



**Condensed Consolidated Financial Statements  
31 March 2022**

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

**VMED O2 UK HOLDINGS LIMITED**  
**TABLE OF CONTENTS**

**Page  
Number**

<b>CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b>	
Condensed Consolidated Statements of Financial Position (unaudited) .....	<a href="#"><u>3</u></a>
Condensed Consolidated Statement of Profit or Loss (unaudited) .....	<a href="#"><u>4</u></a>
Condensed Consolidated Statement of Comprehensive Income (unaudited) .....	<a href="#"><u>5</u></a>
Condensed Consolidated Statement of Owner's Equity (unaudited) .....	<a href="#"><u>6</u></a>
Condensed Consolidated Statement of Cash Flows (unaudited) .....	<a href="#"><u>7</u></a>
Notes to Condensed Consolidated Financial Statements (unaudited) .....	<a href="#"><u>8</u></a>
<b>GROUP STRATEGIC REPORT</b> .....	<a href="#"><u>28</u></a>

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

	Note References	31 March 2022		31 December 2021	
		in millions			
<b>ASSETS</b>					
Non-current assets:					
Property, plant and equipment, net	4 and 6	£	9,623.9	£	9,757.9
Intangible assets, net	4		21,817.7		22,036.7
Investments			9.6		8.9
Deferred tax assets	12		66.7		73.0
Related-party notes receivable	13		8,722.2		8,796.3
Retirement benefit asset			369.4		369.0
Derivative instruments	7 and 8		767.7		398.9
Trade receivables and other non-current assets	10		370.3		363.2
Total non-current assets			<u>41,747.5</u>		<u>41,803.9</u>
Current assets:					
Trade receivables and other current assets	10 and 13		2,197.0		2,160.0
Derivative instruments	7 and 8		57.2		95.6
Inventory			141.6		157.6
Related-party receivables	13		261.6		223.1
Cash and cash equivalents			71.5		48.3
Total current assets			<u>2,728.9</u>		<u>2,684.6</u>
Total assets		£	<u>44,476.4</u>	£	<u>44,488.5</u>
<b>OWNER'S EQUITY AND LIABILITIES</b>					
Owner's equity:					
Accumulated profit (losses)		£	116.2	£	(58.6)
Accumulated other comprehensive income			48.4		38.9
Additional paid-in capital			20,773.8		20,773.8
Total owner's equity			<u>20,938.4</u>		<u>20,754.1</u>
Non-current liabilities:					
Non-current debt and lease obligations	5, 6 and 8		16,585.1		16,211.0
Retirement benefit obligation			4.5		4.5
Non-current portion of provisions	9		164.2		171.4
Derivative instruments	7 and 8		445.7		734.5
Deferred tax liability	12		6.0		7.5
Trade payables and other non-current liabilities	10 and 13		217.2		251.5
Total non-current liabilities			<u>17,422.7</u>		<u>17,380.4</u>
Current liabilities:					
Trade payables and other current liabilities	10 and 13		3,315.2		3,336.8
Accrued capital expenditures			406.1		415.6
Derivative instruments	7 and 8		142.7		191.5
Provisions	9		26.1		31.1
Current portion of debt and lease obligations	5, 6 and 8		2,225.2		2,379.0
Total current liabilities			<u>6,115.3</u>		<u>6,354.0</u>
Total liabilities			<u>23,538.0</u>		<u>23,734.4</u>
Total owner's equity and liabilities		£	<u>44,476.4</u>	£	<u>44,488.5</u>

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

**VMED O2 UK HOLDINGS LIMITED**  
**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**(unaudited)**

	<u>Note References</u>	<u>Three months ended 31 March 2022</u> in millions
Revenue .....	3 and 10	£ 2,500.1
Cost of sales .....	13	(823.5)
Gross profit .....		1,676.6
Personnel expenses .....	13	(186.2)
Other expenses .....	6 and 13	(569.8)
Depreciation and amortisation .....	4	(873.7)
Operating profit .....		46.9
Finance costs .....	11 and 13	(435.8)
Finance income .....	11 and 13	574.6
Net finance income .....		138.8
Other expense, net .....		(0.4)
		138.4
Profit before income taxes .....		185.3
Income tax expense .....	12	(18.2)
Net profit .....		£ 167.1

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

**VMED O2 UK HOLDINGS LIMITED**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(unaudited)**

	<b>Three months ended 31 March 2022</b>
	<b>in millions</b>
Net profit .....	£ 167.1
Other comprehensive income, net of taxes:	
Foreign currency translation adjustments and other .....	7.9
Pension-related adjustments .....	1.6
Other comprehensive income .....	9.5
Total comprehensive income .....	£ 176.6

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)**

	Accumulated profit (losses)	Accumulated other comprehensive income	Additional paid-in capital (a)	Total owner's equity
	in millions			
Balance at 1 January 2022 .....	£ (58.6)	£ 38.9	£ 20,773.8	£ 20,754.1
Net profit .....	167.1	—	—	167.1
Other comprehensive income .....	—	9.5	—	9.5
Share-based compensation .....	7.7	—	—	7.7
Balance at 31 March 2022 .....	£ 116.2	£ 48.4	£ 20,773.8	£ 20,938.4

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

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

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

	<u>Note References</u>	<u>Three months ended 31 March 2022</u> in millions
<b>Cash flows from operating activities:</b>		
Net profit .....		£ 167.1
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>		
Share-based compensation expense .....		7.7
Depreciation and amortisation .....	4	873.7
Impairment, restructuring and other operating items, net .....	6 and 9	6.3
Amortisation of deferred financing costs and non-cash interest .....	5	(1.8)
Realised and unrealised gains on derivative instruments, net .....	7 and 11	(496.2)
Foreign currency transaction losses, net .....	11	250.0
Deferred income tax expense .....	12	5.1
Interest paid .....		(389.8)
Income taxes paid .....		(0.5)
Changes in operating assets and liabilities .....		104.7
Net cash provided by operating activities .....		<u>526.3</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures, net .....	4	(356.9)
Net repayments from related parties .....	13	72.9
Other investing activities .....		11.1
Net cash used by investing activities .....		<u>(272.9)</u>
<b>Cash flows from financing activities:</b>		
Repayments of debt and lease obligations .....	5 and 6	(1,351.9)
Borrowings of debt .....	5	1,123.7
Payment of financing costs and debt premiums .....	5	(1.7)
Net cash used by financing activities .....		<u>(229.9)</u>
Effect of exchange rate changes on cash and cash equivalents and restricted cash .....		(0.2)
Net increase in cash and cash equivalents and restricted cash .....		<u>23.3</u>
<b>Cash and cash equivalents and restricted cash:</b>		
Beginning of period .....		89.3
End of period .....		<u>£ 112.6</u>
<b>Details of end of period cash and cash equivalents and restricted cash:</b>		
Cash and cash equivalents .....		£ 71.5
Restricted cash included in trade receivables and other current assets and trade receivables and other non-current assets .....		41.1
Total cash and cash equivalents and restricted cash .....		<u>£ 112.6</u>

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

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements**  
**31 March 2022**  
**(unaudited)**

**(1) Basis of Presentation**

VMED O2 UK Holdings Limited (**VMED O2**) is domiciled in England and Wales (registration number 13047827). The registered address of VMED O2 is 500 Brook Drive, Reading, RG2 6UU. VMED O2 is an integrated communications provider of mobile, broadband internet, video and fixed-line telephony services to residential customers and businesses in the United Kingdom (**U.K.**). In these notes, the terms “we,” “our,” “our Company” and “us” may refer, as the context requires, to VMED O2 or collectively to VMED O2 and its subsidiaries. As of 31 March 2022, the primary subsidiaries of VMED O2 include (i) Virgin Media Inc. and its subsidiaries (collectively, **Virgin Media**) and (ii) O2 Holdings Limited and its subsidiaries (collectively, **O2**).

VMED O2 is a wholly-owned subsidiary of VMED O2 UK Limited (the **Joint Venture**), which is a 50:50 joint venture that was formed on 1 June 2021 between Liberty Global plc (**Liberty Global**) and Telefónica, SA (**Telefónica**) (the **JV Transaction**). In these condensed consolidated financial statements, Liberty Global and Telefónica are each referred to as a “**Shareholder**”. Prior to the completion of the JV Transaction, (i) Virgin Media was a wholly-owned subsidiary of Liberty Global that provided fixed and mobile communications services in the U.K. and (ii) 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 comprised of 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 carry-over basis as of 1 June 2021.

Our unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (**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’s audited annual report and financial statements for the period from 1 June 2021 to 31 December 2021, which includes a description of the significant accounting policies followed in these financial statements. There has been no material diversion within the unaudited condensed consolidated financial statements at 31 March 2022 from the accounting policies adopted within the annual report and consolidated financial statements at 31 December 2021.

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 31 March 2022.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through 26 May 2022.



**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

**(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) 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023

Based on the assessment made to date, we do not expect the adoption of these new pronouncements to have a significant impact on our consolidated financial statements.

**(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 for the three months ended 31 March 2022 is set forth below (in millions):

Mobile (a) .....	£ 1,381.7
Handset .....	357.2
Fixed .....	1,000.8
Consumer fixed (b) .....	852.7
Subscription (c) .....	834.3
Other .....	18.4
B2B fixed (d) .....	148.1
Other (e) .....	117.6
Total .....	£ 2,500.1

- (a) Mobile revenue includes amounts received from residential and business-to-business (**B2B**) customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue.
- (b) Consumer fixed revenue includes amounts received from subscribers, including certain small or home office (**SOHO**) subscribers, for ongoing services and the recognition of deferred installation revenue over the associated contract period. SOHO subscribers pay a premium price to receive expanded service levels that are the same or similar to the mass-marketed products offered to our residential subscribers. Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment.
- (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

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

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 and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network.
- (e) Other revenue includes revenue from the Smart Metering Implementation Programme (SMIP) and provision of information and communication technology services and associated connectivity to O2 business customers.

**(4) Property, Plant and Equipment and Intangible Assets**

***Property, Plant and Equipment, Net***

Changes in the carrying amounts of our property, plant and equipment, net, during the three months ended 31 March 2022 are as follows:

	<u>Plant and machinery</u>	<u>Property, plant and equipment in progress</u>	<u>Land and buildings</u>	<u>Furniture, tools and other items</u>	<u>Total</u>
	in millions				
<b>Cost:</b>					
1 January 2022 .....	£ 8,326.2	£ 672.0	£ 1,052.5	£ 969.3	£ 11,020.0
Additions .....	250.3	156.5	12.0	29.4	448.2
Retirements, disposals and other .....	(10.3)	—	(7.9)	(0.5)	(18.7)
Assets transferred into service .....	200.4	(360.1)	7.9	151.8	—
31 March 2022 .....	<u>£ 8,766.6</u>	<u>£ 468.4</u>	<u>£ 1,064.5</u>	<u>£ 1,150.0</u>	<u>£ 11,449.5</u>
<b>Accumulated depreciation:</b>					
1 January 2022 .....	£ (999.3)	£ —	£ (118.2)	£ (144.6)	£ (1,262.1)
Depreciation .....	(452.8)	—	(45.6)	(66.2)	(564.6)
Retirements, disposals and other .....	3.5	—	(2.7)	0.3	1.1
31 March 2022 .....	<u>£ (1,448.6)</u>	<u>£ —</u>	<u>£ (166.5)</u>	<u>£ (210.5)</u>	<u>£ (1,825.6)</u>
<b>Property, plant and equipment, net:</b>					
31 March 2022 .....	<u>£ 7,318.0</u>	<u>£ 468.4</u>	<u>£ 898.0</u>	<u>£ 939.5</u>	<u>£ 9,623.9</u>
1 January 2022 .....	<u>£ 7,326.9</u>	<u>£ 672.0</u>	<u>£ 934.3</u>	<u>£ 824.7</u>	<u>£ 9,757.9</u>

During the three months ended 31 March 2022, we recorded non-cash increases to our property, plant and equipment related to vendor financing arrangements of £179.7 million, which exclude related value-added taxes (VAT) of £31.4 million, that were also financed by our vendors under these arrangements.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

***Intangible Assets***

Changes during the three months ended 31 March 2022 in the carrying amounts of our goodwill and intangible assets subject to amortisation are as follows:

	<u>Goodwill</u>	<u>Customer relationships</u>	<u>Service concession arrangements and licences</u>	<u>Computer software</u>	<u>Intangible assets in progress</u>	<u>Total</u>
	in millions					
<b>Cost:</b>						
1 January 2022 .....	£ 12,847.9	£ 7,713.0	£ 1,461.7	£ 654.6	£ 90.4	£ 22,767.6
Additions .....	—	—	—	29.3	60.8	90.1
Assets transferred into service .....	—	—	—	86.3	(86.3)	—
31 March 2022 .....	<u>£ 12,847.9</u>	<u>£ 7,713.0</u>	<u>£ 1,461.7</u>	<u>£ 770.2</u>	<u>£ 64.9</u>	<u>£ 22,857.7</u>
<b>Accumulated amortisation:</b>						
1 January 2022 .....	£ —	£ (499.9)	£ (78.3)	£ (152.7)	£ —	£ (730.9)
Amortisation .....	—	(214.2)	(23.2)	(71.7)	—	(309.1)
31 March 2022 .....	<u>£ —</u>	<u>£ (714.1)</u>	<u>£ (101.5)</u>	<u>£ (224.4)</u>	<u>£ —</u>	<u>£ (1,040.0)</u>
<b>Intangible assets, net:</b>						
31 March 2022 .....	<u>£ 12,847.9</u>	<u>£ 6,998.9</u>	<u>£ 1,360.2</u>	<u>£ 545.8</u>	<u>£ 64.9</u>	<u>£ 21,817.7</u>
1 January 2022 .....	<u>£ 12,847.9</u>	<u>£ 7,213.1</u>	<u>£ 1,383.4</u>	<u>£ 501.9</u>	<u>£ 90.4</u>	<u>£ 22,036.7</u>

Goodwill is not amortised but instead tested for impairment at least annually for our solitary cash generating unit.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

**(5) Debt**

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

	31 March 2022		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	31 March 2022	31 December 2021
	in millions			
VMED O2 Credit Facilities (c)	3.44 %	£ 1,378.0	£ 6,056.1	£ 5,954.2
VMED O2 Senior Secured Notes	4.51 %	—	8,080.4	7,964.8
VMED O2 Senior Notes	4.53 %	—	1,125.8	1,104.0
Vendor financing (d)	4.51 %	—	1,973.0	2,104.7
CTIL loan (e)	2.88 %	77.5	172.5	—
Other	1.00 %	—	220.6	206.1
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest (f)	4.08 %	£ 1,455.5	£ 17,628.4	£ 17,333.8

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

	31 March 2022		31 December 2021	
	in millions			
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest	£	17,628.4	£	17,333.8
Deferred financing costs, discounts and premiums, net		64.0		67.0
Total carrying amount of third-party debt		17,692.4		17,400.8
Lease obligations (note 6)		885.0		927.2
Total third-party debt and lease obligations		18,577.4		18,328.0
Accrued interest		158.4		189.8
Related-party debt (note 13)		74.5		72.2
Total debt including interest and lease obligations		18,810.3		18,590.0
Current maturities of debt and lease obligations		(2,225.2)		(2,379.0)
Non-current debt and lease obligations	£	16,585.1	£	16,211.0

- (a) Represents the weighted average interest rate in effect at 31 March 2022 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 4.54% at 31 March 2022. For information regarding our derivative instruments, see note 7.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

- (b) The VMED O2 Credit Facilities include the Revolving Facility, a multi-currency revolving facility with maximum borrowing capacity equivalent to £1.378 billion, which was undrawn at 31 March 2022. Unused borrowing capacity represents the maximum availability under the VMED O2 Credit Facilities at 31 March 2022 without regard to covenant compliance calculations or other conditions precedent to borrowing. At 31 March 2022, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the full £1.378 billion equivalent of unused borrowing capacity was available to be borrowed and there were no restrictions on our ability to make loans or distributions from this availability to other VMED O2 subsidiaries and ultimately to VMED O2 UK Limited. Upon completion of the relevant 31 March 2022 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect the full £1.378 billion equivalent of unused borrowing capacity will continue to be available, with no restrictions to loan or distribute. Our above expectations do not consider any actual or potential changes to our borrowing levels or any amounts loaned or distributed subsequent to 31 March 2022, or the impact of additional amounts that may be available to borrow, loan or distribute under certain defined baskets within the VMED O2 Credit Facilities. The CTIL loan is a revolving loan facility with maximum borrowing capacity equivalent to £500.0 million, which at 31 March 2022 had unused borrowing capacity of £77.5 million.
- (c) As of 31 March 2022 and 31 December 2021, principal amounts include £13.7 million and £17.8 million, respectively, of borrowings pursuant to excess cash facilities under the VMED O2 Credit Facilities. These borrowings are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.
- (d) Represents amounts owed to various creditors pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, plant and equipment additions and operating expenses. These arrangements extend our repayment terms beyond a vendor's ordinary due dates (e.g., extension beyond a vendor's customary payment terms) and as such are classified outside of accounts payable as debt in our condensed consolidated statement of financial position. These obligations are generally due within one year and include VAT that was also financed under these arrangements. For purposes of our condensed consolidated statement of cash flows, operating-related expenses financed by an intermediary are treated as constructive operating cash outflows and constructive financing cash inflows when the intermediary settles the liability with the vendor as there is no actual cash outflow until we pay the financing intermediary. During the three months ended 31 March 2022, the constructive cash outflow included in cash flows from operating activities and the corresponding constructive cash inflow included in cash flows from financing activities related to these operating expenses was £441.1 million. Repayments of vendor financing obligations at the time we pay the financial intermediary are included in repayments and repurchases of third-party debt and lease obligations in our condensed consolidated statement of cash flows.
- (e) Represents our proportional share of the third-party debt of Cornerstone Telecommunications Infrastructure Limited (CTIL). We have determined our interest in CTIL, which is principally engaged in maintaining and managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone Limited (**Vodafone**) and Telefonica UK Limited (a subsidiary of VMED O2), to be classified as a joint operation. As a result, the assets, liabilities, related revenue, expenses and share of commitments have been recognised in proportion to VMED O2's contribution to the joint operation within our condensed consolidated financial statements.
- (f) As of 31 March 2022 and 31 December 2021, our debt had an estimated fair value of £17.0 billion and £17.4 billion, respectively. The estimated fair values of our debt instruments are generally determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 8.

***Financing Transactions***

Below we provide a summary description of certain financing transactions completed during the three months ended 31 March 2022. In general, our financing transactions may include non-cash borrowings and repayments. During the three months ended 31 March 2022, we did not have any non-cash borrowings or repayments.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

In January 2022, we utilised the Revolving Facility twice, in an aggregate amount of £400.0 million, to meet working capital requirements. These utilisations were subsequently repaid in full in March 2022.

In January 2022, CTIL entered into a £500.0 million revolving loan facility. The facility was issued at par, matures on 6 January 2027 and bears interest at a rate of Sterling Overnight Index Average (SONIA) plus 2.00%, subject to a SONIA floor of 0.0%. During the three months ended 31 March 2022, CTIL utilised an aggregate amount of £435.0 million to redeem the outstanding amount of CTIL's shareholder loans of £460.0 million, which were due to be repaid on 8 January 2022. Subsequently, during the three months ended 31 March 2022, CTIL repaid an aggregate amount of £90.0 million. We consolidate our portion of CTIL as a joint operation, and as such, we have reflected 50% of these borrowings and repayments in our condensed consolidated financial statements.

***Maturities of Debt***

Maturities of our debt as of 31 March 2022 are presented below (in millions):

	<b>Third-party debt (a)</b>	<b>Related-party debt</b>	<b>Total</b>
	<b>in millions</b>		
<b>Year ending 31 December:</b>			
2022 (remainder of year) .....	£ 1,873.1	£ —	£ 1,873.1
2023 .....	260.1	—	260.1
2024 .....	38.5	—	38.5
2025 .....	20.9	74.5	95.4
2026 .....	384.3	—	384.3
2027 .....	1,747.5	—	1,747.5
Thereafter .....	13,304.0	—	13,304.0
Total debt maturities (b) .....	<u>17,628.4</u>	<u>74.5</u>	<u>17,702.9</u>
Accrued interest .....	158.4	—	158.4
Deferred financing costs, discount and premiums, net .....	64.0	—	64.0
Total debt including interest .....	<u>£ 17,850.8</u>	<u>£ 74.5</u>	<u>£ 17,925.3</u>
Current portion .....	<u>£ 2,036.9</u>	<u>£ —</u>	<u>£ 2,036.9</u>
Non-current portion .....	<u>£ 15,813.9</u>	<u>£ 74.5</u>	<u>£ 15,888.4</u>

(a) Amounts include certain senior secured notes issued by special purpose financing entities that are consolidated by VMED O2.

(b) Third-party amounts include vendor financing obligations of £1,973.0 million, as set forth below (in millions):

<b>Year ending December 31:</b>	
2022 (remainder of year) .....	£ 1,865.8
2023 .....	39.5
2024 .....	38.5
2025 .....	20.9
2026 .....	8.3
Total vendor financing maturities (1) .....	<u>£ 1,973.0</u>
Current portion .....	<u>£ 1,870.9</u>
Non-current portion .....	<u>£ 102.1</u>

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

- (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 £1,280.6 million equivalent in notes maturing in July 2028. The net proceeds from these notes are used by the 2020 VM Financing Companies to purchase from various third parties certain vendor financed receivables owed by certain of our subsidiaries. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund excess cash facilities under our senior credit facilities. The 2020 VM Financing Companies can request the excess cash facilities be repaid by certain of our subsidiaries as additional vendor financed receivables become available for purchase.

**(6) Leases**

**General**

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

**Right-of-use (ROU) Assets**

A summary of our ROU assets as of 31 March 2022 is set forth below:

	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Total</u>
	<i>in millions</i>		
<b>Cost:</b>			
1 January 2022 .....	£ 829.5	£ 175.4	£ 1,004.9
Additions .....	7.8	23.9	31.7
Retirements and disposals .....	(6.9)	(10.3)	(17.2)
31 March 2022 .....	<u>£ 830.4</u>	<u>£ 189.0</u>	<u>£ 1,019.4</u>
<b>Accumulated depreciation:</b>			
1 January 2022 .....	£ (83.7)	£ (32.4)	£ (116.1)
Depreciation .....	(36.0)	(15.6)	(51.6)
Retirements and disposals .....	2.6	3.3	5.9
31 March 2022 .....	<u>£ (117.1)</u>	<u>£ (44.7)</u>	<u>£ (161.8)</u>
<b>Right-of use assets, net (a):</b>			
31 March 2022 .....	<u>£ 713.3</u>	<u>£ 144.3</u>	<u>£ 857.6</u>
1 January 2022 .....	<u>£ 745.8</u>	<u>£ 143.0</u>	<u>£ 888.8</u>

- (a) Our ROU assets are included in property, plant and equipment, net, in our condensed consolidated statements of financial position. At 31 March 2022, the weighted average remaining lease term was 8.5 years and the weighted average discount rate was 4.5%. During the three months ended 31 March 2022, we recorded additions to our ROU assets associated with leases of £31.7 million.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

***Lease Liabilities***

Maturities of our lease liabilities as of 31 March 2022 are presented below (in millions):

Not later than one year .....	£	211.0
Later than one year and not later than five years .....		499.5
Later than five years .....		454.7
Total payments .....		1,165.2
Less: present value discount .....		(280.2)
Present value of lease payments .....	£	885.0
Current portion (a) .....	£	188.3
Non-current portion (a) .....	£	696.7

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

***Lease Expense***

A summary of our aggregate lease expense for the three months ended 31 March 2022 is set forth below (in millions):

<b>Lease expense:</b>		
<b>Depreciation:</b>		
Land and buildings .....	£	36.0
Plant and machinery .....		15.6
Total depreciation .....		51.6
Interest expense .....		8.5
Total lease expense .....	£	60.1

***Cash Flows from Leases***

Our total cash outflows from leases recorded during the three months ended 31 March 2022 were £70.8 million.

**(7) Derivative Instruments**

In general, we enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) foreign currency movements, particularly with respect to borrowings that are denominated in a currency other than the functional currency of the borrowing entity. In this regard, we have entered into various derivative instruments to manage interest rate exposure and foreign currency exposure with respect to the United States (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 statement of profit or loss.



**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

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

	31 March 2022			31 December 2021		
	Current	Non-current	Total	Current	Non-current	Total
<b>in millions</b>						
<b>Assets:</b>						
Cross-currency and interest rate derivative contracts (a) .....	£ 56.7	£ 767.7	£ 824.4	£ 95.1	£ 398.9	£ 494.0
Foreign currency forward and option contracts .....	0.5	—	0.5	0.5	—	0.5
Total .....	<u>£ 57.2</u>	<u>£ 767.7</u>	<u>£ 824.9</u>	<u>£ 95.6</u>	<u>£ 398.9</u>	<u>£ 494.5</u>
<b>Liabilities:</b>						
Cross-currency and interest rate derivative contracts (a) .....	£ 140.3	£ 445.7	£ 586.0	£ 189.1	£ 734.5	£ 923.6
Foreign currency forward and option contracts .....	2.4	—	2.4	2.4	—	2.4
Total .....	<u>£ 142.7</u>	<u>£ 445.7</u>	<u>£ 588.4</u>	<u>£ 191.5</u>	<u>£ 734.5</u>	<u>£ 926.0</u>

- (a) We consider credit risk relating to our and our counterparties' non-performance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in a net gain of £23.7 million during the three months ended 31 March 2022. This amount is included in net finance income in our condensed consolidated statement of profit or loss. For additional information regarding our fair value measurements, see note 8.

The details of our realised and unrealised gains on derivative instruments, net, for the three months ended 31 March 2022 are as follows (in millions):

Cross-currency and interest rate derivative contracts .....	£ 498.1
Foreign currency forward and option contracts .....	(1.9)
Total .....	<u>£ 496.2</u>

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. During the three months ended 31 March 2022, cash outflows related to our derivative instruments were £171.8 million, classified within operating activities.

### **Counterparty Credit Risk**

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At 31 March 2022, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £346.3 million.

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

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

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

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

### **Details of our Derivative Instruments**

#### *Cross-currency Derivative Contracts*

We generally provide an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 March 2022, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at 31 March 2022:

<b>Notional amount due from counterparty</b>		<b>Notional amount due to counterparty</b>		<b>Weighted average remaining life</b>
<b>in millions</b>				<b>in years</b>
\$	14,624.0	£	11,111.5 (a)	5.2
€	3,100.0	£	2,795.5	6.7
£	1,005.5	\$	1,445.0 (b)	2.8
£	394.2	\$	500.0	3.3
\$	166.6	€	150.0	6.3

- (a) Includes certain derivative instruments that are “forward-starting,” such that the initial exchange occurs at a date subsequent to 31 March 2022. 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.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

***Interest Rate Swap Contracts***

The following table sets forth the total pound sterling equivalents of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts at 31 March 2022:

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
£ 13,605.6	4.0	£ 3,530.8	3.3

(a) Includes forward-starting derivative instruments.

***Interest Rate Swap Options***

From time to time, we enter into interest rate swap options (**swaptions**), which give us the right, but not the obligation, to enter into certain interest rate swap contracts at set dates in the future. Such contracts typically have a life of no more than three years. At the transaction date, the strike rate of each of these contracts was above the corresponding market rate. As of 31 March 2022, the option expiration period on each of our swaptions had expired.

***Basis Swaps***

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimise our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At 31 March 2022, the total pound sterling equivalent of the notional amount due from the counterparty, including forward-starting derivative instruments, was £3,501.2 million and the related weighted average remaining contractual life of our basis swap contracts was 0.8 years.

***Interest Rate Caps and Floors***

From time to time, we enter into interest rate cap and floor agreements. Purchased interest rate caps lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Purchased interest rate floors protect us from interest rates falling below a certain level, generally to match a floating rate floor on a debt instrument. At 31 March 2022, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1,490.2 million and £6,122.7 million, respectively.

***Impact of Derivative Instruments on Borrowing Costs***

Excluding forward-starting instruments and swaptions, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was an increase of 61 basis points to our borrowing costs as of 31 March 2022.

***Foreign Currency Forwards and Options***

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of 31 March 2022, the total of the notional amount of our foreign currency forward and option contracts was £299.6 million.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

**(8) Fair Value Measurements**

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of 31 March 2022 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

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

Fair value measurements are also used in connection with non-recurring valuations performed in connection with acquisition accounting, impairment assessments and the accounting for the JV Transaction. These non-recurring valuations primarily include the enterprise value of our Company in connection with the closing of the JV Transaction, intangible assets subject to amortisation, including customer relationships and mobile spectrum licenses, property, plant and equipment and the implied value of goodwill. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our non-recurring valuations, except for third-party debt, as further described below, use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

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

	Category under IFRS 9 (a)	31 March 2022		31 December 2021	
		Carrying amount	Fair value	Carrying amount	Fair value
		in millions		in millions	
<b>Assets carried at fair value:</b>					
Derivative financial instruments .....	III	£ 824.9	£ 824.9	£ 494.5	£ 494.5
<b>Assets carried at cost or amortised cost:</b>					
Trade receivables and unbilled revenue .....	I	£ 1,297.6	£ 1,297.6	£ 1,369.4	£ 1,369.4
Loans receivable – related-party .....	I	8,722.2	8,722.2	8,796.3	8,796.3
Restricted cash .....	I	41.1	41.1	41.0	41.0
Other current and non-current financial assets .....	I	771.6	771.6	728.8	728.8
Cash and cash equivalents .....	I	71.5	71.5	48.3	48.3
<b>Total assets carried at cost or amortised cost .....</b>		<b>£ 10,904.0</b>	<b>£ 10,904.0</b>	<b>£ 10,983.8</b>	<b>£ 10,983.8</b>
<b>Liabilities carried at fair value:</b>					
Derivative financial instruments .....	III	£ 588.4	£ 588.4	£ 926.0	£ 926.0
<b>Liabilities carried at cost or amortised cost:</b>					
Debt obligations .....	I	£ 17,692.4	£ 17,009.9	£ 17,333.8	£ 17,376.1
Loans payable – related party (note 13) .....	I	74.5	74.5	72.2	72.2
Accrued liabilities (note 13) .....	I	1,384.1	1,384.1	1,226.7	1,226.7
Accounts payable and other liabilities (note 13) .....	I	1,160.4	1,160.4	1,334.2	1,334.2
Lease obligations .....	I	885.0	885.0	927.2	927.2
<b>Total liabilities carried at cost or amortised cost .....</b>		<b>£ 21,196.4</b>	<b>£ 20,513.9</b>	<b>£ 20,894.1</b>	<b>£ 20,936.4</b>

- (a) Category I refers to financial assets and liabilities measured at amortised cost, category II refers to financial assets and liabilities measured at fair value through other comprehensive income or loss and category III refers to financial assets and liabilities measured at fair value through profit or loss.

**(9) Provisions**

A summary of the changes in our provisions during the three months ended 31 March 2022 is set forth in the table below:

	Asset retirement obligations (b)			
	Restructuring (a)	Other	Total	
in millions				
Balance as of 1 January 2022 .....	£ 22.3	£ 175.3	£ 4.9	£ 202.5
Disposals of property, plant and equipment .....	—	(5.2)	—	(5.2)
Net charges to our condensed consolidated statement of profit or loss .....	6.5	1.0	0.1	7.6
Cash payments .....	(14.6)	—	—	(14.6)
<b>Balance as of 31 March 2022 .....</b>	<b>£ 14.2</b>	<b>£ 171.1</b>	<b>£ 5.0</b>	<b>£ 190.3</b>

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

- (a) Restructuring provisions include the full cost of planned business restructuring programmes entered into during the three months ended 31 March 2022 and the seven months ended 31 December 2021 as a result of the JV Transaction. All programmes are expected to be completed in 2022.
- (b) VMED O2 has certain legal obligations relating to the restoration of leased property to its original condition at the end of the lease term. This obligation relates principally to VMED O2's share of obligation for assets held in CTIL and to mast sites. The provision is based on assumptions covering the discount rate, expected lease renewals and the expected cost of restoring the sites. The payment dates of these asset retirement costs are uncertain, but are currently anticipated to be over the next 29 years. The provision recognised represents the best estimate of the expenditure required to settle the present obligation at 31 March 2022. Such cost estimations, expressed at current price levels at the date of the estimate are discounted at 31 March 2022 using rates in the range of 1.65% to 1.88% per annum. The initial discounted cost amount has been capitalised as part of property, plant and equipment and depreciated over the life of the assets.

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

***Contract Balances***

Our contract assets were £300.0 million and £310.6 million as of 31 March 2022 and 31 December 2021, respectively. The non-current and current portions of our contract asset balances are included within trade receivables and other non-current assets and trade receivables and other current assets, respectively, in our condensed consolidated statements of financial position.

Our contract liabilities balances were £752.5 million and £756.7 million as of 31 March 2022 and 31 December 2021, respectively. The non-current and current portions of our contract liabilities are included within trade payables and other non-current liabilities and trade payables and other current liabilities, respectively, in our condensed consolidated statements of financial position.

***Contract Costs***

Our aggregate assets associated with incremental costs to obtain and fulfil our contracts were £96.0 million and £73.5 million at 31 March 2022 and 31 December 2021, respectively. The non-current and current portions of our assets related to contract costs are included within trade receivables and other non-current assets and trade receivables and other current assets, respectively, in our condensed consolidated statements of financial position. During the three months ended 31 March 2022, we amortised £16.9 million to operating costs and expenses related to these assets.

**(11) Finance Costs and Income**

A summary of the finance costs and income that are included in our net finance income for the three months ended 31 March 2022 is set forth below (in millions):

Finance costs:	
Interest expense .....	£ (185.9)
Foreign currency transaction losses, net .....	(249.9)
Total finance costs .....	<u>(435.8)</u>
Finance income:	
Interest income .....	78.5
Realised and unrealised gains on derivative instruments, net .....	496.1
Total finance income .....	<u>574.6</u>
Net finance income .....	<u>£ 138.8</u>

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

**(12) Income Taxes**

Our interim 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 31 March 2022 applied to profit before income taxes for the period and adjusted for tax on discrete items. The major components of income tax expense included in our condensed consolidated statement of profit and loss for the three months ended 31 March 2022 are as follows (in millions):

Current income tax expense .....	£	13.1
Deferred income tax expense relating to origination and reversal of temporary differences .....		5.1
Income tax expense .....	£	<u>18.2</u>

The effective tax rate for the three months ended 31 March 2022 is 9.8%. 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% (£35.2 million) primarily due to the net positive impact of (i) the U.K. “super-deduction” enacted in the Finance Act 2021, which provides a permanent tax benefit for the cost of qualifying capital expenditures as well as accelerating tax allowances, (ii) group relief claimed for nil consideration and (iii) the recognition of previously unrecognised deferred tax assets. The net positive impact of these items is partially offset by the net negative impact of (i) certain income subject to the U.S. federal income tax rate of 21.0% and (ii) the U.K. tax rate change in relation to deferred tax movements in the period.

The Finance Act 2021, which was enacted on 10 June 2021, increases the U.K. corporate income tax rate from 19.0% to 25.0% from 1 April 2023. The effect of the increased tax rate on our deferred tax balances is reflected in our statement of financial position at 31 March 2022. Where appropriate, movements in deferred tax during the three months ended 31 March 2022 have been calculated at 25.0%.

**(13) Related-party transactions**

All related-party transactions relate to regular trading activities of the Company and are on an arm’s length basis. Our related-party transactions for the three months ended 31 March 2022 consist of the following (in millions):

<b>Charges included in:</b>		
Revenue .....	£	65.6
Cost of sales .....		(0.3)
Other expenses .....		(72.8)
Share-based compensation expense .....		(7.7)
Included in operating profit .....		<u>(15.2)</u>
<b>Interest income</b> .....		
		75.4
<b>Interest expense</b> .....		(0.7)
Included in net profit .....	£	<u>59.5</u>

*Revenue.* Amount primarily consists of our charges to the Tesco Mobile joint venture, and to a lesser extent, insurance and roaming charges to Telefónica.

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

*Other expenses.* Amount primarily consists of support function staffing, network and technology services provided to us by certain subsidiaries of Liberty Global and Telefónica, as well as brand and licensing fees payable to Telefónica for use of the “O2”, “O2 Refresh” and “Priority” brands. For additional information regarding services provided by certain subsidiaries of the Shareholders, see note 14.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

*Share-based compensation expense.* Amount relates to charges for share-based incentive awards held by certain employees of our subsidiaries associated with ordinary shares of Liberty Global and Telefónica. Share-based compensation expense is included in other expenses in our condensed consolidated statement of profit or loss.

*Interest expense.* Amount represents interest expense on non-current related party debt, as further described below.

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

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

	<u>31 March 2022</u>	<u>31 December 2021</u>
	in millions	
<b>Assets:</b>		
Trade receivables (a) .....	£ 25.0	£ 24.0
Other current receivables (b) .....	261.6	223.1
Non-current receivables (c) .....	8,722.2	8,796.3
Total related-party assets .....	<u>£ 9,008.8</u>	<u>£ 9,043.4</u>
<b>Liabilities:</b>		
Lease obligations (d) .....	£ 103.7	£ 104.3
Accounts payable (e) .....	161.3	148.2
Non-current related party debt (f) .....	74.5	72.2
Accrued and other liabilities (e) .....	102.7	65.8
Total related-party liabilities .....	<u>£ 442.2</u>	<u>£ 390.5</u>

- (a) Amounts relate primarily to trade receivables arising from our charges to Tesco Mobile.
- (b) Amounts represent non-interest bearing current receivables from certain Liberty Global and Telefónica subsidiaries.
- (c) Amounts represent (i) an interest bearing loan receivable from VMED O2 UK Limited (the **VMED O2 UK Limited Receivable**) and (ii) non-interest bearing non-current receivables from certain Liberty Global and Telefónica subsidiaries.
- (d) Amounts represent lease obligations with certain Liberty Global subsidiaries.
- (e) Amounts represent both non-interest and interest-bearing payables, accrued capital expenditures and other accrued liabilities related to transactions with VMED O2 UK Limited and certain Liberty Global and Telefónica subsidiaries and associates that are periodically cash settled.
- (f) Amounts represent an interest bearing loan due to VMED O2 UK Limited. The loan payable is set to mature on 18 December 2025 at an interest rate of 4.360%.

***Shareholders Agreement***

We are a wholly-owned subsidiary of VMED O2 UK Limited. In connection with the JV Transaction, on 1 June 2021, Telefónica and Liberty Global entered into a shareholders agreement (the **Shareholders Agreement**). Each Shareholder holds 50% of the issued share capital of VMED O2 UK Limited. The Shareholders Agreement contains customary provisions for the governance of a 50:50 joint venture that result in Telefónica and Liberty Global having joint control over decision making with



**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

respect to the Joint Venture and each Shareholder has the right to initiate an initial public offering after the third anniversary of the closing.

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

**(14) Commitments and Contingencies**

*Commitments*

In the normal course of business, we have entered into agreements that commit our Company to make cash payments in future periods with respect to purchases of customer premises and other equipment and services, programming contracts, network and connectivity commitments and other items. The following table sets forth the pound sterling equivalents of such commitments as of 31 March 2022. The commitments included in this table do not reflect any liabilities that are included in our 31 March 2022 condensed consolidated statement of financial position.

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Thereafter</b>	
	<b>in millions</b>							
Purchase commitments (a) ...	£ 746.0	£ 468.6	£ 139.3	£ 119.1	£ 113.2	£ 106.0	£ 103.4	£ 1,795.6
JV Services Agreement (b)...	168.3	190.5	193.9	197.9	202.1	85.9	—	1,038.6
Programming commitments (c) .....	270.1	252.8	170.4	32.4	30.0	7.5	—	763.2
Network and connectivity commitments (d) .....	585.0	68.1	25.2	20.1	11.3	8.0	8.3	726.0
Other commitments .....	87.3	39.4	33.4	28.6	26.4	21.3	14.2	250.6
Total .....	<u>£ 1,856.7</u>	<u>£ 1,019.4</u>	<u>£ 562.2</u>	<u>£ 398.1</u>	<u>£ 383.0</u>	<u>£ 228.7</u>	<u>£ 125.9</u>	<u>£ 4,574.0</u>

- (a) 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.
- (b) Pursuant to the framework services agreements (collectively, the **JV Service Agreements**) entered into in connection with the closing of the JV Transaction, Liberty Global and Telefónica charge VMED O2 UK Limited fees, which our parent passes through, for certain services provided to us by the respective subsidiaries of the Shareholders (collectively, the **JV Services**). The JV Services are provided to us on a transitional or ongoing basis. Pursuant to the terms of the JV Service Agreements, both the ongoing services and transitional services are provided for specified terms from the 1 June 2021 formation of VMED O2 UK Limited. Ongoing services are predominantly for six-year terms whereas transitional services will be provided for terms up to 24 months, subject to our ability to terminate based on specified notice periods. The JV Services provided by the respective subsidiaries of the Shareholders consist primarily of (i) technology and other services, (ii) capital-related expenditures for assets that we use or otherwise benefit us, (iii) brand name and procurement fees and (iv) certain corporate services. The amounts set forth in the table above represent fixed minimum charges from Liberty Global and Telefónica pursuant to the JV Service Agreements. In addition to the fixed minimum charges, the JV Service Agreements provide for certain JV Services to be charged to us based upon usage of the services received. The fixed minimum charges set forth in the table above exclude fees for the usage-based services as these fees will vary from period to period. Accordingly, we expect to incur charges in addition to those set forth in the table above for usage-based services.

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

- (c) 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.
- (d) Network and connectivity commitments include (i) service commitments associated with the network extension programme in the U.K. (the **Network Extension**) and (ii) commitments associated with our 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. The BT/EE Limited agreement came to an end 31 December 2021 and all remaining customers will be migrated to Vodafone in early 2022 before moving them to our O2 mobile network at a later date. Notice has been given to cancel the MVNO agreement with Vodafone.

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments and (ii) defined benefit plans and similar agreements, pursuant to which we expect to make payments in future periods. Under agreements related to the JV Transaction, commitments with regard to certain of VMED O2's defined benefit plans are being funded by one of the Shareholders, Telefonica. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended 31 March 2022, see note 7.

We have established defined contribution benefit plans for our and our subsidiaries' employees. Our aggregate expense for matching contributions under the various defined contribution employee benefit plans was £13.3 million for the three months ended 31 March 2022.

***Guarantees and Other Credit Enhancements***

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

***Legal and Regulatory Proceedings and Other Contingencies***

*Disclosure requests.* O2 has been addressing a request for disclosure made by governmental authorities related to possible violations of anti-bribery laws and regulations. O2 continues to co-operate with the governmental authorities investigating this matter, which is still ongoing. Whilst it is not possible at this time to predict the full scope or duration of this matter or its eventual outcome, O2 was able to make a reasonable estimate of the outcome, and recorded an accrual during 2019, which is included in our condensed consolidated statement of financial position as of 31 March 2022. Additional disclosures of the matters required by IAS 37 have not been provided as permitted by IAS 37 paragraph 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 amended defence to this claim in October 2021. Hearings at the High Court commenced 16 May 2022. No provision has been made in relation to this matter.

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

**VMED O2 UK HOLDINGS LIMITED**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**31 March 2022**  
**(unaudited)**

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. We continue to believe that these increases are excessive and retain the right of appeal should more favourable agreements be reached with other operators. The rateable value of our network and other assets in the U.K. remains subject to review by the U.K. government.

In June 2021, following a call for input in 2020, the U.K. government launched a consultation on making business rates revaluations more frequent (reducing from a five to a three year cycle). In October 2021, as part of the Autumn 2021 Budget statement, the U.K. government announced the conclusion of the consultation and set out its plans for business rates, including moving to a three year valuation cycle from 2023. On 30 November 2021, the U.K. government announced a technical consultation to run to 22 February 2022 on how to give effect to the three year valuation cycle and other of the rating measures set out in the Autumn 2021 Budget statement. That consultation has now completed and the U.K. government is considering the input provided in determining how to move forward.

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

## GROUP STRATEGIC REPORT

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our Annual Report at 31 December 2021, is intended to assist in providing an understanding of our results of operations and financial condition and is organised as follows:

- *Overview.* This section provides a general description of our business and recent events.
- *Results of Operations.* This section provides an analysis of our actual or pro forma results of operations, as applicable, for the three months ended 31 March 2022 and 2021.
- *Liquidity and Capital Resources.* This section provides an analysis of our corporate and subsidiary liquidity and our condensed consolidated statement of cash flows.
- *Quantitative and Qualitative Disclosures about Market Risk.* This section provides discussion and analysis of the foreign currency, interest rate and other market risks that our Company faces.

Certain 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 31 March 2022.

### 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 *Discussion and Analysis of our Results of Operations* may contain forward-looking statements, including statements regarding VMED O2’s business, product, foreign currency and finance strategies in future periods, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of VMED O2’s markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in VMED O2’s revenue, costs or growth rates, VMED O2’s liquidity, credit risks, foreign currency risks, target leverage levels, VMED O2’s future projected contractual commitments and cash flows and other information and statements that are not historical fact.

Where, in any forward-looking statement, VMED O2 expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the risks and uncertainties discussed under *Risk Factors* in our Annual Report at 31 December 2021, as well as the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the U.K.;
- the competitive environment in the broadband internet, cable television and telecommunications industries in the U.K., including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the European Union (E.U.), currency instability and related fiscal reforms, including as a result of the COVID-19 pandemic;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt, including as a result of the COVID-19 pandemic;
- changes in consumer television viewing and broadband internet usage preferences and habits;

- consumer acceptance of our existing service offerings, including our mobile, broadband internet, video, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes, including our ability to adequately manage our legacy technologies and transformation and the rate at which our current technology becomes obsolete;
- our ability to maintain or increase the number of subscriptions to our mobile, broadband internet, video and fixed-line telephony service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers, including with respect to our significant property, plant and equipment additions;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital and on customer spending;
- changes in, or failure or inability to comply with, government regulations and legislation in the U.K. and adverse outcomes from regulatory proceedings;
- government intervention that impairs our competitive position, including any intervention that would open our broadband distribution networks to competitors and any adverse change in our accreditations or licences;
- our ability to maintain and further develop our direct and indirect distribution channels;
- our lack of insurance of the underground portion of our fixed-line network and various pavement-based electronics associated with our fixed-line network;
- the effect of perceived health risks associated with electromagnetic radiation from base station and associated equipment;
- changes in U.K. laws, regulations and governmental policy, or other risks relating to our ability to set prices, enter new markets or control our costs;
- any failure to comply with anti-corruption laws and regulations and economic sanctions programmes;
- the effect on our business of strikes or collective action by certain of our employees that are represented by trade unions;
- any conflict of interests between our direct or indirect parent companies and our and/or our debt holders' interests;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire, form or dispose of businesses and, if acquired, to integrate, realise anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to acquire (including in connection with the Joint Venture Transactions);
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the United States (U.S.) and the U.K.;
- our exposure to additional tax liability and negative or unexpected tax consequences as a result of adverse changes in our financial outlook;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- our ability to navigate the potential impacts on our business of the U.K.'s departure from the E.U.;

- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access, including as a result of the COVID-19 pandemic;
- the activities of device manufacturers and our ability to secure adequate and timely supply of handsets that experience high demand;
- the availability of, and our ability to acquire on acceptable terms, attractive programming for our video services and the costs associated with such programming;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with the Network Extension, the deployment of our 5G network and the planned programme to upgrade our existing fixed-line network to full fibre-to-the-premises (**FTTP**);
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire (including in relation to the Joint Venture), including the failure to realise our financial and strategic goals with respect to strategic transactions;
- the leakage of sensitive customer data or any failure to comply with applicable data protection laws, regulations and rules;
- a failure in our network and information systems, whether caused by a natural failure or a security breach, and unauthorised access to our networks;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- adverse changes in public perception of the “Virgin” brand, which we and others license from Virgin Enterprises Limited, and of the “O2” brand, which we license from O2 Worldwide Limited, and any resulting impacts on the goodwill of customers toward us;
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, armed conflicts, malicious human acts, natural disasters, epidemics, pandemics (such as COVID-19) and other similar events, including the ongoing invasion of Ukraine by Russia;
- the risk of default by counterparties to our cash investments, derivative and other financial instruments and undrawn debt facilities;
- changes in laws and government regulations that may impact our ability to finance expenditure as “Eligible Green Projects” under the International Capital Markets Association’s (**ICMA**’s) Green Bond Principles, satisfy “green” reporting requirements or undertakings and/or impact the suitability of the 2031 Senior Secured Notes issued under ICMA’s as a “green” asset to investors;
- adverse impacts on our reputation from our sustainability programme being viewed as inadequate by customers, regulators and/or government; and
- an increase in our operational costs due to the impact of our sustainability commitments and/or regulatory and/or government action on climate change.

## **Overview**

### ***General***

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

### ***Operations***

At 31 March 2022, our fixed-line network passed 15.7 million homes and served 5.8 million fixed-line customers with 5.6 million customers taking a broadband internet product. In addition, at 31 March 2022, we served 32.6 million retail mobile connections and 10.1 million wholesale mobile connections.

### ***Competition and Other External Factors***

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

## **Discussion and Analysis of our Results of Operations**

The discussion presented in this section provides an analysis of our revenue and operating costs (excluding depreciation and amortisation and share-based compensation expense) for the three months ended 31 March 2022 and the corresponding period in 2021 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 Joint Venture was formed on 1 June 2021.

Our results are set forth below:

	<b>Three months ended 31 March</b>	
	<b>2022</b>	<b>2021</b>
	<b>Actual</b>	<b>Pro forma</b>
	<b>in millions</b>	
Revenue .....	£ 2,500.1	£ 2,505.1
Cost of sales .....	823.5	832.5
Personnel expenses .....	186.2	198.2
Other expenses .....	555.8	564.3
Costs to capture included in the above .....	(10.4)	(6.6)
Adjusted EBITDA .....	945.0	916.7
Costs to capture .....	10.4	6.6
Depreciation and amortisation .....	873.7	884.7
Share-based compensation expense .....	7.7	7.2
Restructuring and other operating items, net .....	6.3	(0.1)
Operating income .....	46.9	18.3
Finance income .....	574.6	236.5
Finance costs .....	(435.8)	(149.8)
Share of profit of equity investments .....	0.7	—
Other expenses, net .....	(1.1)	—
Income tax expense .....	(18.2)	(17.8)
Net profit .....	£ 167.1	£ 87.2

### *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) from continuing operations before net income tax benefit (expense), other non-operating income or expenses, share of profit (loss) of investments accounted for by the equity method, net finance income (costs), depreciation and amortisation, share-based compensation, impairment, restructuring and other operating items and costs to capture (**CTC**) operating expenses. CTC generally include incremental, third-party operating costs that are directly associated with integration activities, restructuring activities and certain other costs associated with aligning our business processes to derive synergies.

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



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

### Revenue

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

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

Our revenue by major category is set forth below:

	Three months ended 31 March		Increase (decrease)	
	2022	2021	£	%
	Actual	Pro forma		
	in millions, except percentages			
Mobile (a)	£ 1,381.7	£ 1,369.7	£ 12.0	0.9
Handset (a)	357.2	340.5	16.7	4.9
Fixed	1,000.8	1,026.2	(25.4)	(2.5)
Consumer fixed (b)	852.7	858.0	(5.3)	(0.6)
Subscription (c)	834.3	840.4	(6.1)	(0.7)
Other	18.4	17.6	0.8	4.5
B2B fixed (d)	148.1	168.2	(20.1)	(12.0)
Other (e)	117.6	109.2	8.4	7.7
Total	£ 2,500.1	£ 2,505.1	£ (5.0)	(0.2)

- (a) Mobile revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue. Mobile revenue increased £12.0 million or 0.9% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, driven by higher handset sales partially offset by lower service revenue due to the continuing impact of a change in the distribution channel mix. The increase in mobile handset sales revenue in the period reflects higher levels of upgrade activity as compared to the corresponding pro forma period in 2021 following mobile hardware launches from Samsung and Apple late in the third quarter of 2021.
- (b) Consumer fixed revenue includes amounts received from subscribers, including SOHO subscribers, for ongoing services and the recognition of deferred installation revenue over the associated contract period. SOHO subscribers pay a premium price to receive expanded service levels that are the same or similar to the mass marketed products offered to our residential subscribers. Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment. Consumer fixed revenue decreased £5.3 million or 0.6% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, primarily due to the £6.1 million decrease in subscription revenue, where a 1.9% year-on-year increase in fixed-line customers was more than offset by a 2.8% year-on-year decline in fixed-line customer ARPU.
- (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 and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network. B2B fixed revenue decreased £20.1 million or 12.0% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, driven by a decline from the high level of installation revenue for high-capacity data services in the comparative pro forma period combined with a decrease in revenue for voice and equipment sales.
- (e) Other revenue includes revenue from SMIP and provision of information and communication technology services and associated connectivity to O2 business customers. Other revenue increased £8.4 million or 7.7% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, driven by growth in revenue from O2 business customers together with growth in SMIP revenue.

### ***Cost of sales***

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

Our cost of sales decreased £9.0 million or 1.1% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, primarily due to:

- A decrease in interconnect and access costs of £26.6 million or 15.9% primarily due to lower MVNO costs for Virgin Mobile; and
- An increase in mobile handset and other device costs of £14.2 million or 3.7%, primarily due to higher sales volumes.

### ***Personnel expenses***

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

Our personnel expenses decreased £12.0 million or 6.1% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, primarily due to a decrease in salary and payroll costs, reflecting lower headcount, as well as an increase in the use of internal labour for certain capital projects.

### ***Other expenses***

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

Our other expenses (exclusive of share-based compensation expense and depreciation and amortisation) decreased £8.5 million or 1.5% during the three months ended 31 March 2022, as compared to the corresponding pro forma period in 2021, primarily due to:

- A decrease in sales costs of £50.8 million or 38.3%, primarily due to a change in our mobile sales distribution mix;
- A decrease in marketing costs of £13.8 million or 16.6%;
- An increase in network costs and information technology-related expenses of £21.2 million or 22.2%;
- An increase in business service costs of £28.3 million or 25.2%; and
- An increase in bad debt expense of £7.9 million or 127.4%.

## Liquidity and Capital Resources

### *Sources and Uses of Cash*

#### *Cash and cash equivalents*

At 31 March 2022, we had cash and cash equivalents of £71.5 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. It is the intention of the Shareholders that the Joint Venture, and by extension VMED O2, will be a self-funding company capable of financing its activities on a stand-alone basis without recourse to either Shareholder.

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

#### *Liquidity of our subsidiaries*

In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and any borrowing availability under the VMED O2 Credit Facilities. For details of the borrowing availability of the VMED O2 Credit Facilities, see note 5 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 in our 31 March 2022 condensed consolidated statement of financial position. In this regard, we have significant commitments related to (a) purchases of customer premises and other equipment and services, (b) programming contracts and (c) network and connectivity commitments and other items. These obligations are expected to represent a significant liquidity requirement of our Company, the majority of which is due over the next 12 to 24 months. For additional information regarding our commitments, see note 14 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 VMED O2 UK Limited. No assurance can be given that any external funding would be available to our subsidiaries on favourable terms, or at all.

### *Capitalisation*

At 31 March 2022, the outstanding principal amount of our consolidated debt, together with our lease obligations, aggregated £18.5 billion, including £2.1 billion that is classified as current in our condensed consolidated statement of financial position and £13.8 billion that is not due until 2028 or thereafter. For additional information regarding our debt and lease maturities, see notes 5 and 6, respectively, to our condensed consolidated financial statements.

As further discussed under *Quantitative and Qualitative Disclosures about Market Risk* below and in note 7 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 our Adjusted EBITDA and to achieve adequate returns on our property, plant and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by incurrence-based leverage covenants contained in our various debt instruments. In this regard, if our Adjusted EBITDA were to decline, our ability to obtain additional debt could be limited. We do not anticipate any instances of non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at 31 March 2022, 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.

All of our consolidated debt and lease obligations at 31 March 2022 have been borrowed or incurred by our subsidiaries or our joint operation, CTIL. For additional information concerning our debt and lease obligations, see notes 5 and 6, respectively, to our condensed consolidated financial statements.

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

*Summary.* Our condensed consolidated statement of cash flows for the three months ended 31 March 2022 is summarised as follows (in millions):

Net cash provided by operating activities .....	£	526.3
Net cash used by investing activities .....		(272.9)
Net cash used by financing activities .....		(229.9)
Effect of exchange rate changes on cash and cash equivalents .....		(0.2)
Net increase in cash and cash equivalents and restricted cash .....	£	<u>23.3</u>

*Operating Activities.* The net cash provided by our operating activities for the three months ended 31 March 2022 is primarily attributable to our Adjusted EBITDA and related working capital items.

*Investing Activities.* The net cash used by our investing activities for the three months ended 31 March 2022 is primarily attributable to capital expenditures net of repayments on loans receivable from related parties.

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 and equipment and intangible asset additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or lease arrangements. For further details regarding our property, plant and equipment and intangible asset additions, see note 4 to our condensed consolidated financial statements. A reconciliation of our consolidated property, plant and equipment and intangible asset additions to our consolidated capital expenditures, as reported in our condensed consolidated statement of cash flows for the three months ended 31 March 2022 is set forth below (in millions):

Property, plant and equipment and intangible asset additions .....	£	538.3
Assets acquired under capital-related vendor financing arrangements .....		(179.7)
Assets acquired under leases .....		(31.7)
Changes in current liabilities related to capital expenditures, net .....		30.0
Capital expenditures, net .....	£	<u>356.9</u>

Our property, plant and equipment and intangible asset additions during the three months ended 31 March 2022 include (i) investments in network capacity, technology facilities and information technology-related projects, (ii) expenditures for new build and upgrade projects and (iii) baseline expenditures, including network improvements and expenditures for property and facilities and information technology systems.

*Financing Activities.* The net cash used by our financing activities is primarily attributable to cash used of £228.2 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 31 March 2022 and for the three months ended 31 March 2022, as required by the applicable underlying indentures.

As of 31 March 2022, Virgin Media Secured Finance is the issuer of the following senior secured notes:

- £675.0 million principal amount of 2027 VMED O2 Sterling Senior Secured Notes;
- \$1,425.0 million (£1,084.6 million) principal amount of 2029 VMED O2 Dollar Senior Secured Notes;
- £340.0 million principal amount of 2029 VMED O2 Sterling Senior Secured Notes;
- \$915.0 million (£696.4 million) principal amount of 2030 VMED O2 Dollar Senior Secured Notes;
- £480.0 million principal amount of 2030 VMED O2 4.125% Sterling Senior Secured Notes; and
- £635.0 million principal amount of 2030 VMED O2 4.25% Sterling Senior Secured Notes.

Our senior secured notes issued by Virgin Media Secured Finance outstanding as at 31 March 2022, 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.

		<b>31 March 2022</b>					
<b>Statement of financial position</b>	<b>VMED O2 UK Holdings Limited</b>	<b>Virgin Media Secured Finance</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Eliminations</b>	<b>Total</b>	
in millions							
<b>ASSETS</b>							
Non-current assets .....	£ 8.3	£ 4,008.4	£ 37,347.7	£ 1,093.2	£ (710.1)	£ 41,747.5	
Other current assets .....	—	16.0	2,667.5	107.3	(61.9)	2,728.9	
Total assets .....	<u>£ 8.3</u>	<u>£ 4,024.4</u>	<u>£ 40,015.2</u>	<u>£ 1,200.5</u>	<u>£ (772.0)</u>	<u>£ 44,476.4</u>	
<b>OWNER'S EQUITY AND LIABILITIES</b>							
Owner's equity .....	£ 8.3	£ (136.1)	£ 25,252.2	£ (4,186.0)	£ —	£ 20,938.4	
Liabilities:							
Non-current liabilities .....	—	4,095.6	9,101.4	4,935.8	(710.1)	17,422.7	
Current liabilities .....	—	64.9	5,661.6	450.7	(61.9)	6,115.3	
Total liabilities .....	—	4,160.5	14,763.0	5,386.5	(772.0)	23,538.0	
Total owner's equity and liabilities .....	<u>£ 8.3</u>	<u>£ 4,024.4</u>	<u>£ 40,015.2</u>	<u>£ 1,200.5</u>	<u>£ (772.0)</u>	<u>£ 44,476.4</u>	

		<b>Three months ended 31 March 2022</b>				
<b>Statement of profit or loss</b>	<b>VMED O2 UK Holdings Limited</b>	<b>Virgin Media Secured Finance</b>	<b>Guarantors</b>	<b>Non-Guarantors</b>	<b>Total</b>	
in millions						
Revenue .....	£ —	£ —	£ 2,324.4	£ 175.7	£ 2,500.1	
Net profit (loss) attributable to parent .....	£ 0.1	£ (33.2)	£ 176.8	£ 23.4	£ 167.1	
Comprehensive income (loss) attributable to parent .....	<u>£ 0.1</u>	<u>£ (33.2)</u>	<u>£ 186.2</u>	<u>£ 23.5</u>	<u>£ 176.6</u>	

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### *Cash*

We invest our cash in highly liquid instruments that meet high credit quality standards. At 31 March 2022, £65.0 million or 90.9%, £5.3 million or 7.4% and £1.2 million or 1.7% of our consolidated cash balances were denominated in pounds sterling, U.S. dollars and euros, respectively.

### *Foreign Currency Risk*

We are exposed to foreign currency exchange rate risk with respect to our consolidated debt in situations where our debt is denominated in U.S. dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 March 2022, substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 7 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 statements of financial position related to these items will result in unrealised (based upon period-end exchange rates) or realised foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our functional currency, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. Generally, we will consider hedging non-functional currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts and the payments or receipts are not otherwise hedged. In this regard, we have entered into foreign currency forward and option contracts to hedge certain of these risks. For additional information concerning our foreign currency forward and option contracts, see note 7 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:

	<b>31 March 2022</b>
<b>Spot rates:</b>	
Euro .....	1.1856
U.S. dollar .....	1.3139
	<b>Three months ended</b>
	<b>31 March 2022</b>
<b>Average rates:</b>	
Euro .....	1.1946
U.S. dollar .....	1.3164

### ***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 SONIA-indexed, 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 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 7 to our condensed consolidated financial statements.

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

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

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

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

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

*Weighted Average Variable Interest Rate.* At 31 March 2022, the outstanding principal amount of our variable-rate indebtedness aggregated £6.7 billion, and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 3.56%, excluding the effects of interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Assuming no change in the amount outstanding, and without giving effect to any interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, a hypothetical 50 basis point (0.50%) increase (decrease) in our weighted average variable interest rate would increase (decrease) our annual consolidated interest expense and cash outflows by £33.5 million. As discussed above and in note 7 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 31 March 2022, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £346.3 million, (ii) cash and cash equivalent and restricted cash balances of £112.6 million and (iii) aggregate undrawn debt facilities of £1,455.5 million.

We have entered into derivative instruments under master agreements with each counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument. The master netting arrangements are limited to the derivative instruments 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 7 and 8 to our condensed consolidated financial statements.

#### *Cross-currency and Interest Rate Derivative Contracts*

Holding all other factors constant at 31 March 2022:

- (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 £958 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 £336 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 £227 million.