**Condensed Consolidated Financial Statements**
**30 September 2021**

**VMED O2 UK HOLDINGS LIMITED**
**Griffin House, 161 Hammersmith Road**
**London, W6 8BS**
**United Kingdom**

**VMED O2 UK HOLDINGS LIMITED**

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**VMED O2 UK HOLDINGS LIMITED**
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**(unaudited)**

| | Note References | 30 September 2021 |
|---|---|---|
| | | in millions |
| **ASSETS** | | |
| Non-current assets: | | |
| Property, plant and equipment, net | 4 and 7 | £ 9,761.4 |
| Goodwill | 4 | 12,877.4 |
| Related-party notes receivable | 5 and 14 | 8,478.0 |
| Intangible assets subject to amortisation, net | 4 | 9,429.6 |
| Other assets, net | 5, 8, 9, 11 and 13 | 1,347.0 |
| Total non-current assets | | 41,893.4 |
| Current assets: | | |
| Other current assets | 11 and 13 | 580.4 |
| Derivative instruments | 8 and 9 | 51.9 |
| Trade receivables and unbilled revenue, net | 5 and 9 | 1,093.9 |
| Prepaid expenses | | 258.0 |
| Related-party receivables | 14 | 315.4 |
| Cash and cash equivalents | | 37.5 |
| Total current assets | | 2,337.1 |
| Total assets | | £ 44,230.5 |
| | | |
| **OWNER'S EQUITY AND LIABILITIES** | | |
| Owner's equity: | | |
| Accumulated deficit | | £ (40.7) |
| Share premium reserve | | 20,559.7 |
| Merger reserve | | 159.4 |
| Other reserves | | 13.6 |
| Total owner's equity | | 20,692.0 |
| Non-current liabilities: | | |
| Non-current debt and lease obligations | 6, 7 and 9 | 16,260.9 |
| Non-current portion of provisions | 10 | 166.0 |
| Other non-current liabilities | 8, 9, 10, 11, 13 and 14 | 761.3 |
| Total non-current liabilities | | 17,188.2 |
| Current liabilities: | | |
| Accounts payable | | 988.4 |
| Other accrued and current liabilities | 8, 13 and 14 | 1,907.5 |
| Provisions | 10 | 60.4 |
| Accrued capital expenditures | | 335.6 |
| Current portion of debt and lease obligations | 6, 7 and 9 | 2,452.9 |
| Contract liabilities | 11 | 605.5 |
| Total current liabilities | | 6,350.3 |
| Total liabilities | | 23,538.5 |
| Total owner's equity and liabilities | | £ 44,230.5 |

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

**VMED O2 UK HOLDINGS LIMITED**
**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME ( LOSS)**
**(unaudited)**

| | Note References | Three months ended 30 September 2021 | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|---|
| | | in millions | |
| Revenue | 3 and 11 | £ 2,594.0 | £ 3,446.7 |
| | | | |
| Cost of sales | 14 | (921.1) | (1,209.3) |
| Personnel expenses | 14 | (176.7) | (239.6) |
| Other expenses | 7 and 14 | (588.5) | (787.6) |
| Depreciation and amortisation | 4 | (852.5) | (1,148.5) |
| | | (2,538.8) | (3,385.0) |
| Operating profit | | 55.2 | 61.7 |
| | | | |
| Finance costs | 12 and 14 | (380.8) | (644.0) |
| Finance income | 12 and 14 | 424.3 | 534.7 |
| Net finance income (costs) | | 43.5 | (109.3) |
| Other income, net | | 0.3 | 0.5 |
| | | 43.8 | (108.8) |
| Profit (loss) before income taxes | | 99.0 | (47.1) |
| Income tax expense | 13 | (15.9) | (8.2) |
| Net profit (loss) | | 83.1 | (55.3) |
| Other comprehensive income — foreign currency translation adjustments, net of taxes | | 5.8 | 13.6 |
| Comprehensive income (loss) | | £ 88.9 | £ (41.7) |

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

**VMED O2 UK HOLDINGS LIMITED**
**CONDENSED CONSOLIDATED STATEMENT OF OWNER'S EQUITY**
**(unaudited)**

| | Note References | Accumulated deficit | Share premium reserve | Merger reserve | Other reserves | Total owner's equity |
|---|---|---|---|---|---|---|
| | | | | in millions | | |
| Balance at 1 June 2021 | | £ — | £ — | £ — | £ — | £ — |
| Net loss | | (55.3) | — | — | — | (55.3) |
| Consideration paid in connection with September 2021 Transactions | 1 | — | 28,700.0 | — | — | 28,700.0 |
| Loss associated with consideration paid in excess of carrying value of net assets received in connection with September 2021 Transactions | 1 | — | (8,140.3) | 159.4 | — | (7,980.9) |
| Other comprehensive income — foreign currency translation adjustments, net of taxes | | — | — | — | 13.6 | 13.6 |
| Share-based compensation | 14 | 14.6 | — | — | — | 14.6 |
| Balance at 30 September 2021 | | £ (40.7) | £ 20,559.7 | £ 159.4 | £ 13.6 | £ 20,692.0 |

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

**VMED O2 UK HOLDINGS LIMITED**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**(unaudited)**

| | Note References | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|
| | | in millions |
| Cash flows from operating activities: | | |
| Net loss | | £ (55.3) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Share-based compensation expense | 14 | 15.1 |
| Depreciation and amortisation | 4 | 1,148.5 |
| Impairment, restructuring and other operating items, net | 7 and 10 | 16.8 |
| Amortisation of deferred financing costs and non-cash interest | 6 | (0.4) |
| Realized and unrealized gains on derivative instruments, net | 8 and 12 | (442.1) |
| Foreign currency transaction losses, net | 12 | 407.2 |
| Loss on debt modification and extinguishment, net | 6 | 0.3 |
| Deferred income tax expense | 13 | 30.1 |
| Interest paid | | (227.6) |
| Income taxes paid | | (5.2) |
| Changes in operating assets and liabilities | | 69.2 |
| Net cash provided by operating activities | | 956.6 |
| Cash flows from investing activities: | | |
| Net advances to related parties | 14 | (515.9) |
| Capital expenditures, net | 4 | (361.4) |
| Net cash used by investing activities | | (877.3) |
| Cash flows from financing activities: | | |
| Repayments of debt and lease obligations | 6 and 7 | (2,804.2) |
| Borrowings of debt | 6 | 2,610.0 |
| Net cash received related to derivative instruments | 8 | 26.9 |
| Payment of financing costs and debt premiums | | (25.0) |
| Other financing activities, net | | (4.2) |
| Net cash used by financing activities | | (196.5) |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | | 0.7 |
| Net decrease in cash and cash equivalents and restricted cash | | (116.5) |
| Cash and cash equivalents and restricted cash: | | |
| Beginning of period | | 195.0 |
| End of period | | £ 78.5 |
| Details of end of period cash and cash equivalents and restricted cash: | | |
| Cash and cash equivalents | | £ 37.5 |
| Restricted cash included in other current assets and other assets, net | | 41.0 |
| Total cash and cash equivalents and restricted cash | | £ 78.5 |

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

## (1) Basis of Presentation

VMED O2 UK Holdings Limited (**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 30 September 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 that was formed on 1 June 2021 between Liberty Global plc (**Liberty Global**) and Telefónica, SA (**Telefónica**) (the **JV Transaction)**. In these condensed consolidated financial statements, Liberty Global and Telefónica are each referred to as a “**Shareholder**”. Prior to the completion of the JV Transaction, (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.

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 (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 carryover basis as of 1 June 2021.

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

Our unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Union (**E.U.-IFRS**). The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with VMED O2 UK Limited’s unaudited condensed consolidated financial statements as of 30 June 2021 and for the period from 1 June 2021 to 30 June 2021, which include a description of the significant accounting policies followed in these financial statements.

These unaudited condensed consolidated financial statements have been prepared on 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 30 September 2021.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through 24 November 2021.

## (2) Recent Pronouncements

***New Accounting Standards, Not Yet Effective***

At the date of preparation of these condensed 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 |
| 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.

## (3) 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 is set forth below:

| | Three months ended 30 September 2021 | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|
| | in millions | |
| Mobile (a) | £ 1,465.6 | £ 1,933.5 |
| Handset | 408.4 | 524.0 |
| Fixed | 1,016.0 | 1,360.4 |
| Consumer fixed (b) | 865.3 | 1,153.4 |
| Subscription (c) | 843.7 | 1,124.9 |
| Other | 21.6 | 28.5 |
| B2B fixed (d) | 150.7 | 207.0 |
| Other | 112.4 | 152.8 |
| Total | £ 2,594.0 | £ 3,446.7 |

(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, among 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, video, 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.

## (4) Non-Current Assets

*Property, Plant and Equipment, Net*

Changes during the period from 1 June 2021 to 30 September 2021 in the carrying amounts of our property, plant and equipment, net, 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 | £ 6,905.3 | £ 1,101.0 | £ 1,013.3 | £ 853.5 | £ 9,873.1 |
| Additions | 291.0 | 264.8 | 20.3 | 35.5 | 611.6 |
| Reclassification and other | 14.7 | (42.2) | 7.6 | 20.9 | 1.0 |
| 30 September 2021 | £ 7,211.0 | £ 1,323.6 | £ 1,041.2 | £ 909.9 | £ 10,485.7 |
| **Accumulated depreciation:** | | | | | |
| 1 June 2021 | £ — | £ — | £ — | £ — | £ — |
| Depreciation | (574.8) | — | (67.2) | (82.7) | (724.7) |
| Other | 0.3 | — | 0.1 | — | 0.4 |
| 30 September 2021 | £ (574.5) | £ — | £ (67.1) | £ (82.7) | £ (724.3) |
| **Property, plant and equipment, net:** | | | | | |
| 30 September 2021 | £ 6,636.5 | £ 1,323.6 | £ 974.1 | £ 827.2 | £ 9,761.4 |

During the period from 1 June 2021 to 30 September 2021, we recorded non-cash increases to our property, plant and equipment related to vendor financing arrangements of £225.8 million, which exclude related value-added-taxes (**VAT**) of £39.4 million, that was also financed by our vendors under these arrangements.

*Intangible Assets and Goodwill*

Changes during the period from 1 June 2021 to 30 September 2021 in the carrying amounts of our goodwill and intangible assets subject to amortisation are as follows (in millions):

| | Goodwill | Customer relationships | Service concession arrangements and licenses | Computer software | Intangible assets in progress | Total |
|---|---|---|---|---|---|---|
| | | | in millions | | | |
| **Cost:** | | | | | | |
| 1 June 2021 | £ 12,877.4 | £ 7,713.0 | £ 1,461.7 | £ 524.5 | £ 67.7 | £ 22,644.3 |
| Additions | — | — | — | 40.7 | 45.8 | 86.5 |
| Assets transferred into service | — | — | — | 39.0 | (39.0) | — |
| 30 September 2021 | £ 12,877.4 | £ 7,713.0 | £ 1,461.7 | £ 604.2 | £ 74.5 | £ 22,730.8 |
| **Accumulated amortisation:** | | | | | | |
| 1 June 2021 | £ — | £ — | £ — | £ — | £ — | £ — |
| Amortisation | — | (285.2) | (44.3) | (94.3) | — | (423.8) |
| 30 September 2021 | £ — | £ (285.2) | £ (44.3) | £ (94.3) | £ — | £ (423.8) |
| **Intangible assets, net:** | | | | | | |
| 30 September 2021 | £ 12,877.4 | £ 7,427.8 | £ 1,417.4 | £ 509.9 | £ 74.5 | £ 22,307.0 |

## (5) Trade Receivables and Unbilled Revenue

The details of our trade receivables and unbilled revenue, net, as of 30 September 2021 are set forth below (in millions):

| | |
|---|---|
| Trade receivables, gross | £ 1,288.3 |
| Allowance for impairment of trade receivables | (42.2) |
| Trade receivables, net | 1,246.1 |
| Unbilled revenue | 158.4 |
| Trade receivables and unbilled revenue, net | £ 1,404.5 |
| Current trade receivables and unbilled revenue, net | £ 1,093.9 |
| Non-current trade receivables and unbilled revenue, net (a) | £ 310.6 |

(a) Non-current trade receivables and unbilled revenue, net are included in other assets, net, in our condensed consolidated statement of financial position.

The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible trade receivable. We use a number of factors in determining the allowance, including, among 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 impairment as of 30 September 2021 are set forth below:

| | Trade receivables, gross | Allowance for impairment |
|---|---|---|
| | in millions | |
| Current portion: | | |
| Days past due: | | |
| Current | £ 844.2 | £ (23.8) |
| 1 - 90 days | 88.6 | (5.2) |
| 90 - 360 days | 11.8 | (6.0) |
| Total current portion | 944.6 | (35.0) |
| Non-current portion | 343.7 | (7.2) |
| Total trade receivables | £ 1,288.3 | £ (42.2) |

The following table shows the development of the allowance for impairment of trade receivables (in millions):

| | |
|---|---|
| Allowance at 1 June 2021 | £ — |
| Write-off of receivable | 12.3 |
| Provisions for impairment of trade receivables | (54.5) |
| Allowance at 30 September 2021 | £ (42.2) |

When a trade receivable is determined to be uncollectible, it is written off against the allowance account. The provision for impairment of trade receivables is included in other expenses in our condensed consolidated statements of profit or loss.

## (6) Debt

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

| | 30 September 2021 | | |
|---|---|---|---|
| | Weighted average interest rate (a) | Unused borrowing capacity (b) | Principal amount |
| | | in millions | |
| VMED O2 Credit Facilities (c) | 2.91 % | £ 1,000.0 | £ 5,993.4 |
| VMED O2 Senior Secured Notes | 4.50 % | — | 8,002.6 |
| VMED O2 Senior Notes | 4.52 % | — | 1,116.9 |
| Vendor financing (d) | 4.17 % | — | 2,285.9 |
| Other | 1.00 % | — | 202.5 |
| Total third-party debt before deferred financing costs, discounts and premiums (e) | 3.88 % | £ 1,000.0 | £ 17,601.3 |

The following table provides a reconciliation of total debt before deferred financing costs, discounts and premiums to total debt and lease obligations as of 30 September 2021 (in millions):

| | | |
|---|---|---|
| Total third-party debt before deferred financing costs, discounts and premiums | £ | 17,601.3 |
| Deferred financing costs, discounts and premiums, net | | 71.4 |
| Total carrying amount of third-party debt | | 17,672.7 |
| Lease obligations (note 7) | | 968.9 |
| Total third-party debt and lease obligations | | 18,641.6 |
| Related-party debt (note 14) | | 72.2 |
| Total debt and lease obligations | | 18,713.8 |
| Current maturities of debt and lease obligations | | (2,452.9) |
| Non-current debt and lease obligations | £ | 16,260.9 |

(a) Represents the weighted average interest rate in effect at 30 September 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 4.60% at 30 September 2021. For information regarding our derivative instruments, see note 8.

(b) The VMED O2 Credit Facilities include the Revolving Facility, a multi-currency revolving facility with maximum borrowing capacity equivalent to £1.0 billion, which was undrawn at 30 September 2021. Unused borrowing capacity represents the maximum availability under the VMED O2 Credit Facilities at 30 September 2021 without regard to covenant compliance calculations or other conditions precedent to borrowing. At 30 September 2021, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the full £1.0 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. Upon completion of the relevant 30 September 2021 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect the full £1.0 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 30 September 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. Additionally, at 30 September 2021, a subsidiary of VMED O2 has signed commitment letters with several banks and financial institutions to increase the Revolving Facility to £1,378.0 million.

(c) Principal amount includes £11.2 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 our company 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 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 on our condensed consolidated statement of financial position. These obligations are generally due within one year and include VAT that was also financed under these arrangements. Repayments of vendor financing obligations are included in repayments and repurchases of debt and lease obligations in our condensed consolidated statement of cash flows.

(e) As of 30 September 2021, our debt had an estimated fair value of £17.8 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 9.

***Financing Transactions***

Below we provide a summary description of certain financing transactions completed during the period from 1 June 2021 to 30 September 2021. In general, our financing transactions may include non-cash borrowings and repayments. During the period from 1 June 2021 to 30 September 2021, we did not have any non-cash borrowings or repayments. Unless otherwise noted, the terms and conditions of new notes and/or credit facilities are largely consistent with those of existing notes and credit facilities with regard to covenants, events of default and change of control provisions, among other items. For information regarding the general terms and conditions of our debt and capitalized terms not defined herein, see note 7 to the condensed consolidated financial statements included in VMED O2 UK Limited's Q2 2021 report.

During the third quarter of 2021, we issued $850.0 million (£616.1 million) principal amount of U.S. dollar denominated senior secured notes and £675.0 million principal amount of sterling denominated senior secured notes (the **Green Bonds**). The Green Bonds were issued at par, mature on July 15, 2031 and bear interest at 4.75% and 4.50% respectively. The net proceeds from the issuance of the 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 (£402.3 million) principal amount of 2031 Dollar Senior Secured Notes at a premium of $4.1 million (£3.0 million). The net proceeds from these additional notes 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 recognized 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 unamortized premiums.

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.

***Maturities of Debt***

The pound sterling equivalents of our debt as of 30 September 2021 are presented below (in millions):

| | Third-party debt (a) | Related-party debt | Total |
|---|---|---|---|
| | | in millions | |
| Year ending 31 December: | | | |
| 2021 (remainder of year) | £ 607.6 | £ 72.2 | £ 679.8 |
| 2022 | 1,594.9 | — | 1,594.9 |
| 2023 | 237.2 | — | 237.2 |
| 2024 | 33.5 | — | 33.5 |
| 2025 | 16.0 | — | 16.0 |
| 2026 | 380.1 | — | 380.1 |
| Thereafter | 14,732.0 | — | 14,732.0 |
| Total debt maturities (a) | 17,601.3 | 72.2 | 17,673.5 |
| Deferred financing costs, discount and premiums, net | 71.4 | — | 71.4 |
| Total debt | £ 17,672.7 | £ 72.2 | £ 17,744.9 |
| Current portion | £ 2,184.8 | £ 72.2 | £ 2,257.0 |
| Non-current portion | £ 15,487.9 | £ — | £ 15,487.9 |

(a) Amounts include vendor financing obligations of £2,285.9 million, as set forth below (in millions):

| | |
|---|---|
| Year ending December 31: | |
| 2021 (remainder of year) | 602.6 |
| 2022 | 1,594.9 |
| 2023 | 34.8 |
| 2024 | 33.5 |
| 2025 | 16.0 |
| 2026 | 4.1 |
| Total vendor financing maturities (1) | £ 2,285.9 |
| Current portion | £ 2,191.5 |
| Non-current portion | £ 94.4 |

(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 £1,271.4 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 our company. To the extent that 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 our company as additional vendor financed receivables become available for purchase.

## (7) 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 30 September 2021 is set forth below (in millions):

| | | |
|---|---|---|
| Land and buildings | £ | 887.2 |
| Plant and machinery | | 161.8 |
| Furniture, tools and other items | £ | 36.9 |
| Total ROU assets (a) | £ | 1,085.9 |

(a) Our ROU assets are included in property, plant and equipment, net, in our condensed consolidated statement of financial position. At 30 September 2021, the weighted average remaining lease term was 7.5 years and the weighted average discount rate was 4.3%. During the period from 1 June 2021 to 30 September 2021, we recorded additions to our ROU assets associated with leases of £27.4 million.

***Lease Liabilities***

Maturities of our lease liabilities as of 30 September 2021 are presented below (in millions). Amounts represent the pound sterling equivalents based on 30 September 2021 exchange rates:

| | | |
|---|---|---|
| Not later than one year | £ | 233.6 |
| Later than one year and not later than five years | | 594.3 |
| Later than five years | | 437.7 |
| Total payments | | 1,265.6 |
| Less: present value discount | | (296.7) |
| Present value of lease payments | £ | 968.9 |
| Current portion (a) | £ | 195.9 |
| Non-current portion (a) | £ | 773.0 |

(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 condensed consolidated statement of financial position.

***Lease Expense***

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

| | Three months ended 30 September 2021 | | Period from 1 June 2021 to 30 September 2021 | |
|---|---|---|---|---|
| | in millions | | | |
| Lease expense: | | | | |
| Depreciation and amortisation: | | | | |
| Land and buildings | £ | 38.1 | £ | 50.5 |
| Plant and machinery | | 11.7 | | 15.9 |
| Furniture, tools and other items | | 3.7 | | 5.0 |
| Total depreciation and amortisation | | 53.5 | | 71.4 |
| Interest expense | | 10.9 | | 14.5 |
| Total lease expense | £ | 64.4 | £ | 85.9 |

***Cash Flows from Leases***

Our total cash outflows from leases recorded during the period from 1 June 2021 to 30 September 2021 were £97.2 million.

## (8) 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 condensed consolidated statements of profit or loss.

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

| | 30 September 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | Total | |
| | in millions | | | | | |
| Assets (a): | | | | | | |
| Cross-currency and interest rate derivative contracts (b) | £ | 51.3 | £ | 439.3 | £ | 490.6 |
| Foreign currency forward and option contracts | | 0.6 | | — | | 0.6 |
| Total | £ | 51.9 | £ | 439.3 | £ | 491.2 |
| Liabilities (a): | | | | | | |
| Cross-currency and interest rate derivative contracts (b) | £ | 173.4 | £ | 559.7 | £ | 733.1 |
| Foreign currency forward and option contracts | | 1.8 | | — | | 1.8 |
| Total | £ | 175.2 | £ | 559.7 | £ | 734.9 |

(a) Our current derivative liabilities, non-current derivative assets and non-current derivative liabilities are included in other accrued and current liabilities, other assets, net, and other non-current liabilities, respectively, in our condensed consolidated statement of financial position.

(b) We consider credit risk relating to our and our counterparties' nonperformance 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 £44.1 million during the period from 1 June 2021 to 30 September 2021. This amount is included in net finance income (costs) in our condensed consolidated statements of profit or loss. For further information regarding our fair value measurements, see note 9.

The details of our realized and unrealized gains on derivative instruments, net, for the period from 1 June 2021 to 30 September 2021 are as follows (in millions):

| | | |
|---|---|---|
| Cross-currency and interest rate derivative contracts: | | |
| Third party | £ | (177.7) |
| Related party | | 621.0 |
| Foreign currency forward and option contracts: | | |
| Third-party | | (1.2) |
| Total | £ | 442.1 |

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our condensed 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. The following table sets forth the classification of the net cash inflows of our derivative instruments for the period from 1 June 2021 to 30 September 2021 (in millions):

| | | |
|---|---|---|
| Operating activities | £ | (134.9) |
| Financing activities | | 26.9 |
| Total | £ | (108.0) |

***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 30 September 2021, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £68.0 million.

## 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 30 September 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 30 September 2021:

| Notional amount due from counterparty | | Notional amount due to counterparty | | | Weighted average remaining life |
|---|---|---|---|---|---|
| | | | | | in years |
| $ | 14,624.0 | £ | 11,111.5 | (a) | 5.7 |
| € | 3,100.0 | £ | 2,795.5 | | 7.2 |
| £ | 1,005.5 | $ | 1,445.0 | (b) | 3.3 |
| $ | 166.6 | € | 150.0 | | 6.8 |
| £ | 394.2 | $ | 500.0 | | 3.8 |

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(a) Includes certain derivative instruments that are "forward-starting," such that the initial exchange occurs at a date subsequent to 30 September 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 30 September 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 |
| £ | 13,365.3 | 4.2 | $ | 3,530.8 | 3.8 |

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(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 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 30 September 2021:

| Notional amount | | Underlying swap currency | Weighted average option expiration period (a) | Weighted average strike rate (b) |
|---|---|---|---|---|
| in millions | | | in years | |
| £ | 816.5 | £ | 0.3 | 4.6% |

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(a) Represents the weighted average period until the date on which we have the option to enter into the interest rate swap contracts.

(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 optimize our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At 30 September 2021, the total pound sterling equivalent of the notional amount due from the counterparty, including forward-starting derivative instruments, was £4,693.2 million, all of which was subject to a 0.0% floor, and the related weighted average remaining contractual life of our basis swap contracts was 0.3 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 30 September 2021, the pound sterling equivalent notional amount of our purchased interest rate caps and floors was £4,693.2 million.

***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 76 basis points to our borrowing costs as of 30 September 2021.

***Foreign Currency Forwards and Options***

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of 30 September 2021, the total of the notional amount of our foreign currency forward and option contracts was £87.4 million.

## (9) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of 30 September 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 8. 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 nonperformance risk and the nonperformance 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. Due to the lack of Level 2 inputs for the swaption valuations, we believe these valuations fall under Level 3 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 8.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with acquisition accounting and impairment assessments. Accounting for the Joint Venture formation has also required a nonrecurring valuation. The nonrecurring valuations associated with acquisition accounting primarily include the valuation of reporting units, customer relationship and other intangible assets and property, plant and equipment. Unless a reporting unit has a readily determinable fair value, the valuation of reporting units is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. 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. Tangible assets are 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. Most of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy.

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

| | Category under IFRS 9 (a) | 30 September 2021 | |
|---|---|---|---|
| | | Carrying amount | Fair value |
| | | in millions | |
| Assets carried at fair value: | | | |
| Derivative financial instruments | III | £ 491.2 | £ 491.2 |
| Assets carried at cost or amortized cost: | | | |
| Trade receivables and unbilled revenue | I | £ 1,093.9 | £ 1,093.9 |
| Loans receivable – related-party | I | 8,679.3 | 8,679.3 |
| Restricted cash | I | 41.0 | 41.0 |
| Other current and non-current financial assets | I | 657.1 | 657.1 |
| Cash and cash equivalents | I | 37.5 | 37.5 |
| Total assets carried at cost or amortized cost | | £ 10,508.8 | £ 10,508.8 |
| Liabilities carried at fair value: | | | |
| Derivative financial instruments | III | £ 734.9 | £ 734.9 |
| Liabilities carried at cost or amortized cost: | | | |
| Debt obligations | I | £ 17,601.3 | £ 17,787.5 |
| Loans payable – related party | I | 72.2 | 72.2 |
| Accrued liabilities (note 14) | I | 1,236.9 | 1,236.9 |
| Accounts payable and other liabilities (note 14) | I | 1,009.4 | 1,009.4 |
| Lease obligations | I | 968.9 | 968.9 |
| Total liabilities carried at cost or amortized cost | | £ 20,888.7 | £ 21,074.9 |

(a) Category I refers to financial assets and liabilities measured at amortized 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.

**(10) Provisions**

A summary of changes of our provisions during the period from 1 June 2021 to 30 September 2021 is set forth in the table below:

| | Restructuring | Asset retirement obligations | Net pension liability | Other | Total |
|---|---|---|---|---|---|
| | | | in millions | | |
| Balance as of 1 June 2021 | £ 4.3 | £ 140.6 | £ 4.3 | £ 56.9 | £ 206.1 |
| Additions charged to property, plant and equipment | — | 1.7 | — | — | 1.7 |
| Net charges (credits) to our condensed consolidated statement of profit or loss | 19.2 | (0.3) | — | 10.1 | 29.0 |
| Cash payments | (9.4) | (1.0) | — | — | (10.4) |
| Balance as of 30 September 2021 | £ 14.1 | £ 141.0 | £ 4.3 | £ 67.0 | £ 226.4 |

**(11) Revenue Recognition and Related Costs**

***Contract Balances***

Our contract assets were £293.3 million as of 30 September 2021. The non-current and current portions of our contract asset balance are included within other assets, net, and other current assets, respectively, in our condensed consolidated statement of financial position.

Our contract liabilities balances were £776.8 million as of 30 September 2021. The non-current portions of our contract liabilities are included within other non-current liabilities in our condensed consolidated statement of financial position.

***Contract Costs***

Our aggregate assets associated with incremental costs to obtain and fulfil our contracts were £46.4 million at 30 September 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 condensed consolidated statement of financial position. During the period from 1 June 2021 to 30 September 2021, we amortized £6.0 million to operating costs and expenses related to these assets.

## (12) 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 30 September 2021 is set forth below (in millions):

| | Three months ended 30 September 2021 | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|
| | in millions | |
| Finance costs: | | |
| Foreign currency transaction losses, net | £ (201.1) | (407.2) |
| Interest expense | (179.4) | £ (236.5) |
| Losses on debt extinguishment, net | (0.3) | (0.3) |
| Total finance costs | (380.8) | (644.0) |
| Finance income: | | |
| Realized and unrealized gains on derivative instruments, net | 356.3 | 442.1 |
| Interest income | 68.0 | 92.6 |
| Total finance income | 424.3 | 534.7 |
| Net finance income (costs) | £ 43.5 | £ (109.3) |

## (13) 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. Income tax expense is calculated in accordance with IAS 34 and is based on management's best estimate of the effective tax rate for the three months ended 30 September 2021 and the period from 1 June 2021 to 30 September 2021, respectively, applied to the loss before income taxes for the period and adjusted for tax on discrete items. The major components of income tax expense for the three months ended 30 September 2021 and the period from 1 June 2021 to 30 September 2021, respectively, included in our condensed consolidated statements of profit or loss consist of the following (in millions):

| | Three months ended 30 September 2021 | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|
| | in millions | |
| Current tax benefit | £ 7.5 | £ 21.9 |
| Deferred tax expense relating to origination and reversal of temporary differences | (23.4) | (30.1) |
| Income tax expense | £ (15.9) | £ (8.2) |

The effective tax rate for the three months ended 30 September 2021 is 16.1%. This results in an income tax expense lower than the expected income tax expense based on the U.K. corporate income tax rate of 19.0% (£18.8 million) primarily due to the net positive impact of (i) group relief claimed for nil consideration and (ii) the new U.K. "super-deduction" enacted in Finance Bill 2021 (as defined below), which provides a permanent tax benefit for the cost of qualifying capital expenditures as well as accelerating tax allowances. The net positive impact of these items is partially offset by the net negative impact of (a) certain income subject to the U.S. federal income tax rate of 21.0% and (b) the U.K. tax rate change in relation to deferred tax movements in the period.

The effective tax rate for the period from 1 June 2021 to 30 September 2021 is (17.4)%. The results in an income tax expense rather than the expected income tax benefit based on the U.K. corporate income tax rate of 19.0% (£8.9 million) primarily due to the net negative impact of (i) certain income subject to the U.S. federal income tax rate of 21.0%, (ii) the U.K.

tax rate change in relation to deferred tax movements in the period and (iii) certain expenses/income that are not deductible/not taxable for U.K. tax purposes. The net negative impact of these items is partially offset by the net positive impact of (a) the new U.K. "super-deduction" enacted in Finance Bill 2021 (as defined below), which provides a permanent tax benefit for the cost of qualifying capital expenditures as well as accelerating tax allowances and (b) group relief claimed for nil consideration.

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 statement of financial position at 30 September 2021.

## (14) Related-party transactions

### *JV Transaction*

Our related-party transactions for the period from 1 June 2021 to 30 September 2021 consist of the following:

| | Three months ended 30 September 2021 | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|
| | in millions | |
| Charges included in: | | |
| Other expenses | £ (86.5) | £ (95.1) |
| Share-based compensation expense | (11.5) | (14.6) |
| Included in operating profit | (98.0) | (109.7) |
| Interest income | 64.5 | 87.3 |
| Realized gains on derivative instruments | 563.6 | 621.0 |
| Interest expense | (0.8) | (1.0) |
| Included in net profit or loss | £ 529.3 | £ 597.6 |
| Property, plant and equipment additions, net | £ — | £ 0.6 |

*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.

*Share-based compensation expense.* Amount relates to charges to our company by Liberty Global and Telefónica 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 condensed consolidated statements of profit or loss.

*Interest income*. Amounts primarily include interest accrued on the VMED O2 UK Limited Receivable (as defined and described below).

*Realized gains on derivative instruments.* Amounts represent realized gains on certain related party derivative instruments that were settled prior to 30 September 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 us fees for certain services provided to us by the respective subsidiaries of the Shareholder (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, the ongoing services will be provided for a period of six years while transitional services will be provided for a period of not less than 12 months after which we will be entitled 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 30 September 2021 (in millions):

| | | |
|---|---|---|
| Assets: | | |
| Current receivables (a) | £ | 351.3 |
| Non-current receivables (b) | | 8,478.0 |
| Total related-party assets | £ | 8,829.3 |
| | | |
| Liabilities: | | |
| Lease obligations (c) | £ | 102.8 |
| Accounts payable (d) | | 56.7 |
| Current related party debt (e) | | 72.2 |
| Accrued and other current liabilities (d) | | 53.3 |
| Total related-party liabilities | £ | 285.0 |

(a) Amount represents non-interest bearing current receivables from certain Liberty Global and Telefónica subsidiaries.

(b) 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.

(c) Amount represents lease obligations from certain Liberty Global subsidiaries.

(d) 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.

(e) Amount represents an interest bearing loan due to VMED O2 UK Limited. The loan payable is set to mature at December 18, 2021 at an interest rate of 3.930%.

***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 our company 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.

## (15) Commitments and Contingencies

### *Commitments*

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to 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 30 September 2021. The commitments included in this table do not reflect any liabilities that are included in our 30 September 2021 condensed consolidated statement of financial position.

| | Payments due during: | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Remainder of 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter | Total |
| | in millions | | | | | | | |
| Purchase commitments | £ 342.3 | £ 703.8 | £ 373.4 | £ 215.2 | £ 108.5 | £ 102.8 | £ 119.7 | £ 1,965.7 |
| Programming commitments | 170.1 | 443.9 | 232.6 | 217.9 | — | — | — | 1,064.5 |
| JV Services Agreement (a) | 41.0 | 159.7 | 161.1 | 162.4 | 165.3 | 166.8 | 70.1 | 926.4 |
| Network and connectivity commitments | 372.9 | 268.9 | 32.8 | 16.9 | 13.7 | 5.0 | 8.9 | 719.1 |
| Other commitments | 36.7 | 40.3 | 39.3 | 33.4 | 28.6 | 26.4 | 35.5 | 240.2 |
| Total | £ 963.0 | £1,616.6 | £ 839.2 | £ 645.8 | £ 316.1 | £ 301.0 | £ 234.2 | £ 4,915.9 |

(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 14.

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 condensed consolidated statements of profit or loss when the programming is available for viewing.

Network and connectivity commitments include (i) service commitments associated with the network extension program in the U.K. (the **Network Extension**) and (ii) commitments associated with our mobile virtual network operator (**MVNO**) agreements. The amounts reflected in the above table with respect to certain of our MVNO commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly less than the actual amounts we ultimately pay in these periods.

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 the Shareholders. 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 30 September 2021, see note 8.

***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, (ii) performance and/or financial guarantees to local municipalities, our customers and vendors and (iii) guarantees as a co-guarantor with certain other Liberty Global subsidiaries related to various financing arrangements. 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, we consider we can make a reliable estimate of the 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 30 September 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.* Video distribution, broadband internet, fixed-line telephony, mobile and content businesses are subject to significant regulation and supervision by various regulatory bodies in the jurisdictions in which we operate, and other U.K. and European Union (**E.U.**) authorities. 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. 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). Conclusions are expected to be published in the fourth quarter of 2021.

In 2019, the U.K. Office of Communications regulatory authority issued new regulatory requirements originating from the European Electronic Communications Code, that, effective from 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, we 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 and we expect additional adverse impacts on our operating results in future periods.

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.

## (16) Reconciliation of Movements in Liabilities to Cash Flows from Financing Activities

| | Debt and lease obligations | Derivative liabilities | Total |
|---|---|---|---|
| | | in millions | |
| 1 June 2021 | £ 18,185.3 | £ 1,365.1 | £ 19,550.4 |
| Cash flows from financing activities: | | | |
| Borrowings of debt | 2,610.0 | — | 2,610.0 |
| Repayments of debt and lease obligations | (2,804.2) | — | (2,804.2) |
| Payment of financing costs and debt premiums | (25.0) | — | (25.0) |
| Net cash received related to derivative instruments | — | 24.5 | 24.5 |
| Total cash flows from financing activities | (219.2) | 24.5 | (194.7) |
| Losses on debt extinguishment, net | 0.3 | — | 0.3 |
| Realised and unrealised gains on derivative instruments, net | — | (657.0) | (657.0) |
| Interest accruals | 9.5 | — | 9.5 |
| Assets acquired under capital related vendor financing arrangements including VAT | 265.2 | — | 265.2 |
| Assets acquired under leases | 27.4 | — | 27.4 |
| Effect of changes in foreign exchange rates | 391.4 | — | 391.4 |
| Other liability-related changes | 53.9 | 2.3 | 56.2 |
| 30 September 2021 | £ 18,713.8 | £ 734.9 | £ 19,448.7 |

## GROUP STRATEGIC REPORT

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements, is intended to assist in providing an understanding of our results of operations and financial condition and is organized 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 three and nine months ended 30 September 2021 and 2020.
- *Liquidity and Capital Resources.* This section provides an analysis of our corporate and subsidiary liquidity, consolidated statement of cash flows and contractual commitments.
- *Critical Accounting Policies, Judgments and Estimates.* This section discusses those material accounting policies that involve uncertainties and require significant judgment in their application.
- *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.

The capitalised terms used below have been defined in the notes to our condensed 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 30 September 2021.

### FORWARD-LOOKING INFORMATION

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly 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 in VMED O2 UK Limited's Q2 2021 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:

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

- the impact of the COVID-19 pandemic;
- 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 EU, 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 broadband internet, cable television, fixed-line telephony, mobile 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 broadband internet, cable television, fixed-line telephony and mobile 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 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 licenses;
- our ability to maintain and further develop our direct and indirect distribution channels;
- our lack of insurance of our key assets;
- 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 programs;
- 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 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 new businesses and, if acquired, to integrate, realize 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 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 EU;
- 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 program in the U.K. (the "Network Extension") and the deployment of our 5G network;
- 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 realize 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 unauthorized 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 (such as COVID-19) and other similar events;
- 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 VM Eligible Green Projects, satisfy "green" reporting requirements or undertakings, and/or impact the suitability of the Notes as a "green" asset to investors;
- adverse impacts on our reputation from our sustainability program 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.

## 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 30 September 2021, our fixed-line network passed 15.5 million homes and served 5.7 million fixed-line customers with 5.5 million customers taking a broadband internet product. In addition, at 30 September 2021, we served 31.9 million retail mobile connections and 9.8 million wholesale mobile connections.

### *Competition and Other External Factors*

We are experiencing competition from incumbent telecommunications operators, direct-to-home satellite 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 30 September 2021, the adverse impact on our company was relatively minimal as demand for our products and services is currently 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 nine months ended 30 September 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 condensed consolidated financial statements, the VMED O2 UK Limited joint venture was formed on 1 June 2021.

Our actual and pro forma results for the three and nine months ended 30 September 2021 and 2020 are set forth below:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | actual | pro forma | pro forma | pro forma |
| | in millions | | | |
| Revenue | £ 2,594.0 | £ 2,576.6 | £ 7,641.7 | £ 7,737.0 |
| Cost of sales | 921.1 | 869.3 | 2,600.4 | 2,595.0 |
| Personnel expenses | 176.7 | 178.5 | 573.1 | 533.1 |
| Other expenses | 570.6 | 598.6 | 1,696.7 | 1,865.0 |
| Costs to capture included in the above | (11.0) | (10.6) | (29.0) | (10.6) |
| Adjusted EBITDA | £ 936.6 | £ 940.8 | £ 2,800.5 | £ 2,754.5 |

*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.

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our networks where appropriate. As we use the term, organic growth excludes foreign currency translation effects and the estimated impact of acquisitions and dispositions.

*Revenue*

*General.* 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 cable and mobile products within a segment during the period.

*Revenue*

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

| | Three months ended 30 September | | Increase (decrease) | | Nine months ended 30 September | | Increase (decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | £ | % | 2021 | 2020 | £ | % |
| | actual | pro forma | | | pro forma | pro forma | | |
| | in millions, except percentages | | | | | | | |
| Mobile (a) | £ 1,465.6 | £ 1,462.7 | £ 2.9 | 0.2 | £ 4,231.6 | £ 4,385.4 | £ (153.8) | (3.5) |
| Handset | 408.4 | 380.1 | 28.3 | 7.4 | 1,101.3 | 1,126.8 | (25.5) | (2.3) |
| Fixed | 1,016.0 | 1,024.8 | (8.8) | (0.9) | 3,074.4 | 3,038.0 | 36.4 | 1.2 |
| Consumer fixed (b) | 865.3 | 858.2 | 7.1 | 0.8 | 2,592.5 | 2,568.7 | 23.8 | 0.9 |
| Subscription (c) | 843.7 | 841.6 | 2.1 | 0.2 | 2,533.8 | 2,526.7 | 7.1 | 0.3 |
| Other | 21.6 | 16.6 | 5.0 | 30.1 | 58.7 | 42.0 | 16.7 | 39.8 |
| B2B fixed (d) | 150.7 | 166.6 | (15.9) | (9.5) | 481.9 | 469.3 | 12.6 | 2.7 |
| Other (e) | 112.4 | 89.1 | 23.3 | 26.2 | 335.7 | 313.6 | 22.1 | 7.0 |
| Total | £ 2,594.0 | £ 2,576.6 | £ 17.4 | 0.7 | £ 7,641.7 | £ 7,737.0 | £ (95.3) | (1.2) |

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(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 increased (decreased) £2.9 million or 0.2% and (£153.8 million) or (3.5%) during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to a decrease in revenue from mobile handset sales due to lower sales volumes and lower service revenue due to the continuing impact of a change in the distribution channel mix during the nine months ended 30 September 2021, partially offset by an increase in revenue from mobile handset sales due to increased upgrade activity following mobile hardware launches from Samsung and Apple during the three months ended 30 September 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, among other items, channel carriage fees, late fees and revenue from sale of equipment. Pro forma consumer fixed revenue increased £7.1 million or 0.8% and £23.8 million or 0.9% during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to higher (i) cancellation revenue and late fees and (ii) subscription revenue.

(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 business broadband internet, video, 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 increased (decreased) (£15.9 million) or (9.5%) and £12.6 million or 2.7% during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to an increase in revenue associated with long-term leases of a portion of our network. For the three months ended 30 September 2021, this increase was more than offset by the effect of installation activity for high-capacity data services combined with decreased revenues for voice and equipment sales.

(e) Other revenue includes revenue from a Smart Metering Implementation Program (**SMIP**) and provision of information and communication technology services and associated connectivity to O2 business customers. Pro forma other revenue increased £23.3 million or 26.2% and £22.1 million or 7.0% during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to growth related to SMIP.

***Cost of sales***

Cost of sales include 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 decreased £51.9 million or 6.0% and £5.3 million or 0.2% on a pro forma basis during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to:

- Decreases in interconnect and access costs of £26.3 million or 13.4% and £82.4 million or 14.3%, respectively;
- Increases in programming and copyright costs of £12.1 million or 6.0% and £38.3 million or 6.3%, respectively, primarily due to lower costs for certain premium and/or basic content within the prior year as a result of credits or rebates aggregating £14.0 million and £36.5 million, respectively, received in connection with the loss of exclusive programing content due to the COVID-19 pandemic;
- Increases in other direct costs of £2.2 million or 3.9% and £26.5 million or 16.2%, respectively; and
- Increases in mobile handset and other device costs of £63.8 million or 15.4% and £22.9 million or 1.8%, respectively, 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 (decreased) £40.0 million or 7.5% and (£1.8 million) or (1.0%) on a pro forma basis during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to:

- An increase (decrease) in incentive compensation costs of £11.8 million or 25.7% and (£1.3 million) or (7.5%), respectively, primarily due to a new incentive compensation program initiative launched in 2021; and

- An increase (decrease) in salary and payroll costs of £21.0 million or 7.5% and (£0.9 million) or (0.6%), respectively, primarily due to higher (i) staffing levels as a result of certain activities that were outsourced in the 2020 period and (ii) capitalisation.

***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 £168.3 million or 9.0% and £28.1 million or 4.7% on a pro forma basis during the three and nine months ended 30 September 2021 as compared to the corresponding periods in 2020, primarily due to:

- Decreases in sales costs of £179.7 million or 33.3% and £66.2 million or 41.0%, respectively;

- Increases in external sales and marketing costs of £44.8 million or 21.3% and £31.7 million or 47.5%, respectively, primarily due to higher costs associated with advertising campaigns; and

- Decreases in bad debt expense of £29.8 million of 59.6% and £3.2 million or 30.6%, respectively.

## Liquidity and Capital Resources

***Sources and Uses of Cash***

*Cash and cash equivalents*

At 30 September 2021, we had cash and cash equivalents of £37.5 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 6 to our condensed consolidated financial statements. It is the intention of the Shareholders that 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 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 6 to our condensed consolidated financial statements.

The liquidity of our operating subsidiaries generally is used to fund (i) property, plant and equipment additions, (ii) debt service requirements and (iii) other liquidity requirements that may arise from time to time, as well as to settle certain obligations that are not included on our 30 September 2021 condensed consolidated statement of financial position. In this regard, we have significant commitments related to (a) programming studio output and sports right contracts, (b) certain operating costs associated with our networks and (c) purchase obligations associated with customer premises equipment and certain service-related commitments. These obligations are expected to represent a significant liquidity requirement of our company, the majority of which is due over the next 12 to 24 months. For additional information regarding our commitments, see note 15 to our condensed consolidated financial statements.

For additional information regarding our consolidated cash flows, see the discussion under *Condensed 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 the Shareholders. No assurance can be given that any external funding would be available to our subsidiaries on favourable terms, or at all.

***Capitalisation***

At 30 September 2021, the outstanding principal amount of our consolidated debt, together with our lease obligations, aggregated £18.7 billion, including £2.5 billion that is classified as current on our condensed consolidated statement of financial position and £15.0 billion that is not due until 2027 or thereafter. For additional information regarding our debt and lease maturities, see notes 6 and 7, respectively, to our condensed consolidated financial statements.

As further discussed under *Quantitative and Qualitative Disclosures about Market Risk* below and in note 8 to our condensed consolidated financial statements, we use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase the Adjusted EBITDA and to achieve adequate returns on our property 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 30 September 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. 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.

All of our consolidated debt and lease obligations at 30 September 2021 have been borrowed or incurred by our subsidiaries. For additional information concerning our debt and lease obligations, see notes 6 and 7, respectively, to our condensed consolidated financial statements.

***Condensed Consolidated Statement of Cash Flows***

*Condensed Consolidated Statement of Cash Flows — Period from 1 June 2021 to 30 September 2021*

*Summary*. Our condensed consolidated statement of cash flows for period from 1 June 2021 to 30 September 2021 are summarized as follows (in millions):

| | | |
|---|---|---|
| Net cash provided by operating activities | £ | 956.6 |
| Net cash used by investing activities | | (877.3) |
| Net cash used by financing activities | | (196.5) |
| Effect of exchange rate changes on cash and cash equivalents | | 0.7 |
| Net decrease in cash and cash equivalents and restricted cash | £ | (116.5) |

*Operating Activities*. The net cash provided by our operating activities for period from 1 June 2021 to 30 September 2021 is primarily attributable to our Adjusted EBITDA and related working capital items.

*Investing Activities*. The net cash used by our investing activities for period from 1 June 2021 to 30 September 2021 is primarily attributable to net advances to related parties and capital expenditures.

The capital expenditures we report in our condensed 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 condensed consolidated statement of cash flows, which exclude amounts financed under capital-related vendor financing or lease arrangements, and (ii) our total property, plant, equipment and intangible asset additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or lease arrangements. For further details regarding our property, plant and equipment and intangible asset additions, see note 4 to our condensed consolidated financial statements. A reconciliation of our consolidated property, plant, equipment and intangible asset additions to our consolidated capital expenditures, as reported in our condensed consolidated statement of cash flows for the period from 1 June 2021 to 30 September 2021 is set forth below (in millions):

| | | |
|---|---|---|
| Property, plant, equipment and intangible asset additions | £ | 698.1 |
| Assets acquired under capital-related vendor financing arrangements | | (225.8) |
| Assets acquired under leases | | (27.4) |
| Changes in current liabilities related to capital expenditures, net | | (83.5) |
| Capital expenditures, net | £ | 361.4 |

Our property, plant, equipment and intangible asset additions during the period from 1 June 2021 to 30 September 2021 includes (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 £194.2 million related to net repayments of debt and lease obligations.

**Condensed Consolidated Financial Information — Senior Secured Notes**

We present the following condensed consolidated financial information as of 30 September 2021 and for the period from 1 June 2021 to 30 September 2021, as required by the applicable underlying indentures.

As of 30 September 2021, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- £675.0 million principal amount of 2027 VM Sterling Senior Secured Notes;
- $1,425.0 million (£1,058.5 million) principal amount of 2029 VM Dollar Senior Secured Notes;
- £340.0 million principal amount of 2029 VM Sterling Senior Secured Notes;
- $915.0 million (£679.7 million) principal amount of 2030 VM Dollar Senior Secured Notes;
- £480.0 million principal amount of 2030 VM 4.125% Sterling Senior Secured Notes; and
- £635.0 million principal amount of 2030 VM 4.25% Sterling Senior Secured Notes.

Our senior secured notes issued by Virgin Media Secured Finance outstanding as at 30 September 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 | 30 September 2021<br>VMED O2 UK Holdings Limited | Virgin Media Secured Finance | Guarantors | Non-Guarantors | Eliminations | Total |
|---|---|---|---|---|---|---|
| | in millions | | | | | |
| **ASSETS** | | | | | | |
| Non-current assets | £ 20,691.8 | £ 3,995.0 | £ 9,727.4 | £ 6,978.1 | £ 501.1 | £ 41,893.4 |
| Other current assets | 0.2 | 17.5 | 2,162.5 | 255.4 | (98.5) | 2,337.1 |
| Total assets | £ 20,692.0 | £ 4,012.5 | £ 11,889.9 | £ 7,233.5 | £ 402.6 | £ 44,230.5 |
| **OWNER'S EQUITY AND LIABILITIES** | | | | | | |
| Owner's equity | £ 20,692.0 | £ 26.8 | £ (3,396.3) | £ 2,374.3 | 995.2 | 20,692.0 |
| Liabilities: | | | | | | |
| Non-current liabilities | — | 3,919.7 | 9,188.6 | 4,574.0 | (494.1) | 17,188.2 |
| Current liabilities | — | 66.0 | 6,097.6 | 285.2 | (98.5) | 6,350.3 |
| Total liabilities | — | 3,985.7 | 15,286.2 | 4,859.2 | (592.6) | 23,538.5 |
| Total owner's equity and liabilities | £ 20,692.0 | £ 4,012.5 | £ 11,889.9 | £ 7,233.5 | £ 402.6 | £ 44,230.5 |

| Statement of profit or loss | Period from 1 June 2021 to 30 September 2021<br>VMED O2 UK Holdings Limited | Virgin Media Secured Finance | Guarantors | Non-Guarantors | Total |
|---|---|---|---|---|---|
| | in millions | | | | |
| Revenue | £ — | £ — | £ 3,218.1 | £ 228.6 | £ 3,446.7 |
| Net loss attributable to Parent | £ 0.1 | £ (1.9) | £ (68.0) | £ 14.5 | £ (55.3) |
| Comprehensive profit (loss) attributable to parent | £ 0.1 | £ (1.9) | £ (54.4) | £ 14.5 | £ (41.7) |

## 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 30 September 2021, £30.6 million or 81.6%, £6.8 million or 18.1% and £0.1 million or 0.3% of our condensed 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 30 September 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 8 to our condensed 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 condensed consolidated statement of financial position related to these items will result in unrealized (based upon period-end exchange rates) or realized 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 8 to our condensed 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 30 September 2021 |
|---|---|
| **Spot rates:** | |
| Euro | 1.1634 |
| U.S. dollar | 1.3462 |

| | Three months ended 30 September 2021 | Period from 1 June 2021 to 30 September 2021 |
|---|---|---|
| **Average rates:** | | |
| Euro | 1.1691 | 1.1679 |
| U.S. dollar | 1.3780 | 1.3841 |

***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 8 to our condensed consolidated financial statements.

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 intends 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. Currently, it is not possible to predict the exact transitional arrangements for calculating applicable reference rates that may be made in the U.K., the U.S., the

Eurozone or elsewhere given that a number of outcomes are possible, including the cessation of the publication of one or more reference rates.

In October 2020, the International Swaps and Derivatives Association (the "ISDA") launched a new supplement (the "Fallback Supplement"), which effective 25 January 2021, has 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. It is possible, however, that any new reference rate that applies to our LIBOR-indexed or EURIBOR-indexed debt could be different than any new reference rate that applies to our LIBOR-indexed or EURIBOR-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 30 September 2021, the outstanding principal amount of our variable-rate indebtedness aggregated £6.9 billion, and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 3.8%**,** 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 £34.5 million. As discussed above and in note 8 to our condensed consolidated financial statements, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

### *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 30 September 2021, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £68.0 million, (ii) cash and cash equivalent and restricted cash balances of £78.5 million and (iii) aggregate undrawn debt facilities of £1,000.0 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 8 and 9 to our condensed consolidated financial statements.

*Cross-currency and Interest Rate Derivative Contracts*

Holding all other factors constant at 30 September 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 £1,017 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 £353 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 £247 million.