certain subsidiaries over agreed minimum thresholds (as specified under the applicable senior credit facility), is an event of default under the respective senior credit facility.

SPE Notes. From time to time, we create special purpose financing entities (**SPEs**). These SPEs are created for the primary purpose of facilitating the offering of senior secured notes, which we collectively refer to as "**SPE Notes**".

The SPEs use the proceeds from the issuance of the SPE Notes to fund term loan facilities under the senior secured credit facilities, each a "**Funded Facility**" and collectively the "**Funded Facilities**." Each SPE is dependent on payments from the relevant borrowing entity under the applicable Funded Facility in order to service its payment obligations under each respective SPE Note. The SPEs are consolidated by VMED O2. As a result, the amounts outstanding under the Funded Facilities of the SPEs are eliminated in the consolidated financial statements of VMED O2.

Pursuant to the respective indentures for the SPE Notes (**the SPE Indentures**) and the respective accession agreements for the Funded Facilities, the call provisions, maturity dates and applicable interest rates for each Funded Facility are the same as those of the related SPE Notes. Each SPE, as lender under the relevant Funded Facility, is treated the same as the other lenders under the senior secured credit facilities, with benefits, rights and protections similar to those afforded to the other lenders. Through the covenants in the applicable SPE Indentures and the applicable security interests over the relevant SPE's rights under the applicable Funded Facility granted to secure the relevant SPE's obligations under the relevant SPE Notes, the holders of the SPE Notes are provided indirectly with the benefits, rights, protections and covenants granted to the SPE as lender under the applicable Funded Facility. The SPEs are prohibited from incurring any additional indebtedness, subject to certain exceptions under the SPE Indentures.

The SPE Notes are non-callable prior to their respective call date (as specified under the applicable SPE Indenture). If, however, at any time prior to the applicable call date, all or a portion of the loans under the related Funded Facility are voluntarily prepaid (**a SPE Early Redemption Event**), then the SPE will be required to redeem an aggregate principal amount of its respective SPE Notes equal to the aggregate principal amount of the loans prepaid under the relevant Funded Facility. In general, the redemption price payable will equal 100% of the principal amount of the applicable SPE Notes to be redeemed and a "make-whole" premium, which is the present value of all remaining scheduled interest payments to the applicable call date using the discount rate as of the redemption date plus a premium (as specified in the applicable SPE Indenture). Upon the occurrence of a SPE Early Redemption Event on or after the applicable call date, the SPE will redeem an aggregate principal amount of its respective SPE Notes equal to the principal amount prepaid under the related Funded Facility at a redemption price (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the applicable SPE Indenture), if any, to the applicable redemption date.

Senior and Senior Secured Notes. VMED O2 UK Financing II PLC, Virgin Media Finance PLC and Virgin Media Secured Finance PLC (**Virgin Media Secured Finance**), each a wholly-owned subsidiary of VMED O2, have issued certain senior and senior secured notes, respectively. In general, our senior and senior secured notes (i) are senior obligations of the issuer of such notes that rank equally with all of the existing and future senior debt of such issuer and are senior to all existing and future subordinated debt of such issuer, (ii) contain, in most instances, certain guarantees from certain of our subsidiaries (as specified in the applicable indenture) and (iii) with respect to our senior secured notes, are secured by certain pledges or liens over substantially all of the assets of certain of our subsidiaries. In addition, the indentures governing our senior and senior secured notes contain certain covenants, the more notable of which are as follows:

- Our notes provide that any failure to pay principal at its stated maturity (after the expiration of any applicable grace period) of, or any acceleration with respect to, other indebtedness of the issuer or certain subsidiaries over agreed minimum thresholds (as specified under the applicable indenture), is an event of default under the respective notes;

- Subject to certain materiality qualifications and other customary and agreed exceptions, our notes contain (i) certain customary incurrence-based covenants and (ii) certain restrictions that, amongst other things, restrict our ability to (a) incur or guarantee certain financial indebtedness, (b) make certain disposals and acquisitions, (c) create certain security interests over our assets and (d) make certain restricted payments to our direct and/or indirect parent companies through dividends, loans or other distributions;

- If certain of our subsidiaries (as specified in the applicable indenture) sell certain assets, the issuer must, subject to certain materiality qualifications and other customary and agreed exceptions, offer to repurchase the applicable notes at par, or if a change of control (as specified in the applicable indenture) occurs, the issuer must offer to repurchase all of the relevant notes at a redemption price of 101%; and

- Our senior secured notes contain certain early redemption provisions including the ability to, during each 12-month period commencing on the issue date for such notes until the applicable call date (**Call Date**), redeem up to 10% of the original principal amount of the notes at a redemption price equal to 103% of the principal amount of the notes to be redeemed plus accrued and unpaid interest.

VMED O2 Notes

The details of the outstanding notes of VMED O2 as of 31 December 2021 are summarised in the following table:

				Outstanding principal amount		
VMED O2 Notes	**Maturity**	**Interest rate**	**Original issue amount**	**Borrowing currency**	**Pound sterling equivalent**	**Carrying value (a)**
				in millions		
VMED O2 Senior Notes:						
2030 Dollar Senior Notes	15 July 2030	5.000 %	$ 925.0	$ 925.0	£ 683.4	£ 682.2
2030 Euro Senior Notes	15 July 2030	3.750 %	€ 500.0	€ 500.0	420.6	421.2
VMED O2 Senior Secured Notes:						
2027 Sterling Senior Secured Notes	15 April 2027	5.000 %	£ 675.0	£ 675.0	675.0	701.6
2029 4.0% Sterling Senior Secured Notes (b)	31 January 2029	4.000 %	£ 600.0	£ 600.0	600.0	596.2
2029 Dollar Senior Secured Notes	15 May 2029	5.500 %	$ 1,425.0	$ 1,425.0	1,052.8	1,125.2
2029 5.25% Sterling Senior Secured Notes	15 May 2029	5.250 %	£ 340.0	£ 340.0	340.0	359.4
2030 4.25% Sterling Senior Secured Notes	15 January 2030	4.250 %	£ 635.0	£ 635.0	635.0	636.0
2030 Dollar Senior Secured Notes	15 August 2030	4.500 %	$ 915.0	$ 915.0	676.0	677.3
2030 4.125% Sterling Senior Secured Notes	15 August 2030	4.125 %	£ 480.0	£ 480.0	480.0	478.7
2031 Euro Senior Secured Notes (b)	31 January 2031	3.250 %	€ 950.0	€ 950.0	799.2	806.7
2031 4.250% Dollar Senior Secured Notes (b)	31 January 2031	4.250 %	$ 1,350.0	$ 1,350.0	997.4	972.5
2031 4.750% Dollar Senior Secured Notes (b) & (c)	15 July 2031	4.750 %	$ 1,400.0	$ 1,400.0	1,034.4	1,030.8
2031 Sterling Senior Secured Notes (b) & (c)	15 July 2031	4.500 %	£ 675.0	£ 675.0	675.0	671.4
Total					£ 9,068.8	£ 9,159.2

(a) Amounts are net of deferred financing costs, discounts, premiums and accrued interest, including amounts recorded in connection with the acquisition accounting for VMED O2, where applicable.

(b) Respective Senior Secured Notes are SPE Notes that have been issued by VMED O2 Financing I Company.

(c) Respective Senior Secured Notes are VMED O2 Green Bonds (as defined below) that have been issued by VMED O2 Financing I Company. See the *Financing Transactions* below for further details regarding the VMED O2 Green Bonds.

The VMED O2 Notes are non-callable prior to the applicable Call Dates as presented in the below table. At any time prior to the respective Call Date, VMED O2 may redeem some or all of the applicable notes by paying a "make-whole" premium, which is the present value of all remaining scheduled interest payments to the applicable Call Date using the discount rate (as specified in the applicable indenture) as of the redemption date plus 50 basis points.

VMED O2 Notes	Call Date
2030 Dollar Senior Notes	15 July 2025
2030 Euro Senior Notes	15 July 2025
2027 Sterling Senior Secured Notes	15 April 2022
2029 4.0% Sterling Senior Secured Notes	31 January 2024
2029 Dollar Senior Secured Notes	15 May 2024
2029 5.25% Sterling Senior Secured Notes	15 May 2024
2030 4.25% Sterling Senior Secured Notes	15 October 2024
2030 Dollar Senior Secured Notes	15 August 2025
2030 4.125% Sterling Senior Secured Notes	15 August 2025
2031 Euro Senior Secured Notes	31 January 2026
2031 4.250% Dollar Senior Secured Notes	31 January 2026
2031 4.750% Dollar Senior Secured Notes	15 July 2026
2031 Sterling Senior Secured Notes	15 July 2026

VMED O2 may redeem some or all of the VMED O2 Senior Notes and the VMED O2 Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the applicable indenture), if any, to the applicable redemption date, as set forth below:

	Redemption Price					
	2030 Dollar Senior Notes	2030 Euro Senior Notes	2027 Sterling Senior Secured Notes	2029 4.0% Sterling Senior Secured Notes	2029 Dollar Senior Secured Notes	2029 5.25% Sterling Senior Secured Notes
12-month period commencing	15 July	15 July	15 April	31 January	15 May	15 May
2022	N.A.	N.A.	102.500%	N.A.	N.A.	N.A.
2023	N.A.	N.A.	101.250%	N.A.	N.A.	N.A.
2024	N.A.	N.A.	100.625%	102.000%	102.750%	102.625%
2025	102.500%	101.875%	100.000%	101.000%	101.375%	101.313%
2026	101.250%	100.938%	100.000%	100.000%	100.000%	100.000%
2027	100.625%	100.469%	N.A.	100.000%	100.000%	100.000%
2028	100.000%	100.000%	N.A.	100.000%	100.000%	100.000%
2029 and thereafter	100.000%	100.000%	N.A.	N.A.	N.A.	N.A.

	Redemption Price						
	2030 4.25% Sterling Senior Secured Notes	2030 Dollar Senior Secured Notes	2030 4.125% Sterling Senior Secured Notes	2031 Euro Senior Secured Notes	2031 4.250% Dollar Senior Secured Notes	2031 4.750% Dollar Senior Secured Notes	2031 Sterling Senior Secured Notes
12-month period commencing	15 October	15 August	15 August	31 January	31 January	15 July	15 July
2024	102.125%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2025	101.063%	102.250%	102.063%	N.A.	N.A.	N.A.	N.A.
2026	100.531%	101.125%	101.031%	101.625%	102.125%	102.375%	102.250%
2027	100.000%	100.563%	100.516%	100.813%	101.063%	101.188%	101.125%
2028	100.000%	100.000%	100.000%	100.406%	100.530%	100.594%	100.563%
2029 and thereafter	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

VMED O2 Credit Facilities

The VMED O2 Credit Facilities are the senior and senior secured credit facilities of certain subsidiaries of VMED O2. The details of our borrowings under the VMED O2 Credit Facilities as of 31 December 2021 are summarised in the following table:

VMED O2 Credit Facilities	Maturity	Interest rate	Facility amount (in borrowing currency)	Outstanding principal amount	Unused borrowing capacity	Carrying value (a)
				in millions		
Senior Secured Facilities:						
L (b) (f)	15 January 2027	LIBOR +3.25%	£ 400.0	£ 400.0	£ —	£ 396.2
M (b) (f)	15 November 2027	LIBOR +3.25%	£ 500.0	500.0	—	495.2
N (b)	31 January 2028	LIBOR +2.50%	$ 3,300.0	2,456.0	—	2,428.4
O (c)	31 January 2029	EURIBOR +2.50%	€ 750.0	626.3	—	628.0
P (f)	31 January 2026	LIBOR +2.75%	£ 376.0	376.0	—	375.3
Q (b)	31 January 2029	LIBOR +3.25%	$ 1,300.0	967.5	—	961.0
R (c)	31 January 2029	EURIBOR +3.25%	€ 750.0	626.3	—	632.0
S (g)	31 January 2029	4.00%	£ 600.0	600.0	—	596.2
T (g)	31 January 2031	3.25%	€ 950.0	799.2	—	806.7
U (g)	31 January 2031	4.25%	$ 1,350.0	997.4	—	972.5
V (g)	15 July 2031	4.50%	£ 675.0	675.0	—	671.4
W (g)	15 July 2031	4.75%	$ 1,400.0	1,034.4	—	1,030.8
Revolving Facility (d) (f)	31 January 2026	LIBOR +2.75%	£ 1,378.0	—	1,378.0	—
Elimination of Facilities S, T, U. V and W in consolidation (g)				(4,106.0)	—	(4,077.6)
Total Senior Secured Facilities				5,952.1	1,378.0	5,916.1
Senior Facilities:						
Financing Facility III (e)	15 July 2028	4.875%	£ 11.6	11.6	—	9.9
Financing Facility IV (e)	15 July 2028	5.000%	£ 6.2	6.2	—	6.2
Total Senior Facilities				17.8	—	16.1
Total				£ 5,969.9	£ 1,378.0	£ 5,932.2

(a) Amounts are net of deferred financing costs and discounts, where applicable.

(b) Facility L, Facility M, Facility N and Facility Q are each subject to a LIBOR floor of 0.00%.

(c) Facility O and Facility R are each subject to a EURIBOR floor of 0.00%.

(d) The Revolving Facility has a fee on unused commitments of 1.1% per year.

(e) Amounts represent borrowings that are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.

(f) GBP LIBOR publication has ceased as of 31 December 2021. The interest rate on our pound sterling denominated debt going forward will be the Sterling Overnight Index Average (**SONIA**) plus a credit adjustment spread (if any) plus the relevant margin shown above. SONIA plus the applicable credit adjustment spread is subject to a floor of 0.00% for Facility L and Facility M. Through the Fallback Protocol (as defined in below), this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments. For additional information regarding our reference rates, see "*Interest Rate Risk*" in note 14 below.

(g) The amounts outstanding under Facilities S through to W are eliminated in our consolidated financial statements.

Financing Transactions

Below we provide a summary description of certain financing transactions completed during the period from 1 June 2021 to 31 December 2021. In general, our financing transactions may include non-cash borrowings and repayments. During the period from 1 June 2021 to 31 December 2021, we did not have any non-cash borrowings or repayments.

During the third quarter of 2021, we issued $850.0 million (£628.0 million) principal amount of dollar denominated senior secured notes and £675.0 million principal amount of sterling denominated senior secured notes (together, the **VMED O2 Green Bonds**). The VMED O2 Green Bonds were issued at par, mature on 15 July 2031 and bear interest at 4.75% and 4.50% respectively. The net proceeds from the issuance of the VMED O2 Green Bonds were used to (i) partially redeem $210.0 million (£152.3 million) outstanding principal amount of our existing 2026 Dollar Senior Secured Notes and (ii) repay £1,124.0 million of Facility P under the VMED O2 Credit Facilities.

Subsequently, during the third quarter of 2021, we issued an additional $550.0 million (£406.4 million) principal amount of the 2031 4.750% Dollar Senior Secured Notes at a premium of $4.1 million (£3.0 million). The net proceeds from these additional VMED O2 Green Bonds were used to redeem in full the remaining $540.0 million (£392.3 million) outstanding principal amount of our 2026 Dollar Senior Secured Notes.

In connection with these transactions, we recognised a net loss on debt extinguishment of £0.3 million related to the net effect of (i) the payment of £16.7 million of redemption premiums and (ii) the write-off £16.4 million of the unamortised premiums.

The VMED O2 Green Bonds were issued as "Green Bonds" following the requirements of the International Capital Markets Association's Green Bond Principles 2021 (the **Green Bond Principles**). We are obliged to allocate expenditure on eligible green projects against the net proceeds of the VMED O2 Green Bonds, with eligible green projects being defined in the VMED O2 Green Bonds Framework prepared in accordance with the Green Bond Principles. Further, we are obliged to report at least annually on the status of the allocation until the net proceeds are fully allocated.

Additionally, in August 2021, Facility P under the VMED O2 Credit Facilities was increased by an additional £146.0 million, the full amount of which was borrowed and made available for general corporate purposes.

On 16 December 2021, the Revolving Facility was increased, allowing for a maximum borrowing capacity equivalent to £1.378 billion.

Maturities of Debt

The pound sterling equivalents of the maturities of our debt as of 31 December 2021 are presented below:

	Third-party debt (a)	Related-party debt (b)	Total
		in millions	
Year ending 31 December:			
2022	£ 2,005.6	£ —	£ 2,005.6
2023	254.8	—	254.8
2024	36.5	—	36.5
2025	18.9	72.2	91.1
2026	382.3	—	382.3
Thereafter (b)	14,635.7	—	14,635.7
Total debt maturities (a)	17,333.8	72.2	17,406.0
Accrued interest	189.8	—	189.8
Deferred financing costs, discount and premiums, net	67.0	—	67.0
Total debt including interest	£ 17,590.6	£ 72.2	£ 17,662.8
Current portion	£ 2,195.4	£ —	£ 2,195.4
Non-current portion	£ 15,395.2	£ 72.2	£ 15,467.4

(a) Third-party amounts include vendor financing obligations of £2,104.7 million, as set forth below (in millions):

Year ending December 31:	
2022	£ 1,994.2
2023	48.8
2024	36.5
2025	18.9
2026	6.3
Total vendor financing maturities (1)	£ 2,104.7
Current portion	£ 1,994.2
Non-current portion	£ 110.5

(1) Virgin Media Vendor Financing Notes III Designated Activity Company and Virgin Media Vendor Financing Notes IV Designated Activity Company (together the **2020 VM Financing Companies**) have issued an aggregate £1,269.4 million equivalent in notes maturing in July 2028. The net proceeds from these notes are used by the 2020 VM Financing Companies to purchase from various third parties certain vendor financed receivables owed by certain of our subsidiaries. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund excess cash facilities under our senior credit facilities. The 2020 VM Financing Companies can request the excess cash facilities be repaid by certain of our subsidiaries as additional vendor financed receivables become available for purchase.

(b) Amounts include SPE Notes issued by an SPE which, as described above, is consolidated by VMED O2.

(12) Leases

General

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

ROU Assets

A summary of our ROU assets as of 31 December 2021 is set forth below:

	Land and buildings	Plant and machinery	Total
		in millions	
Cost:			
1 June 2021	£ 794.9	£ 175.4	£ 970.3
Additions	48.0	15.9	63.9
Retirements and disposals	(13.4)	(15.9)	(29.3)
31 December 2021	£ 829.5	£ 175.4	£ 1,004.9
Accumulated depreciation:			
1 June 2021	£ —	£ —	£ —
Depreciation	(89.0)	(36.0)	(125.0)
Retirements and disposals	5.3	3.6	8.9
31 December 2021	£ (83.7)	£ (32.4)	£ (116.1)
Right-of use assets, net:			
31 December 2021	£ 745.8	£ 143.0	£ 888.8

(a) Our ROU assets are included in property, plant and equipment, net, in our consolidated statements of financial position. At 31 December 2021, the weighted average remaining lease term was 7.2 years and the weighted average discount rate was 4.5%. During the period from 1 June 2021 to 31 December 2021, we recorded additions to our ROU assets associated with leases of £63.9 million.

Lease Liabilities

Maturities of our lease liabilities as of 31 December 2021 are presented below (in millions). Amounts represent the pound sterling equivalents based on 31 December 2021 exchange rates:

Not later than one year	£ 219.1
Later than one year and not later than five years	534.9
Later than five years	459.1
Total payments	1,213.1
Less: present value discount	(285.9)
Present value of lease payments	£ 927.2
Current portion (a)	£ 183.6
Non-current portion (a)	£ 743.6

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

Lease Expense

A summary of our aggregate lease expense for the period from 1 June 2021 to 31 December 2021 is set forth below (in millions):

Lease expense:		
Depreciation:		
Land and buildings	£	89.0
Plant and machinery		36.0
Total depreciation		125.0
Interest expense		23.8
Total lease expense	£	148.8

Cash Flows from Leases

Our total cash outflows from leases recorded during the period from 1 June 2021 to 31 December 2021 were £117.8 million.

Leases as a Lessor

We have entered into a number of finance lease-out arrangements in respect of agreements with B2B customers for use of various network assets. For these arrangements, we have derecognised the asset, recognising revenue arising from the lease component when control of the network asset is transferred to the customer. During the period, we have recognised a net gain and interest income of £53.7 million and £0.8 million, respectively.

Lease receivables have been presented within other receivables in note 8. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date (in millions):

Not later than one year	£	88.7
Later than one year and not later than five years		39.5
Total undiscounted lease receivable		128.2
Less: unearned finance income		(2.8)
Net investment in leases	£	125.4

(13) Derivative Instruments

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

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

	31 December 2021			1 June 2021		
	Current	Non-current	Total	Current	Non-current	Total
	in millions					
Assets:						
Cross-currency and interest rate derivative contracts (a)	£ 95.1	£ 398.9	£ 494.0	£ 50.8	£ 217.7	£ 268.5
Foreign currency forward and option contracts	0.5	—	0.5	0.1	—	0.1
Foreign currency forward contracts – related party	—	—	—	4.4	56.4	60.8
Total	£ 95.6	£ 398.9	£ 494.5	£ 55.3	£ 274.1	£ 329.4
Liabilities:						
Cross-currency and interest rate derivative contracts (a)	£ 189.1	£ 734.5	£ 923.6	£ 159.6	£ 565.7	£ 725.3
Foreign currency forward and option contracts	2.4	—	2.4	2.0	—	2.0
Foreign currency forward contracts – related-party	—	—	—	24.4	337.6	362.0
Total	£ 191.5	£ 734.5	£ 926.0	£ 186.0	£ 903.3	£ 1,089.3

(a) We consider credit risk relating to our and our counterparties' non-performance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in a net loss of £85.8 million during the period from 1 June 2021 to 31 December 2021. This amount is included in net finance costs in our consolidated statement of profit or loss. For additional information regarding our fair value measurements, see note 15.

The details of our realised and unrealised gains on derivative instruments, net, for the period from 1 June 2021 to 31 December 2021 are as follows (in millions):

Cross-currency and interest rate derivative contracts:	
Third party	£ 80.6
Related party	300.8
Foreign currency forward and option contracts	(2.3)
Total	£ 379.1

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our consolidated statement of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. The following table sets forth the classification of the net cash inflows (outflows) of our derivative instruments for the period from 1 June 2021 to 31 December 2021 (in millions):

Operating activities	£ (21.1)
Financing activities	26.9
Total	£ 5.8

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the

respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At 31 December 2021, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £31.5 million.

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

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

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

Details of our Derivative Instruments

Cross-currency Derivative Contracts

We generally match the denomination of our borrowings with the functional currency of the supporting operations or, when it is more cost effective, we provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2021, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at 31 December 2021:

Notional amount due from counterparty		Notional amount due to counterparty			Weighted average remaining life
	in millions				in years
$	14,624.0	£	11,111.5	(a)	5.4
€	3,100.0	£	2,795.5		7.0
£	1,005.5	$	1,445.0	(b)	3.1
£	394.2	$	500.0		3.5
$	166.6	€	150.0		6.5

(a) Includes certain derivative instruments that are "forward-starting," such that the initial exchange occurs at a date subsequent to 31 December 2021. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

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

Interest Rate Swap Contracts

The following table sets forth the total pound sterling equivalents of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts at 31 December 2021:

Pay fixed rate (a)		Receive fixed rate	
Notional amount	Weighted average remaining life	Notional amount	Weighted average remaining life
in millions	in years	in millions	in years
£ 13,768.7	4.1	£ 3,530.8	3.5

(a) Includes forward-starting derivative instruments.

Interest Rate Swap Options

From time to time, we enter into interest rate swap options (**swaptions**), which give us the right, but not the obligation, to enter into certain interest rate swap contracts at set dates in the future. Such contracts typically have a life of no more than three years. At the transaction date, the strike rate of each of these contracts was above the corresponding market rate. The following table sets forth certain information regarding our swaptions at 31 December 2021:

Notional amount	Underlying swap currency	Weighted average option expiration period (a)	Weighted average strike rate (b)
in millions		in years	
£ 816.5	£	0.1	2.5%

(a) Represents the weighted average period until the date on which we have the option to enter into the interest rate swap contracts. Upon expiration we did not enter into the underlying interest rate swaps.

(b) Represents the weighted average interest rate that we would pay if we exercised our option to enter into the interest rate swap contracts.

Basis Swaps

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimise our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At 31 December 2021, the total pound sterling equivalent of the notional amount due from the counterparty, including forward-starting derivative instruments, was £8,073.2 million and the related weighted average remaining contractual life of our basis swap contracts was 0.5 years.

Interest Rate Caps and Floors

From time to time, we enter into interest rate cap and floor agreements. Purchased interest rate caps lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Purchased interest rate floors protect us from interest rates falling below a certain level, generally to match a floating rate floor on a debt instrument. At 31 December 2021, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1,486.9 million and £9,288.6 million, respectively.

Impact of Derivative Instruments on Borrowing Costs

Excluding forward-starting instruments and swaptions, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was an increase of 73 basis points to our borrowing costs as of 31 December 2021.

GBP LIBOR publication ceased on 31 December 2021. The interest rate on our pound sterling denominated debt going forward will be SONIA plus Credit Adjustment Spread, (subject to a floor of 0.00% for certain facilities), plus the relevant margin. Through the Fallback Protocol (as described in note 14), this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments. For additional information regarding our reference rates, see "*Interest Rate Risk*" in note 14 below.

Foreign Currency Forwards and Options

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of 31 December 2021, the total of the notional amount of our foreign currency forward and option contracts was £289.5 million.

(14) Financial Risk Management

Overview

We have exposure to the following risks that arise from our financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

Our exposure to each of these risks, the policies and procedures that we use to manage these risks and our approach to capital management are discussed below.

Credit Risk

Credit risk is the risk that we would experience financial loss if our customers or the counterparties to our financial instruments and cash investments were to default on their obligations to us.

We manage the credit risks associated with our trade receivables by performing credit verifications, following established dunning procedures and engaging collection agencies. We also manage this risk by disconnecting services to customers whose accounts are delinquent. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers and their dispersion across many different countries. For information regarding the ageing of our trade receivables, see note 8.

We are exposed to the risk that the counterparties to our derivative instruments, cash holdings and undrawn debt facilities will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments and undrawn debt facilities is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under the derivative instruments. Most of our cash currently is invested in either (i) AAA credit rated money market funds, including funds that invest in government obligations, or (ii)

overnight deposits with banks having a minimum credit rating of A by Standard & Poor's or an equivalent rating by Moody's Investor Service. To date, neither the access to nor the value of our cash and cash equivalent balances have been adversely impacted by liquidity problems of financial institutions.

At 31 December 2021, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £31.5 million, (ii) cash and cash equivalent and restricted cash balances of £89.3 million and (iii) aggregate undrawn debt facilities of £1,378.0 million.

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

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

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

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

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

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting our financial obligations. In addition to cash and cash equivalents, our primary sources of liquidity are cash provided by operations and access to the available borrowing capacity of our various debt facilities. For information regarding our borrowing availability, see note 11.

The ongoing cash needs of VMED O2 include corporate general and administrative expenses and fees associated with the JV Service Agreements (as defined in note 23). From time to time, VMED O2 may also require cash in connection with (i) the repayment of outstanding debt and related-party obligations (including the repurchase or exchange of outstanding debt securities in the open market or privately-negotiated transactions), (ii) the funding of dividends or distributions to our immediate parent VMED O2 UK Limited to in turn fund dividends or distributions by VMED O2 UK Limited pursuant to the Shareholders Agreement, (iii) the satisfaction of contingent liabilities or (iv) acquisitions and other investment opportunities.

Our most significant financial obligations relate to our debt obligations, as described in note 11. The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result,

additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments.

Our sources of liquidity at the parent level include (i) our cash and cash equivalents and (ii) subject to the restrictions noted above, proceeds in the form of distributions or loans from our subsidiaries. For information regarding limitations imposed by our subsidiaries' debt instruments, see note 11. It is the intention of the Shareholders that the Joint Venture, and by extension VMED O2, will be self-funding capable of financing its activities on a stand-alone basis without recourse to either Shareholder.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our current sources of liquidity will be sufficient to fund our currently anticipated working capital needs, capital expenditures and other liquidity requirements during the next 12 months, although no assurance can be given that this will be the case. In this regard, it is not possible to predict how political and economic conditions (including with respect to the COVID-19 pandemic), sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. Our ability to access debt financing on favourable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties which could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavourable impact on our cash flows and liquidity.

We use budgeting and cash flow forecasting tools to ensure that we will have sufficient resources to timely meet our liquidity requirements. We also maintain a liquidity reserve to provide for unanticipated cash outflows.

The following table shows the timing of expected cash payments or receipts based on the contractually agreed upon terms for our financial liabilities as of 31 December 2021:

	Payments (receipts) due during:						
	2022	2023	2024	2025	2026	Thereafter	Total
				in millions			
Debt:							
Principal – Third Party	£ 2,005.6	£ 254.8	£ 36.5	£ 18.9	£ 382.3	£ 14,635.7	£ 17,333.8
Principal – Related Party	—	—	—	72.2	—	—	72.2
Interest (a)	739.1	724.2	735.9	735.7	709.6	1,941.3	5,585.8
Leases (a)	219.1	211.2	144.7	97.4	81.6	459.1	1,213.1
Total	£ 2,963.8	£ 1,190.2	£ 917.1	£ 924.2	£ 1,173.5	£ 17,036.1	£ 24,204.9

(a) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of 31 December 2021. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. Amounts presented for leases include both principal and interest.

Market Risk

Interest Rate Risks

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which include fixed-rate and variable-rate borrowings by our subsidiaries. Our primary exposure to variable-rate debt is through our LIBOR-indexed and EURIBOR-indexed VMED O2 Credit Facilities.

In general, we enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt. Accordingly, we have entered into various derivative transactions to manage exposure to increases in interest rates. We use interest rate derivative contracts to exchange, at specified intervals, the difference between fixed and variable interest rates

calculated by reference to an agreed-upon notional principal amount. We also use (i) interest rate cap agreements and swaptions to lock in a maximum interest rate if variable rates rise, but also allow our company to benefit from declines in market rates. Under our current guidelines, we use various interest rate derivative instruments to mitigate interest rate risk, generally for the full term of the underlying variable rate debt. swaption. In this regard, we use judgment to determine the appropriate composition and maturity dates of our portfolios of interest rate derivative instruments, taking into account the relative costs and benefits of different maturity profiles in light of current and expected future market conditions, liquidity issues and other factors. For additional information concerning the impacts of these interest rate derivative instruments, see note 13.

In July 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Additionally, the European Money Markets Institute (the authority that administers EURIBOR) announced that measures would need to be undertaken by the end of 2021 to reform EURIBOR to ensure compliance with the E.U. Benchmarks Regulation. In November 2020, ICE Benchmark Administration (the entity that administers LIBOR) announced its intention to continue publishing USD LIBOR rates until 30 June 2023, with the exception of the one-week and two-month rates which, along with all GBP LIBOR rates, it ceased to publish after 31 December 2021.

While this extension allows additional runway on existing contracts using USD LIBOR rates, companies are still encouraged to transition away from using USD LIBOR as soon as practicable and should not enter into new contracts that use USD LIBOR after 2021. The methodology for EURIBOR has been reformed and EURIBOR has been granted regulatory approval to continue to be used.

In October 2020, the International Swaps and Derivatives Association (the **ISDA**) launched the Fallback Supplement, which, as of 25 January 2021, amended the standard definitions for interest rate derivatives to incorporate fallbacks for derivatives linked to certain key interbank offered rates (**IBORs**). The ISDA also launched the Fallback Protocol, a protocol that enables market participants to incorporate these revisions into their legacy non-cleared derivatives with other counterparties that choose to adhere to the protocol. The fallbacks for a particular currency apply following a permanent cessation of the IBOR in that currency, or in the case of a LIBOR setting, that LIBOR setting becoming permanently unrepresentative, and are adjusted versions of the risk-free rates identified in each currency.

Our credit agreements contain provisions that contemplate alternative calculations of the base rate applicable to our LIBOR indexed and EURIBOR-indexed debt to the extent LIBOR or EURIBOR (as applicable) are not available, which alternative calculations we do not anticipate will be materially different from what would have been calculated under LIBOR or EURIBOR (as applicable). Additionally, no mandatory prepayment or redemption provisions would be triggered under our credit agreements in the event that either the LIBOR rate or the EURIBOR rate is not available. Further, in December 2021, we amended our loan documents such that the reference rate for our sterling denominated loans would be determined based upon SONIA plus a credit adjustment spread once GBP LIBOR was no longer published and, through the Fallback Protocol, this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments.

Publication of GBP LIBOR and the one week and two-months USD LIBOR rates ceased on 31 December 2021 as planned. Currently there is no consensus amongst loan borrowers and investors as to which rates should replace USD LIBOR. It is possible, however, that any new reference rate that applies to our USD LIBOR-indexed debt could be different to any new reference rate that applies to our USD LIBOR-indexed derivative instruments. We anticipate managing this difference and any resulting increased variable-rate exposure through modifications to our debt and/or derivative instruments, however future market conditions may not allow immediate implementation of desired modifications and the company may incur significant associated costs.

The following table shows the pound sterling total amounts of unreformed contacts and those with appropriate fallback language at 1 June 2021 and at 31 December 2021. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	GBP-LIBOR		USD-LIBOR	
	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
	in £ millions			
As at 31 December 2021:				
Financial Liabilities				
Term Loams - GBP Denominated	—	1,266.7	n/a	n/a
Term Loams - USD Denominated	n/a	n/a	3,389.4	—
Vendor financing	—	2,090.2	2.7	—
Interest Rate Derivatives - Receivable (net)	—	6,333.0	5,836.7	—
As at 1 June 2021:				
Financial Liabilities				
Term Loams - GBP Denominated	2,239.4	—	n/a	n/a
Term Loams - USD Denominated	n/a	n/a	3,231.5	—
Vendor financing	2,248.2	—	8.2	—
Interest Rate Derivatives - Receivable (net)	7,457.0	—	5,561.3	—

Weighted Average Variable Interest Rate. At 31 December 2021, the outstanding principal amount of our variable-rate indebtedness aggregated £6.7 billion, and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 2.6%**,** excluding the effects of interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Assuming no change in the amount outstanding, and without giving effect to any interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, a hypothetical 50 basis point (0.50%) increase (decrease) in our weighted average variable interest rate would increase (decrease) our annual consolidated interest expense and cash outflows by £33.5 million. As discussed above and in note 13, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risk with respect to our consolidated debt in situations where our debt is denominated in U.S. dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2021, substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 13.

In addition to the exposure that results from the mismatch of our borrowings and our functional currency, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our functional currency (non-functional currency risk), such as equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) and certain services provided by the Shareholders. Changes in exchange rates with respect to amounts recorded in our consolidated statements of financial position related to these items will result in unrealised (based upon period-end exchange rates) or realised foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our functional currency, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. Generally, we will consider hedging non-functional currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts and the payments or receipts are not otherwise hedged. In this regard, we have entered into foreign currency forward and option contracts to hedge certain of these risks.s For additional information concerning our foreign currency forward and option contracts, see note 13.

Capital Management

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase the Adjusted EBITDA and to achieve adequate returns on our property, plant and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by incurrence-based leverage covenants contained in our various debt instruments. For additional information regarding our debt obligations, see note 11.

(15) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of 31 December 2021 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

In order to manage our interest rate and foreign currency exchange risk, we have entered into various derivative instruments as further described in note 13. The recurring fair value measurements of these instruments are determined using discounted cash flow models. With the exception of the inputs for certain swaptions, most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these instruments. This observable data mostly includes currency rates, interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We use a Monte Carlo based approach to incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own non-performance risk and the non-performance risk of our counterparties. The inputs used for our credit risk valuations, including our and our counterparties' credit spreads, represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect these parameters to have a significant impact on the valuations of these instruments, we have determined that these valuations (other than the valuations of the aforementioned swaptions) fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency and interest rate swaps are quantified and further explained in note 13.

Fair value measurements are also used in connection with non-recurring valuations performed in connection with acquisition accounting, impairment assessments and the accounting for the JV Transaction. These non-recurring valuations primarily include the enterprise value of our Company in connection with the closing of the JV Transaction, intangible assets subject to amortisation, including customer relationships and mobile spectrum licenses, property, plant and equipment and the implied value of goodwill. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our non-recurring valuations, except for third-party debt, as further described below, use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. Upon formation of the Joint Venture, the assets and liabilities of Virgin Media and O2 have been recorded at their fair value, as further described in note 2. The following list sets forth the primary non-recurring valuations performed related to certain of our assets and liabilities upon closing of the JV Transaction:

- *Enterprise value*. The valuation of our Company (our only reporting unit) is based on discounted cash flow and market approach analyses. With the exception of certain inputs of our weighted average cost of capital and discount rate calculations, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The market approach is performed using comparable trading entity enterprise values, EBITDA multiples and transaction multiples from comparable transactions. The discount rate used is the WACC, determined by the average cost of equity and debt according to the finance structure established for our CGU. We used a pre-tax discount rate of 6.9% in connection with the enterprise value of our Company;

- *Customer relationships*. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer relationship, contributory asset charges and other factors. The discount rate used is the WACC, determined by the average cost of equity and debt according to the finance structure established for our CGU. We used a pre-tax discount rate of 6.9% in connection with the valuation of our customer relationships;

- *Mobile spectrum licenses*. The valuation of our mobile spectrum licenses in primarily based upon a market approach, which assumes the prices companies would pay for similar assets in market transactions;

- *Tangible assets.* The valuation of our tangible assets is typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence; and

- *Third-party debt.* The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy).

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

	Category under IFRS 9 (a)	31 December 2021	
		Carrying amount	Fair value
		in millions	
Assets carried at fair value:			
Derivative financial instruments	III	£ 494.5	£ 494.5
Assets carried at cost or amortised cost:			
Trade receivables and unbilled revenue	I	£ 1,369.4	£ 1,369.4
Loans receivable – related-party	I	8,796.3	8,796.3
Restricted cash	I	41.0	41.0
Other current and non-current financial assets	I	728.8	728.8
Cash and cash equivalents	I	48.3	48.3
Total assets carried at cost or amortised cost		£ 10,983.8	£ 10,983.8
Liabilities carried at fair value:			
Derivative financial instruments	III	£ 926.0	£ 926.0
Liabilities carried at cost or amortised cost:			
Debt obligations	I	£ 17,333.8	£ 17,376.1
Loans payable – related party	I	72.2	72.2
Accrued liabilities (note 23)	I	1,226.7	1,226.7
Accounts payable and other liabilities (note 23)	I	1,334.2	1,334.2
Lease obligations	I	927.2	927.2
Total liabilities carried at cost or amortised cost		£ 20,894.1	£ 20,936.4

(a) Category I refers to financial assets and liabilities measured at amortised cost, category II refers to financial assets and liabilities measured at fair value through other comprehensive income or loss and category III refers to financial assets and liabilities measured at fair value through profit or loss.

On 1 June 2021, the date of the JV Transaction, all financial assets and liabilities were stated at their respective fair values as discussed further above.

(16) Provisions

A summary of the changes in our provisions during the period from 1 June 2021 to 31 December 2021 is set forth in the table below:

	Restructuring (a)	Asset retirement obligations (b)	Other	Total
		in millions		
Balance as of 1 June 2021	£ 4.3	£ 179.4	£ 21.7	£ 205.4
Additions to property, plant and equipment	—	2.8	—	2.8
Net charges (credits) to our consolidated statement of profit or loss	41.5	(6.9)	(16.8)	17.8
Cash payments	(23.5)	—	—	(23.5)
Balance as of 31 December 2021	£ 22.3	£ 175.3	£ 4.9	£ 202.5

(a) Restructuring provisions include the full cost of planned business restructuring programmes entered into during the year and as a result of the JV Transaction. All programmes are expected to complete in 2022.

(b) VMED O2 has certain legal obligations relating to the restoration of leased property to its original condition at the end of the lease term. This obligation relates principally to VMED O2's share of obligation for assets held in Cornerstone Telecommunications Infrastructure Limited, and to mast sites. The provision is based on assumptions covering the discount rate, expected lease renewals and the expected cost of restoring the sites. The payment dates of these asset retirement costs are uncertain, but are currently anticipated to be over the next 31 years. The provision recognised represents the best estimate of the expenditure required to settle the present obligation at 31 December 2021. Such cost estimations, expressed at current price levels at the date of the estimate are discounted at 31 December 2021 using rates in the range of 1.12% to 3.05% per annum. The initial discounted cost amount has been capitalised as part of property, plant and equipment and depreciated over the life of the assets.

(17) Defined Benefit Plans

VMED O2 maintains the following defined benefit and defined contribution plans for its employees:

- The defined benefit schemes of the Telefonica UK Pension Plan
- The defined benefit scheme of the Unfunded UK Plan
- The defined benefit scheme of the National Transcommunications Limited Pension Plan (NTL)
- The defined benefit scheme of the NTL 1999 Pension Scheme (NTL 99); and
- The defined contribution schemes of the Telefonica UK Pension Plan & Virgin Media Pension Plan.

As of the 1 June 2021 formation of VMED O2, all of the defined benefit plans are closed to new entrants and further benefit accrual. The defined contribution plan remains open to new entrants and further contributions and the employer contributions are recognised as part of our staffing costs.

A valuation of our defined benefit plans was undertaken as at 31 December 2021 by suitably qualified independent actuaries. Our defined benefit plan assets are currently invested in a diversified range of debt securities, equity securities, hedge funds, insurance contracts and certain other assets, which are aligned to the liability characteristics of the respective plans.

The amounts included in the consolidated statements of financial position as of 31 December 2021 arising from obligations related to our defined benefit plans are as follows:

	Funded	Unfunded
	in millions	
Fair value of plan assets	£ 2,720.1	£ —
Projected benefit obligation	(2,351.1)	(4.5)
Net asset (obligation)	£ 369.0	£ (4.5)

Changes in the present value of the projected benefit obligations associated with our various funded and unfunded defined benefit plans during the period from 1 June 2021 to 31 December 2021 are as follows:

	Funded	Unfunded
	in millions	
1 June 2021	£ (2,264.5)	£ (4.3)
Actuarial loss on financial assumptions	(51.6)	(0.1)
Benefits paid	37.7	—
Actuarial loss on demographic assumptions	(33.7)	—
Interest cost	(24.5)	—
Actuarial loss on expectation adjustments	(14.5)	(0.1)
31 December 2021	£ (2,351.1)	£ (4.5)

All schemes completed their respective triennial valuations in the current period. Accordingly, all census data included within the triennial valuations was reflected within the calculation of the projected benefit obligations disclosed above.

Changes in the fair value of the plan assets associated with our various funded defined benefit plans during the period from 1 June 2021 to 31 December 2021 are as follows:

	Funded
	in millions
1 June 2021	£ 2,481.8
Return on assets (excluding interest income)	131.2
Employer contributions	118.0
Benefits paid	(37.7)
Interest income	28.2
Administration costs	(1.4)
31 December 2021	£ 2,720.1

We expect to contribute £213.5 million to our defined benefit plans during the year ended 31 December 2022, with these payments being inline with the respective agreed schedule of contributions as a result of the latest actuarial valuations.

Our defined benefit plan assets as of 31 December 2021 comprise the following:

	L1		L2	L3	Total (a)
	Listed	Unlisted	Listed	Unlisted	
			in millions		
Cash	£ —	£ 24.0	£ 43.4	£ —	£ 67.4
Derivatives	74.2	—	837.1	—	911.3
Bonds	—	—	531.9	—	531.9
Equity	42.9	—	438.1	—	481.0
Private debt & equity	—	—	—	545.6	545.6
Insurance policies	—	—	—	181.4	181.4
Property	—	—	—	1.5	1.5
Total	£ 117.1	£ 24.0	£ 1,850.5	£ 728.5	£ 2,720.1

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(a) As of 31 December 2021 the Telefonica UK Pension plan had total plan assets of £2,008.7 million, including £19.1 million, £1,444.1 million, and £545.5 million of level 1, 2 and 3 assets, respectively.

The gain (loss) recognised in the consolidated statement of comprehensive loss related to our defined benefit plans as of 31 December 2021 are as follows:

	Funded	Unfunded
	in millions	
Return on plan assets in excess of interest income	£ 131.2	£ —
Actuarial loss on demographic assumptions	(33.7)	—
Actuarial loss on financial assumptions	(51.6)	(0.1)
Actuarial loss on expectation adjustments	(14.5)	(0.1)
Total gain (loss) recognised in other comprehensive income	£ 31.4	£ (0.2)

The main assumptions, shown as a range, as adopted under IAS 19, *Employee Benefits* for our defined benefit plans (funded and unfunded) as of 31 December 2021 are as follows:

	Telefonica UK & Unfunded Pension Plan	NTL	NTL 99
Life expectancy (male currently age 60 / 40) (in years)	87.5 / 89.0	87.5 / 89.0	86.9 / 88.4
Life expectancy (female currently age 60 / 40) (in years)	89.5 / 90.9	89.6 / 91.0	89.1 / 90.6
Discount rate	1.8%	1.8%	1.8%
Inflation assumptions:			
RPI	3.2%	3.3%	3.3%
CPI	2.7%	2.8%	2.8%
Mortality base table	95% / 105% (M/F) S3NA	92% / 98% (M/F) S3PA	98% / 103% (M/F) S3PA
Mortality future improvements	CMI_2020 projections with long term rate of improvement of 1.25% per annum, w2020 of 0%, and an initial addition of; 0.25%, 0.2% and 0.3% respectively for each of the plans		

At 31 December 2021, the weighted average duration of the defined benefit obligation of our legacy O2 and VM funded plans was 22.0 and 16.3 years respectively.

A reduction in the discount rate and/or an increase in the inflation rate will result in an increase in the assessed value of liabilities as a higher value is placed on benefits expected to be paid in the future. A rise in the discount rate and/or an increase in the inflation rate will result in the opposite effect of similar magnitude. There is also uncertainty around the future life expectancy of the U.K. population. The value of current and future pension benefits will depend on how long these pensions are assumed to be in payment.

Any sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. In presenting sensitivity analysis the change in present value of defined benefit obligations has been calculated using the projected unit credit method as at 31 December 2021, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position. The rate of inflation assumption sensitivity factors in the impact of changes to all assumptions relating to inflation including associated pension increase assumption. The following sensitivity analysis table summarises how a reasonably possible change in particular assumptions would, in isolation, result in an increase to the defined benefit obligation as of 31 December 2021 (in millions):

Decrease discount rate by 0.25%	£	(124.7)
Increase inflation rate by 0.25%	£	(102.2)
Increase life expectancy by 1 year	£	(103.5)

As of 31 December 2021, we expect to make the following payments to the defined benefit plans (in millions):

Year	Funded	Unfunded
2022	£ 37.3	£ 0.1
2023	41.4	0.1
2024	45.2	0.1
2025	47.9	0.2
2026	49.4	0.2
Thereafter	2,965.0	6.0

Other pension plans

We also operate defined contribution plans. The assets of these defined contributions arrangements are held separately from those of VMED O2 in independently administered funds. The expense, in the statement of comprehensive loss, relating to the defined contribution plans is equal to the contributions payable with respect to the period presented, which totalled £31.0 million for the period ended 31 December 2021.

(18) <u>Revenue Recognition and Related Costs</u>

Contract Balances

Our contract assets were £310.6 million and £288.5 million as of 31 December 2021 and 1 June 2021, respectively. The non-current and current portions of our contract asset balances are included within other assets, net, and other current assets, respectively, in our consolidated statements of financial position.

Our contract liabilities balances were £756.7 million and £806.1 million as of 31 December 2021 and 1 June 2021, respectively. The non-current portions of our contract liabilities are included within other non-current liabilities in our consolidated statements of financial position.

Contract Costs

Our aggregate assets associated with incremental costs to obtain and fulfil our contracts were £73.5 million at 31 December 2021. The current and non-current portions of our assets related to contract costs are included within other current assets and other assets, net, respectively, in our consolidated statements of financial position. During the period from 1 June 2021 to 31 December 2021, we amortised £61.2 million to operating costs and expenses related to these assets.

(19) Finance Costs and Income

A summary of the finance costs and income that are included in our net finance costs for the period from 1 June 2021 to 31 December 2021 is set forth below (in millions):

Finance costs:		
Interest expense	£	(418.6)
Foreign currency transaction losses, net		(310.5)
Losses on debt extinguishment, net		(0.3)
Total finance costs		(729.4)
Finance income:		
Interest income		170.6
Realised and unrealised gains on derivative instruments, net		379.1
Total finance income		549.7
Net finance costs	£	(179.7)

(20) Income Taxes

VMED O2 files its primary income tax return in the U.K. and our subsidiaries file income tax returns in the U.K. and the U.S. The major components of income tax benefit for the period from 1 June 2021 to 31 December 2021 consist of (in millions):

Current tax benefit:		
Current year	£	17.7
Adjustments for previous years		10.4
Recognition of previously unrecognised tax benefits		19.0
Total current year benefit		47.1
Deferred tax benefit:		
Origination and reversal of temporary differences and tax losses		26.5
Adjustments for previous years		(13.6)
Change in U.K. statutory tax rate		(10.7)
Total deferred tax benefit		2.2
Total income tax benefit	£	49.3

For the period from 1 June 2021 to 31 December 2021, £6.8 million of deferred tax expense was directly recorded to other comprehensive income.

Income tax benefit attributable to our loss before income taxes differs from the amount computed using the U.K. corporate tax rate for the period from 1 June 2021 to 31 December 2021 as a result of the following factors (in millions):

Loss before income taxes	£	(131.3)
Computed "expected" tax benefit (a)	£	24.9
Group relief for no consideration (b)		23.8
Fixed asset differences (c)		15.3
Impact of changes in tax rates on deferred tax assets and liabilities		(10.7)
Adjustment relating to prior years		(3.2)
Expenses not deductible for tax purposes		(2.0)
Foreign taxes		0.6
Other		0.6
Total income tax benefit	£	49.3

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(a) The statutory or "expected" tax rate is the U.K. rate of 19.0%. In March 2021, legislation was introduced to increase the U.K. corporate income tax rate from 19.0% to 25.0% from 1 April 2023. This rate change was substantively enacted on 24 May 2021 and enacted on 10 June 2021 (**Finance Bill 2021**). The effect of the increased tax rate on our deferred tax balances is reflected in our consolidated statement of financial position at 31 December 2021.

(b) Group relief for no consideration relates to group relief claimed from VMED O2 UK Limited.

(c) Fixed asset differences includes the impact of the new U.K. "super-deduction" enacted in Finance Bill 2021, which provides a permanent tax benefit for the cost of qualifying capital expenditures as well as accelerating tax allowances.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	1 June 2021	Recognised in statement of profit or loss	Recognised in other comprehensive income	Net balance at 31 December 2021	Deferred tax assets	Deferred tax liabilities
			in millions			
Property, plant and equipment	£ 1,610.9	£ (61.9)	£ —	£ 1,549.0	£ 1,549.0	£ —
Intangible assets	(1,841.1)	83.6	—	(1,757.5)	—	(1,757.5)
Tax losses	211.0	(0.9)	—	210.1	210.1	—
Pensions	(48.7)	(32.4)	(7.7)	(88.8)	—	(88.8)
Other	138.0	13.8	0.9	152.7	160.2	(7.5)
Deferred tax assets and liabilities	£ 70.1	£ 2.2	£ (6.8)	£ 65.5	£ 1,919.3	£ (1,853.8)
Offset between deferred tax assets and liabilities					(1,846.3)	1,846.3
Net deferred tax assets and liabilities as per consolidated statement of financial position					£ 73.0	£ (7.5)

Where there is right and ability of offset of deferred tax balances, this position is presented net in the consolidated statements of financial position.

The amount of our gross deductible temporary differences and tax loss carry forwards for which no deferred tax asset is recognised as at 31 December 2021 are as follows (in millions):

Capital losses	£ 12,102.8
Tax losses	32.1
Deductible temporary differences	179.7
Total	£ 12,314.6

These deductible temporary differences and tax loss carry forwards are not subject to expiration. The use of the items above is highly restricted and they may only be offset against certain limited types of gains or profits. It is not regarded as probable that such gains or profits will arise.

We have taxable temporary differences on certain investments in subsidiaries. No additional income taxes have been provided for unremitted earnings, or any additional temporary differences associated with investments in subsidiaries, because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. It is not practicable to estimate the amount of unrecognised deferred tax liabilities in respect of these temporary differences.

In the normal course of business, our income tax filings are subject to review by U.K. and U.S. taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in these tax jurisdictions. Such disputes may result in future tax and interest and penalty assessments by these taxing authorities. We have recorded provisions for uncertain tax positions of £63.1 million at 31 December 2021. The ultimate resolution of tax contingencies will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations.

(21) Capital and Reserves

Share Capital

	31 December 2021	1 June 2021
Called up, allotted and fully paid	**Number of authorised shares**	
Ordinary shares of £1 each	3	1

On 16 September 2021, as part of the September 2021 Transactions, VMED O2 UK Limited made a contribution to VMED O2 comprising VMED O2 UK Limited's then ownership interests in (i) Virgin Media and (ii) certain other entities, including the parent of O2, in return for two £1 ordinary shares of VMED O2 issued at a premium of £14,350.0 million each, and the corresponding loss recognised in equity. The net equity balance as a result of the September 2021 Transactions has been shown in APIC. The total value recognised in APIC represents the value required after purchase price accounting as a result of the JV Transaction. For additional information concerning the JV Transaction, see note 2.

Accumulated other comprehensive income

Accumulated other comprehensive income includes the pension reserve and the translation reserve. The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences will be recycled to the statement of profit or loss upon disposal of the foreign operations.

(22) Share-based Compensation

Our share-based compensation expense relates to charges for share-based incentive awards associated with ordinary shares of Liberty Global and Telefónica held by certain employees of our subsidiaries. All the outstanding share-based incentive awards from Liberty Global and Telefónica will vest by the end of 2024. Share-based compensation expense allocated to our Company by Liberty Global and Telefónica is reflected as an increase to consolidated equity, offset by any amounts recharged to us, and is included within other expenses in our consolidated statement of profit or loss.

A summary of our aggregate share-based compensation expense for the period from 1 June 2021 to 31 December 2021, which is included in our other expenses, is set forth below (in millions):

Non-performance incentive awards	£	23.1
Performance-based incentive awards		0.3
Total	£	23.4

(23) Related-party transactions

All related party transactions relate to regular trading activities of the Company and are on an arm's length basis. Our related-party transactions for the period from 1 June 2021 to 31 December 2021 consist of the following (in millions):

Charges included in:		
Revenue	£	148.0
Cost of sales		(0.6)
Other expenses		(182.9)
Share-based compensation expense		(23.4)
Included in operating profit		(58.9)
Interest expense		(1.8)
Interest income		161.2
Realised gains on derivative instruments		300.8
Included in net loss	£	401.3
Property, plant and equipment additions, net	£	0.6

Revenue. Amount primarily consists of our charges to the Tesco Mobile joint venture, and to a lesser extent, insurance and roaming charges to Telefónica.

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

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

Share-based compensation expense. Amount relates to charges for share-based incentive awards held by certain employees of our subsidiaries associated with ordinary shares of Liberty Global and Telefónica. Share-based compensation expense is included in other expenses in our consolidated statement of profit or loss.

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

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

Realised gains on derivative instruments. Amounts represent realised gains on certain related-party derivative instruments that were settled prior to 31 December 2021.

Charges for JV Services - Framework Services Agreements. Pursuant to framework services agreements (collectively, the **JV Service Agreements**) entered into in connection with the closing of the JV Transaction, Liberty Global and Telefónica charge VMED O2 UK Limited fees, which our parent passes through, for certain services provided to us by the respective subsidiaries of the Shareholders (collectively, the **JV Services**). The JV Services are provided to us on a transitional or ongoing basis. Pursuant to the terms of the JV Service Agreements, both the ongoing services and transitional services are provided for specified terms from the 1 June 2021 formation of VMED O2 UK Limited. Ongoing services are predominantly for six-year terms whereas transitional services will be provided for terms up to 24 months, subject to our ability to terminate based on specified notice periods. The JV Services provided by the respective subsidiaries of the Shareholders consist primarily of (i) technology and other services, (ii) capital-related expenditures for assets that we use or otherwise benefit us, (iii) brand name and procurement fees and (iv) certain corporate services. The fees that Liberty Global and Telefónica charge us for the JV Services, as set forth in the table above, include both fixed and usage-based fees.

Property, plant and equipment additions, net. This amount, which is generally cash settled, generally represents licenses for software owned by the Shareholders.

The following table provides details of our related-party balances as of 31 December 2021 (in millions):

Assets:	
Trade receivables (a)	£ 24.0
Other Current receivables (b)	223.1
Non-current receivables (c)	8,796.3
Total related-party assets	£ 9,043.4
Liabilities:	
Lease obligations (d)	£ 104.3
Accounts payable (e)	33.3
Non-current related party debt (f)	72.2
Accrued and other current liabilities (e)	65.8
Total related-party liabilities	£ 275.6

(a) Amount relates primarily to trade receivables arising from our charges to Tesco Mobile.

(b) Amount represents non-interest bearing current receivables from certain Liberty Global and Telefónica subsidiaries.

(c) Amount represents (i) an interest bearing loan receivable from VMED O2 UK Limited (the **VMED O2 UK Limited Receivable**) and (ii) non-interest bearing non-current receivables from certain Liberty Global and Telefónica subsidiaries.

(d) Amount represents lease obligations to certain Liberty Global subsidiaries.

(e) Amount represents non-interest bearing payables, accrued capital expenditures and other accrued liabilities related to transactions with VMED O2 UK Limited and certain Liberty Global and Telefónica subsidiaries that are periodically cash settled.

(f) Amount represents an interest bearing loan due to VMED O2 UK Limited. The loan payable is set to mature at 18 December 2025 at an interest rate of 4.360%.

Shareholders Agreement

We are a wholly-owned subsidiary of VMED O2 UK Limited. In connection with the JV Transaction, on 1 June 2021, Telefónica and Liberty Global entered into a shareholders agreement (the **Shareholders Agreement)**. Each Shareholder holds 50% of the issued share capital of VMED O2 UK Limited. The Shareholders Agreement contains customary provisions for the governance of a 50:50 joint venture that result in Telefónica and Liberty Global having joint control over decision making with respect to the Joint Venture and each Shareholder has the right to initiate an initial public offering after the third anniversary of the closing.

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

(24) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our Company to make cash payments in future periods with respect to purchases of customer premises and other equipment and services, programming contracts, network and connectivity commitments and other items. The following table sets forth the pound sterling equivalents of such commitments as of 31 December 2021. The commitments included in this table do not reflect any liabilities that are included in our 31 December 2021 consolidated statements of financial position.

	Payments due during:						
	2022	2023	2024	2025	2026	Thereafter	Total
				in millions			
Purchase commitments	£ 917.4	£ 250.3	£ 131.3	£ 99.9	£ 92.8	£ 167.9	£ 1,659.6
JV Services Agreement (a)	219.3	186.9	187.7	190.6	192.0	80.6	1,057.1
Programming commitments	429.1	232.6	150.4	30.1	30.0	7.5	879.7
Network and connectivity commitments	609.8	49.8	17.8	14.0	5.1	8.8	705.3
Other commitments	115.6	39.4	33.5	28.6	26.4	35.5	279.0
Total	£ 2,291.2	£ 759.0	£ 520.7	£ 363.2	£ 346.3	£ 300.3	£ 4,580.7

(a) Amounts represent fixed minimum charges from Liberty Global and Telefónica pursuant to the JV Service Agreements. In addition to the fixed minimum charges, the JV Service Agreements provide for certain JV Services to be charged to us based upon usage of the services received. The fixed minimum charges set forth in the table above exclude fees for the usage based services as these fees will vary from period to period. Accordingly, we expect to incur charges in addition to those set forth in the table above for usage-based services. For additional information regarding fees related to the JV Service Agreements, see note 23.

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

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. Programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with

respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect this will continue to be the case in future periods.

Programming costs primarily relate to agreements to distribute channels to our customers. Our channel distribution agreements are generally multi-year contracts for which we are charged either (i) variable rates based upon the number of subscribers or (ii) on a flat fee basis. Certain of our variable rate contracts require minimum guarantees. Programming costs under such arrangements are recorded in operating costs and expenses in our consolidated statement of profit or loss when the programming is available for viewing.

Network and connectivity commitments include (i) service commitments associated with the network extension programme in the U.K. (the **Network Extension**) and (ii) commitments associated with our MVNO agreements. The amounts reflected in the above table with respect to certain of our MVNO commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly less than the actual amounts we ultimately pay in these periods. The EE agreement came to an end 31 December 2021 and all remaining customers will be migrated to Vodafone in early 2022 before moving them to our O2 mobile network later in 2022. Notice has been given to cancel the MVNO agreement with Vodafone.

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, pursuant to which we expect to make payments in future periods. Under agreements related to the JV Transaction, commitments with regard to certain of VMED O2's defined benefit plans are being funded by one of the Shareholders, Telefonica. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the period from 1 June 2021 to 31 December 2021, see note 13. For information regarding our defined benefit plans, see note 17.

We have established defined contribution benefit plans for our and our subsidiaries' employees. Our aggregate expense for matching contributions under the various defined contribution employee benefit plans was £31.0 million for the period from 1 June 2021 to 31 December 2021.

Guarantees and Other Credit Enhancements

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

Legal and Regulatory Proceedings and Other Contingencies

Disclosure requests. O2 has been addressing a request for disclosure made by governmental authorities related to possible violations of anti-bribery laws and regulations. O2 continues to co-operate with the governmental authorities investigating this matter, which is still ongoing. Whilst it is not possible at this time to predict the full scope or duration of this matter or its eventual outcome, O2 was able to make a reasonable estimate of the outcome, and recorded an accrual during 2019, which is included in our statement of financial position as of 31 December 2021. Additional disclosures of the matters required by IAS 37 have not been provided as permitted by IAS 37 para 92 as the directors believe that further disclosure will be seriously prejudicial to future developments on this matter.

Phones 4u. Legal proceedings have been issued in the High Court against O2 by the Administrators of Phones 4u. O2 has vigorously denied the allegations and filed its defence to this claim in April 2019. No provision has been made in relation to this matter.

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

obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

Effective 1 April 2017, the rateable value of our existing network and other assets in the U.K. increased significantly. This increase affects the amount we pay for network infrastructure charges as the annual amount payable to the U.K. government is calculated by applying a percentage multiplier to the rateable value of assets. This change has significantly increased our network infrastructure charges and we expect further but declining increases to these charges through the first quarter of 2022. We continue to believe that these increases are excessive and retain the right of appeal should more favourable agreements be reached with other operators. The rateable value of our network and other assets in the U.K. remains subject to review by the U.K. government. In June 2021, following a call for input in 2020, the U.K. government launched a consultation on making business rates revaluations more frequent (reducing from a five to a three year cycle). In October 2021, as part of the Autumn 2021 Budget statement, the U.K. Government announced the conclusion of the consultation and set out its plans for business rates, including moving to a three year valuation cycle from 2023. On 30 November 2021, the U.K. government announced a Technical consultation to run to 22 February 2022 on how to give effect to the three year valuation cycle and other of the rating measures set out in the Autumn 2021 Budget statement. That consultation has now completed and the U.K. government is considering the input provided in determining how to move forward.

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

(25) Reconciliation of Movements in Liabilities to Cash Flows from Financing Activities

	Debt and lease obligations	Derivative (assets) / liabilities	Total
		in millions	
1 June 2021	£ 18,201.8	£ 759.9	£ 18,961.7
Cash flows from financing activities:			
Borrowings of debt	2,903.4	—	2,903.4
Repayments of debt and lease obligations	(3,447.7)	—	(3,447.7)
Payment of financing costs and debt premiums	(27.6)	—	(27.6)
Net cash received related to derivative instruments	—	26.9	26.9
Other financing cash flows	(2.4)	—	(2.4)
Total cash flows from financing activities (a)	(574.3)	26.9	(547.4)
Losses on debt extinguishment, net	0.3	—	0.3
Realised and unrealised gains on derivative instruments, net	—	(379.1)	(379.1)
Interest accruals	11.1	—	11.1
Assets acquired under capital related vendor financing arrangements including VAT	426.7	—	426.7
Assets acquired under leases	63.9	—	63.9
Effect of changes in foreign exchange rates	294.0	—	294.0
Other liability-related changes	(23.3)	23.8	0.5
31 December 2021	£ 18,400.2	£ 431.5	£ 18,831.7

(a) Total cash flows from financing activity of £547.4 million outflow differs to Net cash used by financing activities per our consolidated statement of cash flows of £552.2 million for the seven months ended 31 December 2021 as the latter includes £4.8 million of financing cash outflows related to stock-based compensation.

(26) Key Management Personnel Compensation

Key management personnel comprise the board of directors and key senior management of our Company and our main subsidiaries, including employees of both Liberty Global and Telefónica, which are remunerated through our Shareholders. Their compensation for the period from 1 June 2021 to 31 December 2021 is as follows (in millions):

Salaries and short-term benefits (a)	£	5.3
Share-based compensation		2.0
Total	£	7.3

(a) Salaries and short-term benefits include salaries, bonus, directors' fees and certain other cash and non-cash benefits.

(27) Subsequent Events

In January 2022, CTIL entered into a £500.0 million term loan facility. The facility was issued at 99.25%, maturing on 31 December 2026, with interest charged at a rate of SONIA plus 2.00%, subject to a SONIA floor of 0.0%. The net proceeds from the facility were used to redeem the outstanding amount of CTIL's shareholder loans of £460.0 million, which were due to be repaid 8 January 2022. As discussed further in note 3, specifically within principles of consolidation, we consolidate our portion of CTIL as a joint operation, and as such 50% of the outstanding borrowings under the new term loan facility will be consolidated into our statement of financial position.

In January 2022, we performed two draw downs of the Revolving Facility, aggregating £400.0 million, to meet working capital requirements. A total of £250.0 million has been repaid to date, and the remaining £150.0 million is expected to be repaid in March 2022.