Annual Report and Consolidated Financial Statements

for the year ended 31 December 2021

VMED O2 UK Limited

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Strategic Report

For the year ended 31 December 2021

Introduction

VMED O2 UK Limited (the **Company**) is a private company limited by shares. The Company is a 50:50 joint venture formed on 1 June 2021 between Liberty Global plc (through Liberty Global Europe 2 Limited) (**Liberty Global**) and Telefonica SA (through Telefonica O2 Holdings Limited) (**Telefonica**) (the '**Shareholders**').

Prior to 1 June 2021, the Company was incorporated as part of the Liberty Global Group on 30 April 2020 in readiness for the formation of the Joint Venture (as defined below).

For the purposes of this Annual Report, unless the context otherwise requires, the terms "we," "our", "VMED O2" and the "Group" refer to VMED O2 UK Limited and its consolidated subsidiaries, including the Company. Unless otherwise indicated, operational and statistical data, including subscriber statistics and product offerings, are as at 31 December 2021 or for the year ended 31 December 2021.

The Joint Venture

On 7 May 2020, Liberty Global and Telefonica, amongst others, entered into a Contribution Agreement (the **Contribution Agreement**) and agreed to form a 50:50 joint venture, VMED O2 UK Limited. Combining the operations of Virgin Media Inc. (**Virgin Media**) in the United Kingdom (**UK**) with the operations of O2 Holdings Limited and its subsidiaries (**O2**) in the UK (the **Joint Venture**). The Joint Venture was consummated on 1 June 2021.

As part of the formation of the Joint Venture, on 1 June 2021, Liberty Global and Telefonica (amongst other parties) entered into a shareholders agreement (the **Joint Venture Shareholders Agreement**) whereby Liberty Global and Telefonica directly or indirectly hold 50% of the issued share capital of the Company, and to which Liberty Global contributed the operations of Virgin Media (other than the Virgin Media businesses that were excluded from the transaction) (the **Virgin Media Contribution**) and Telefonica contributed O2 (the **O2 Contribution** and, together with the Virgin Media Contribution, the **Contributions**). The Company is managed by a leadership team which has been selected and appointed by Liberty Global and Telefonica in accordance with the Joint Venture Shareholders Agreement (the **Executive Management Team**).

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

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

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

Business Review

Introduction

Since the formation of the Joint Venture, VMED O2 has focused on initiating the process of the integrating and combining the operations, infrastructure and businesses of Virgin Media and O2 in alignment with the fixed mobile convergence (**FMC**) strategy. We have established a strong leadership team, to combine the operations of the Joint Venture. Within the Joint Venture however, certain operations continued to under operate as Virgin Media and O2. As a result, information included in this Strategic Report will refer to the combined operations of VMED O2, as well as Virgin Media and O2, to provide information on the two operating businesses that were brought together to form VMED O2.

VMED O2's purpose is to "**Reimagine Connectivity and Upgrade the UK**". We are committed to investing in the national recovery, helping the country to climb up the international connectivity league tables and creating a brighter, more prosperous future for every corner of the UK. We are a customer-first business that brings a range of connectivity services together in one place with a clear mission to power the UK's digital future and create unbeatable choice for all our customers. As connectivity continues to power the nation, we remain committed to bringing together next-generation gigabit broadband and 5G services whilst expanding our network reach across the country, creating a more resilient, connected and sustainable future.

In 2021, we successfully fulfilled our commitment to deliver gigabit broadband speeds across our entire fixed-line network and we are now the largest gigabit speed provider in the UK with our Gig1 service available across our UK footprint, representing over 15 million premises. We are on course with our plan to upgrade our fixed-line network to full fibre to the premises (**FTTP**) by 2028 and have also made good progress on the expansion of our mobile network. As at 31 December 2021, we had continued to roll out our 5G network, focusing on strengthening our 5G coverage in over 300 towns and cities, while introducing the next generation network to a number of tourist hotspots. Following the UK Office of Communications' (**Ofcom**) 5G Spectrum Auction in spring 2021, we now have more low-band spectrum than any other UK connectivity provider, creating an opportunity to deliver the largest 5G coverage footprint in the UK.

The Joint Venture also affords our customers and the wider UK economy the benefit of being part of one business for their connectivity and entertainment solutions. So, while we continued to trade under the Virgin Media, O2, giffgaff and Virgin Mobile brands throughout 2021, we worked quickly to explore new propositions that would benefit customers across our brand portfolio. In October 2021, we launched Volt, a new joint customer proposition, which provides exclusive benefits for customers choosing the Virgin Media and O2 brands. We also extended access to existing customer benefit programmes, with Virgin Media customers now able to access Priority (an O2 programme) which provides offers from high street brands and entertainment experiences at no extra cost. This includes Priority Tickets which gives access to tickets for events and gigs at hundreds of venues across the UK up to 48 hours before general sale, as well as a host of other rewards.

We are committed to playing a leading role in helping the UK become a connected digital leader and we are investing in the expansion of our network and bringing 5G to more parts of the country, providing high quality connections that are essential to modern life. Our ambition is to reach 50% population coverage of 5G services in 2023, optimising our network and investing in critical digital infrastructure that will boost the UK's economic growth.

We aim to use the power of connectivity to close the digital divide and helping to build an inclusive, resilient, and low carbon economy. We are also accelerating change within our own business and operations to make a zero carbon and zero waste future a reality. Our goal is to achieve net zero carbon and zero waste operations by the end of 2025.

Key Performance Indicators (KPIs)

As at 31 December 2021

	No.
Footprint	
Homes Passed[1]	15,649,900
Fixed-Line Customer Relationships	
Fixed-Line Customer Relationships[2]	5,768,300
Broadband Connections	5,596,800
Mobile	
Retail Connections[3]	32,276,800
Mobile	24,057,100
Contract[4]	15,938,000
Prepaid[5]	8,119,100
IoT[6]	8,219,700
Wholesale Connections[7]	9,966,600
Total Mobile Connections	**42,243,400**

1. **Homes Passed** are homes, residential multiple dwelling units or commercial units that can be connected to our fixed-line networks without materially extending the distribution plant. Our Homes Passed counts are based on census data that can change based on either revision to the data or from new census results.
2. **Fixed-line Customer Relationships** are the number of customers who receive at least one of our broadband internet, video or telephony services that we count as Fixed Connections, without regard to which or to how many services they subscribe. Fixed-line Customer Relationships are generally counted on a unique premises basis. Accordingly, if an individual receives our services in two premises (e.g., a primary home and a vacation home), the individual will generally count as two Fixed-line Customer Relationships. We exclude mobile-only customers from Fixed-line Customer Relationships.
    a. **A Fixed Connection** is separately a broadband connection, video connection or telephony connection. A home, residential multiple dwelling unit or commercial unit may contain one or more fixed connections. For example, if a residential customer subscribed to our video service, fixed-line telephony service and broadband internet service, the customer would constitute three fixed connections. We had 13.4 million total fixed connections at 31 December 2021.
        i. **Broadband Connection** is a home, residential multiple dwelling unit or commercial unit that receives internet services over our network, or that we service through a partner network.
3. **Mobile Retail Connections** represents the number of active subscriber identification module (**SIM**) cards in service rather than services provided. For example, if a mobile subscriber has both a data and voice plan on a smartphone this would equate to one Mobile Subscriber. Alternatively, a subscriber who has a voice and data plan for a mobile handset and a data plan for a laptop would be counted as two mobile subscribers. Customers who do not pay a recurring monthly fee are excluded from our Mobile Subscriber counts after periods of inactivity of three calendar months. Total number of Mobile Retail Connections includes Consumer, Small and Medium Businesses (**SMB**), Large Enterprise and Public Sector (**LEPS**), Mobile Broadband and Internet of Things (**IoT**) (comprising Machine-to-Machine (**M2M**) and Smart Metering Implementation Programme (**SMIP**) and excluding Mobile Wholesale Connections (as defined below).

4. **Mobile Contract** represents the total number of Postpaid contract retail mobile connections including Consumer, SMB, LEPS and Mobile Broadband but excluding M2M, SMIP and Mobile Wholesale Connections (as defined below).
5. **Mobile Prepaid** represents the total number of Prepay retail mobile connections for Virgin Media, O2 and giffgaff brands measured on the basis of activity within three calendar months.
6. **Internet of Things** (**IoT**) **Connections** represent the total number of M2M connections including SMIP contract connections.
7. **Mobile Wholesale Connections** represents the total number of wholesale MVNO contract connections (Tesco Mobile, Sky Mobile, Lycamobile, SMB Wholesale and other).

Our Fixed-line Network in the UK

Consumer Products and Services

We offer our customers a choice of packages and tariffs within each of our fixed-line product categories. Our bundled packaging and pricing are designed to encourage our customers to purchase multiple services across our product portfolio by offering incentives to customers who subscribe to two or more of our products. The types and number of services that each customer uses, and the prices we charge for these services, drive our revenue. For example, broadband internet is more profitable than our television services and, on average, our "triple-play" customers are more profitable than "double-play" or "single-play" customers. At 31 December 2021, 97% of our 5.8 million fixed-line customers are broadband internet customers and fixed-mobile convergence penetration stood at 45% of our broadband internet customers. Fixed-mobile convergence penetration represents the number of customers who subscribe to both a broadband internet service and post-paid mobile telephony service, divided by the number of customers who subscribe to our broadband internet service.

Broadband Internet

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

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

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

Internet speed is of crucial importance to our customers, as they spend more time streaming video and other bandwidth-heavy services on multiple devices. Our extensive broadband network enables us to deliver ultra high-speed internet service across our markets in the UK. Our residential subscribers access the internet via cable modems connected to their internet capable devices, or wirelessly via a WiFi gateway device.

We currently offer six tiers of cable broadband internet services to new subscribers with unlimited downloads at speeds of up to 50 Mbps (megabits per second), 100 Mbps, 200 Mbps, 350 Mbps, 600 Mbps and 1.1 Gbps in the UK. We are now the largest gigabit speed provider in the UK with our Gig1 service available across our UK footprint, representing over 15 million premises. We won the Uswitch award for Fastest Broadband Provider in the UK in 2021.

We offer value-added broadband services for an incremental charge. These services include Intelligent WiFi features, security (e.g. anti-virus, anti-spyware, firewall and spam protection) and Smart Home services. Subscribers to our internet service pay a monthly fee based on the tier of service selected. In addition to the monthly fee, customers pay an activation service fee upon subscribing to an internet service.

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

By leveraging our existing fibre-rich broadband networks and the Network Extension programme in the UK, we are in a position to deliver gigabit services by deploying the next generation DOCSIS 3.1 technology. DOCSIS 3.1 technology is an international standard that defines the requirements for data transmission over a cable system. Not only does DOCSIS 3.1 technology improve our internet speeds, but it also allows for network growth. On 29 July 2021, we announced our intention to upgrade our fixed-line network to full FTTP with completion expected in 2028. The upgrade plan will cover the vast majority of our network, taking into account our existing 1.4 million FTTP homes passed.

Expanding our Fixed Network

Liberty Global and Telefonica, together with InfraVia Capital Partners (**InfraVia**), a leading independent financial investment firm specialising in infrastructure and technology investments, have reached an agreement to set up a new joint venture that will roll out fibre-to-the-home (**FTTH**) to greenfield premises across the country. The partnership will initially roll out fibre to 5 million homes not currently served by VMED O2's network by 2026, with the opportunity to expand to an additional 2 million homes. This investment of approximately £4.5 billion will provide a major boost to the nation's digital economy and make a significant contribution to the Government's gigabit broadband ambitions.

Television

Our digital cable platform includes access to over 230 linear television channels, advanced interactive features and a range of premium subscription-based and Pay Per View (**PPV**) services. In addition to our linear television services, which allow our customers to view television programming at a scheduled time, our digital cable customers also have access to a broad range of digital interactive services, including Virgin TV On Demand, one of the most comprehensive digital cable-on-demand services in the UK, and Virgin TV Go.

We also offer interactive "red button" applications enabling customers to receive additional interactive services, including multiple alternative broadcasts from the British Broadcasting Corporation (**BBC**) and other commercial broadcasters, such as Sky plc (**Sky**) and BT Group plc (**BT**).

Digital Set-Top Boxes

We have a range of advanced digital set-top boxes in use with our customers, which include multiple tuners enabling recording of multiple programmes at the same time.

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

Virgin TV 360

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

Stream from Virgin Media

We have recently launched Stream from Virgin Media, a new flexible and seamless entertainment service that brings together customers' favourite entertainment subscriptions under one roof, with an easy-to-use interface and the flexibility to change a subscription anytime. This way, our customers can easily access the content they love, only pay for what they plan to use each month and get one simple bill for all of it. Subscription-based streaming is how many people are now watching TV. Some consumers aren't looking to buy the full TV packs we currently offer. Stream will help us reach this audience by giving them a simpler way to manage all their subscriptions and, even better, power their entertainment with our lightning-fast broadband.

Virgin TV On Demand

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

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

Subscription Video On Demand

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

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

Virgin Media Store

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

Virgin TV Go & Virgin TV Control

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

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

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

Apps

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

Fixed-line Telephony

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

Our Mobile Network in the UK

Products and Services

We offer a wide range of mobile telecommunications and value-add services and products to our consumer and business customers principally under our premium O2 brand. Our customer-led approach is designed to maintain and increase our large, loyal customer base to drive value.

Consumer Products and Services

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

Mobile Services

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

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

We provide the O2 Family offering, which aims to support families by simplifying the billing process and providing discounts based on the number of family connections registered. For each connection registered, the primary account holder receives one bill, rather than multiple bills for individual family members throughout the month.

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

Hardware Sales

In addition to handsets, tablets and data access devices offered to our mobile customers, we also offer a range of stand-alone products, including smart-tech (such as smart watches and fitness devices) and accessories.

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

Consumers on any network can exchange or recycle their existing handset through O2 Recycle, a scheme which allows people to exchange old phones and other electrical gadgets, utilising the value towards the cost of a new device or for cash payment or bill credit. Devices returned through O2 Recycle are processed for re-use via Like New, Market Place, re-sold or sent for environmental recycling by dissembling and harvesting component parts.

Value-add Services and Products

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

Rewards and Offers

Priority is one of the UK's largest digital loyalty programmes, offering customers a range of exclusive deals and offers through a mobile app, as well as 48 hours early access to presale tickets for music, comedy and sports events across the UK, including The O2, O2 Academy venues based in twenty-one locations across the UK, England Rugby matches at Twickenham and over 600 venues nationwide.

WiFi

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

Communications

WiFi Calling (also called Voice over WiFi or VoWiFi), allows customers to make and receive calls even if they cannot connect to the mobile network. 4G Calling (also called Voice over LTE or VoLTE) allows customers to make calls using its 4G network, for a clearer voice call. In 4G Calling areas, WiFi and 4G Calling work together to provide a seamless and uninterrupted experience as customers move from one to another, thereby ensuring that no calls are dropped.

Payment Services

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

MyO2

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

O2 Extras

We launched O2 Extras in partnership with, amongst others, Amazon (Music Unlimited, Prime Video & Audible) and McAfee. O2 Extras gives O2 customers the ability to pick a partner service to enjoy (at no initial cost) as part of their tariff.

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

Business and Wholesale

Overview

At a time when connectivity has never been more critical in driving productivity, reducing costs, facilitating the flexible future of work and enabling a smarter, more sustainable future, it's no surprise that organisations of all shapes and sizes want a partner that can really understand their connectivity needs. Business and Wholesale (**VMED O2 Business**) is designed to provide this tailored support, offering products and services to large enterprise, public sector and small & medium business customers as well as wholesale and MVNO partners.

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

In addition, we look to partner with other organisations to wholesale our connectivity, whether fixed or mobile. We have a relationship with some of the largest MVNO's in the UK. This means we wholesale our network to organisations such as Tesco Mobile, Sky Mobile and Lycamobile. Finally, VMED O2 also provide the connectivity for much of the UK's Smart Meter infrastructure roll out, which gives consumers real time information on their energy consumption, helping them to control and manage their energy use and critically, supporting the UK's transition to a low carbon economy.

The UK needs connectivity that is fit for today and for the future. Businesses need to be able to respond to the needs of today's dynamic workforce and the growing demand for flexibility. They need connectivity solutions that will reduce costs, boost productivity and drive innovation. They also need to respond with increasing urgency to the real threats associated with climate change, using digital technology to deliver smarter, lower carbon solutions. VMED O2 Business understands these challenges and is committed to reimagining the role that connectivity can play in helping UK businesses large and small to grow and thrive both now and over the longer term.

Small and Medium Business (SMB)

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

Not only do we focus on connecting, securing and empowering our customers' businesses, but we bring enhanced service and flexibility, alongside digital innovation, helping our customers find new ways to address their business challenges.

Direct Sales

In our direct sales channel for SMB customers we have both a mobile and non-mobile portfolio. Examples of our mobile portfolio are singleton tariffs that have inclusive allowances of calls, text and data for SMB customers and sharer tariffs for our Medium Business customers. Examples of our non-mobile portfolio include our Microsoft Office 365 security products such as Maas 360 and Sophos and fixed connectivity solutions.

Throughout 2021, our overarching value proposition has centred around flexibility, recognising the fact that things can change very quickly for our SMB customers. Positioning ourselves as the "Flexible Network" we have focused on helping our Small Business customers to flex and adapt, building their resilience:

- *Choice of contract length* - We offer a choice of contract lengths from 30 days to 36 months providing our SMB customers with the choice their business needs;
- *Data rollover* - No business can afford to waste data it doesn't use, so we automatically roll over unused data to the next month for our SMB customers;

- *Flexible tariffs* - We've made our business tariffs flexible, so our SMB customers can flex their data allowances up or down, plus change their tariff once every billing cycle;
- *Dedicated business support* - Our account managers provide our SMB customers the advice and support they need to work more effectively; and
- *Flexible digital tools* – Digital tools that enable flexible working so small businesses can work productively and securely anywhere.

Indirect Sales

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

Products

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

We have partnered with leading hardware and software brands such as Apple, Samsung, IBM, Microsoft, Sophos, McAfee and Ingram Micro to deliver a curated portfolio that enables customers to simplify their communication and migrate their IT to the cloud.

Large Enterprise and Public Sector (LEPS)

Overview

VMED O2 Business has a large and dedicated sales, commercial and marketing team focused exclusively on provision to LEPS customers in the UK. Sales and account management are split into three areas:

- New Business Development;
- Key Accounts & Multinational Corporations; and
- Volume Sales

These teams are responsible for taking our full range of product propositions to many of UK's largest businesses and public sector entities, across all industries. VMED O2 Business services a range of private sector organisations including retail, construction, professional services, hospitality, financial services and manufacturing. Notable customers include McDonald's, NHS England, Network Rail, Sainsbury's and Transport for London.

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

Products and Services

Mobile

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

Voice Unified Communications ("UC") and Productivity

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

Connectivity, Cloud and Security

VMED O2 Business has a rich portfolio of connectivity solutions that range from high performance broadband and internet access to complex managed WAN and LAN/WiFi solutions for enterprise and public sector customers.

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

Our Ethernet network has over 300 Ethernet nodes and is capable of carrying a variety of services and high bandwidth applications simultaneously. Our managed WAN solutions securely connect business users and devices to the data centres, cloud services and applications that are most relevant to their business needs. We're also supporting customers with broader digital transformation, offering new generation services such as Software Defined Wide Area Networks (**SD-WAN**) built around the cloud and "software-as-a-service applications".

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

Digital Workplace

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

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

The O2 Managed Logistics Service (**MLS**) allows our LEPS customers to speed up device on-boarding by having VMED O2 kit and pre-configured devices prepared to their specific operational needs, along with optional lifecycle repairs, replacement, and asset management. The service offers rapid replacement of any damaged, lost or stolen devices, ensuring our customers stay connected and operational. The service additionally facilitates end-of-life asset value recovery and disposal by integrating with the O2 Recycle service.

Messaging

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

Future Innovation

VMED O2 has invested in capability that will help organisations deliver their outcomes both now and in the future including 5G, IoT, Data Analytics and Artificial Intelligence. Our product portfolio continues to grow as we partner and innovate with our customers:

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

Partnerships

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

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

As a combined organisation, VMED O2 Business can now benefit from a much wider breadth of partner-supported capability, which is helping to accelerate the delivery of products and services to our customers, enabling us to optimise our supply chain and focus on driving deeper more collaborative partnerships.

Wholesale Fixed

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

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

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

Partner relationships are key to customer experience and these form a crucial part of the Wholesale Fixed business performance and success. Wholesale product key partners are Alcatel, Ciena and Infinera for network equipment supply and Nokia for design, build and deployment of professional services.

Wholesale Mobile

Mobile Virtual Network Operator (MVNO)

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

Tesco Mobile

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

Tesco Mobile offers its services and products across multiple channels, including through extensive national store coverage as part of Tesco stores, together with telesales and online sales. As at 31 December 2021, Tesco Mobile had over 5 million customers.

Sky Mobile

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

Lycamobile

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

Messaging & Payments

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

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

Internet of Things (IoT)

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

Smart Metering

We deliver communications services (including the supply of communication hubs) for 23 million homes and businesses in the central and southern regions of the UK as part of the Smart Metering Implementation Programme (**SMIP**), one of the largest IoT projects in the world. SMIP has been rolling-out millions of gas and electricity smart meters across the UK to help consumers monitor and reduce their energy use and CO2 emissions. We are a core communications service provider within SMIP and the programme is a key part of the UK Government's commitment to achieve Net Zero Carbon by 2050.

Virgin Media Mobile - MVNO

Through Virgin Media business we offer consumers mobile communication services that are currently provided using the mobile networks owned by EE and Vodafone through MVNO arrangements. In January 2021, we launched 5G services using the Vodafone network and all customers with access to 5G utilised that network while all customers who only have access to 4G, below utilised the EE network.

Following the formation of the Joint Venture, all consumer mobile services will be delivered through our own mobile network. In October 2020, we completed the SIM swap migration so that all customers are now using our core network. As a result, we were able to move 5G customers seamlessly from EE to Vodafone without the customers needing to swap their SIMs. The EE agreement came to an end 31 December 2021 and all remaining customers were 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.

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

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

Network Infrastructure

Our Fixed-line Network Infrastructure

We deliver broadband internet, video and fixed-line telephony services over our cable access network, which covers parts of many metropolitan areas in the UK. The deep-fibre design of our access network enables us to transmit data by means of fibre optic cable from equipment in technical properties known as "headends" and "hubsites" to widely deployed distribution cabinets. The data is then transmitted to distribution points via coaxial cable for digital broadband signals and digital television and via twisted copper cables for fixed-line telephony. The final connection into each home from the fibre access network comprises two components combined into a single drop cable (twisted copper and coaxial cable). For broadband internet and video services we only use high-capacity coaxial cable, which has considerable spectrum and associated bandwidth capabilities and which concurrently supports a full portfolio of linear and digital cable-on-demand services as well as high-speed broadband internet services for both consumers and business customers. Using DOCSIS 3.1, we currently offer download speeds of up to 1.1 Gbps for consumers and 1.0 Gbps for Business customers on our hybrid-fibre-coaxial network. We have also conducted trials of higher downstream speeds. For fixed-line telephony services, historically we have used the twisted copper pair access network. However, more recently we have delivered voice services into the home over the coaxial cable. As a result of the extensive use of fibre in our access networks, we are also able to provide high-speed data network services to business customers delivering nationwide connectivity.

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

Our Mobile Network Infrastructure

Through our O2 brand we operate a mobile access network based on 2G, 3G, 4G and 5G standards. As at 31 December 2021, our O2 network sharing arrangement with Vodafone consisted of more than 17,800 shared mobile sites (in addition to those operated separately by O2). This includes 2G, 3G, 4G and 5G base stations (connecting handsets to O2's mobile network using available spectrum), backhaul (the transport link between the mobile sites and O2's core network), the core network (composed of data centres which store customer information and location and switching sites which route voice calls and data to their intended destination) and a service layer (which provides messaging and voicemail capabilities). See also "Network sharing arrangement between Vodafone Limited and O2" below for more information.

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

	UK Population Coverage		
Network	Outdoor	Indoor	UK Geographic Coverage (1)
2G	99.77 %	99.40 %	96.50 %
3G	99.74 %	97.15 %	94.15 %
4G	99.58 %	99.00 %	86.63 %[1]

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

As at 31 December 2021, we have continued to roll out our 5G network, focusing on strengthening our 5G coverages in over 300 towns and cities while introducing the next generation network to a number of tourist hotspots. Our focus has been on network reliability and coverage. Following the UK Office of Communications' (**Ofcom**) 5G Spectrum Auction in spring 2021, we now have more low-band spectrum than any other UK operator, providing an opportunity to have the largest 5G coverage footprint in the UK.

The four major MNOs in the UK, including O2, are each conditionally committed to delivering high-quality 4G geographic coverage to at least 90% of the UK landmass by January 2027, supporting the objectives of the Shared Rural Network (**SRN**).

Network Coverage and Reliability

We invest in our mobile network to deliver a robust and reliable service to our customers, to remain competitive in the market and to exploit the potential that 5G technology can provide. Our network sharing arrangement with Vodafone provides comprehensive network coverage and will allow more people to access 5G technology faster than would otherwise be possible. See "Network Sharing Arrangement between Vodafone Limited and O2" below for more information.

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

Capacity and Spectrum Management

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

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

Network Sharing Arrangement between Vodafone Limited and O2

O2 and Vodafone have a network sharing arrangement under which Telefonica UK Limited and Vodafone share their collective mobile sites to form a single, national grid of mobile sites across the whole of the UK and 5G active equipment, such as radio antennae, on joint network sites in certain parts of the UK.

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

In January 2021, O2 and Vodafone announced a new Master Services Agreement, which will provide for operational simplicity and efficiency, and will enable CTIL to generate revenue by offering space on infrastructure to third parties.

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

Sales and Distribution

We offer our Virgin Media consumer products and services through a broad range of sales channels, including inbound and outbound telesales, customer care centres and online. As at 31 December 2021, we employed approximately 900 staff members in our UK call centres as well as additional outsourced call centres in the UK, Philippines and India. Additionally, we engage in direct face-to-face marketing initiatives through a dedicated national sales force of approximately 500 representatives, as well as comprehensive national and regional mass media advertising initiatives. Since the year end, we have announced and implemented our decision to transfer our in-house Telesales and Retentions contact centre teams to Sitel UK Limited under the terms of Transfer of Undertakings (Protection of Employment) Regulations 2006 (**TUPE**).

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

In addition, we also sell products and services directly through the O2 website, the MyO2 mobile app and through telesales.

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

Brands and Marketing

We operate a portfolio of brands including O2, Virgin Media, Virgin Mobile and giffgaff. We also have an interest in Tesco Mobile via our 50% stake in the Tesco Mobile Joint Venture.

We engage in marketing activity to promote our brands and products to new and existing customers across a wide range of media and owned channels including television, radio, print, outdoor, direct mail, digital, social, SMS, MMS and email, as well as engaging customers through our websites and apps.

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

Virgin Media O2 Brand

Virgin Media O2 is the brand for the Joint Venture. It is also used when communicating joint consumer and business facing propositions or portfolios. Since the brand launched on 1 June 2021 there have been a number of announcements and launches, including a new joint customer proposition, Volt, which provides exclusive benefits for being with both Virgin Media and O2; the expansion of benefits across the portfolio, with Virgin Media customers now able to access Priority from O2 and a continued focus on responsible business, with the launch of a new National Databank to tackle data poverty.

Virgin Media Brand

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

O2 Brand

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

giffgaff Brand

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

Virgin Mobile Brand

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

Sponsorships

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

O2 Intellectual Property Rights

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

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

Virgin Media Patents, Trademarks, Copyrights and Licences

Virgin Media owns or has the right to use patents, copyrights and registered trademarks, which in some cases are, and in other cases may not be, of material importance to our business. This includes the exclusive right to use the “Virgin” name and logo under licences from Virgin Enterprises Limited in connection with our corporate activities and the activities of our consumer and business operations. These licences, which expire in April 2036, are exclusive to us within the UK, Northern Ireland, the Isle of Man and Channel Islands, and are subject to renewal on terms to be agreed. They entitle us to use the “Virgin” name for the broadband internet, television, fixed-line telephony and mobile telephony services we provide to our consumer and business customers, and in connection with the sale of certain communications equipment, such as set-top boxes and cable modems. That exclusivity includes the use of “Virgin Media” for the provision of consumer communication services and “Virgin Media Business” for the provision of business communication services.

Customer Service

VMED O2 is committed to providing an excellent end-to-end customer experience. We strive to continually improve our customer experience by listening to our customers and understanding how we can deliver the best possible experience across all our service touch points. Customers have access to multiple interactive service channels (voice, online, web chat, asynchronous messaging (ASM), MyO2 and social media), which allow them to resolve a range of queries through their preferred method of contact. The customer journeys and customer service operations teams have continued working together to drive improvements in self-serve and the end-to-end customer experience for the growing volume of customers that choose self-serve as their first point of contact. Customers continue to utilise online and self-service channels to seek help, providing a simple and effective way for them to resolve their query and leaving assisted channels to handle more complex requests.

We offer a VIP/Platinum Service for premium customers, giving them “one stop” access to all their sales and service needs. ‘Our Access for You’ team also supports customers who find it difficult to access our services in the conventional way due to a disability or personal situation. Once registered, customers have access to a specialist team of advisors who will be aware of their personal situation and have received additional training on meeting their specific needs, allowing us to make any reasonable adjustments that the customer requires.

Insight from our customers is an important element of how we improve end to end customer experiences and deliver against our business KPIs. Customer feedback in the form of Voice of the Customer surveys (fanBASE), formal complaints and call reasoning analysis help us to identify opportunities where we can optimise our service and journeys. This year we also launched customer journey surveys that enable us to devise focussed action plans for journey improvements.

Our approach also involves proactively and holistically responding to unhappy customers and resolving their outstanding issues by "closing the loop". Customers who have expressed dissatisfaction via our Voice of the Customer surveys are given the opportunity to book a call back appointment with our specialist team at a time that suits them.

Additionally, our Social Media team push out regular service messages, providing a consistent feed to help and support our customers and in tandem, they proactively identify and respond to customer concerns and queries. Their approach is centred on elevating self-serve, improving the quality of help and support, keeping customers "in the know" via service messaging and growing community involvement.

Vulnerable Customers

Our approach to vulnerable customers and those with disabilities is outlined in our Accessibility and Vulnerable Customer policy published on our website. We continue our work with regulators and external bodies to understand areas of vulnerability which may impact our customers. Our aim is to provide support to customers who may be vulnerable when they interact with us and ensure that they receive a consistent approach which considers their circumstances, meets their needs and delivers a great experience.

All of our customer facing colleagues complete training on the concept of vulnerability, how to identify customers who need additional support and how to encourage them to disclose the details of their situation. This enables us to respond to individual customer needs in the most appropriate way, including offering access to specialist teams who can offer more personalised and tailored support.

Breathing Space for financially vulnerable customers

In May 2021, we implemented processes to support Debt Respite, otherwise known as "Breathing Space," which is a Government scheme to help relieve some of the pressure of dealing with creditors. This means customers who are struggling financially can focus on securing debt advice and setting up their debt solution without worrying about being chased for payment or incurring extra charges. Breathing Space is only available to someone who is receiving mental health crisis treatment and it has some stronger protections. It lasts as long as the person's mental health crisis treatment, plus 30 days (no matter how long the crisis treatment lasts).

IT Systems and Security

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

Property and Leases

We own or lease the fixed assets necessary for the operation of our businesses, including office space, retail stores, transponder space, head-end facilities, rights of way, cable television and telecommunications distribution equipment, telecommunications switches and customer premises equipment (**CPE**), technical sites, mobile sites and other property necessary for our operations. VMED O2 leases its headquarters in Hammersmith, London.

Under the mobile network sharing arrangement between the companies, both Vodafone and VMED O2, through our subsidiary Telefonica UK Limited, have access to a single grid of more than 17,800 shared mobile. CTIL holds almost all of the mobile sites (either wholly or by holding space on the site) under operating lease agreements. See also "Network sharing arrangement between Vodafone Limited and O2" above for more information.

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

Insurance

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

VMED O2 does not currently insure the underground portion of its fixed-line network or various pavement-based electronics associated with its fixed-line network. Almost all of its fixed-line network is constructed underground. See 'Principal Risks and Uncertainties' below for details on how we manage the risks.

Competition

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

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

Broadband Internet

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

In addition to the competition and pricing pressure in the broadband internet market arising from Local Loop Unbundling (**LLU**), we may be subject to increased competition in the provision of broadband internet services from mobile internet and technological developments (such as Long-Term Evolution, or LTE, and 5G mobile technology) and other wireless technologies, such as WiFi and Worldwide Interoperability for Microwave Access. For example, EE and Vodafone's 4G mobile coverage have each reached 99% of the UK population. Operators differ in how they communicate their 5G coverage externally. As at 31 December 2021 VMED O2 reported 5G coverage in over 300 towns and cities as did Three and Vodafone reports 5G coverage in 127 towns and cities, while EE reports 5G coverage in terms of a 40% coverage of the population.

Television

We are the largest cable television provider in the UK in terms of the number of video customers and the sole provider of video cable services in all of our network area. Our digital television services are available to approximately 50% of UK television households. Our digital television services compete primarily with those of

Sky and BT. Sky is the primary pay satellite television platform in the UK. Sky owns the UK rights to SD, HD and UHD/4K versions of various sports and movie programming content. Sky is both our principal competitor in the pay-TV market and an important supplier of basic and premium television content to us.

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

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

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

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

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

Fixed-line Telephony

We compete primarily with BT in providing telephony services to residential customers in the UK. BT occupies an established position as the former state provider. We also compete with other telecommunications companies that provide telephony services directly, through LLU, or indirectly. These include TalkTalk and Sky, and mobile telephone operators such as EE, Vodafone and Three. Our share of the fixed-line telephony market in the UK is approximately 16% as at 31 December 2021.

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

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

Mobile

In the mobile telephony sector, we face direct competition from MNOs, such as BT (through its wholly owned subsidiary, EE), Vodafone and Three, and other MVNOs, such as Tesco Mobile, Lebara, TalkTalk, Sky Mobile and

ASDA. We also compete with fixed-line telephony operators, with companies offering VoIP services, and from the growth in online communication, as described in "Fixed-line Telephony" above.

EE became the first UK MNO to launch 5G in May 2019, with Vodafone and Three following in July 2019 and August 2019, respectively. As at 31 December 2021, operators differ in how they communicate their 5G coverage externally. As at 31 December 2021 VMED O2 reported 5G coverage in over 300 towns and cities as did Three and Vodafone reports 5G coverage in 127 towns and cities, while EE reports 5G coverage in terms of a 40% coverage of the population.

Business

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

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

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

People

Our people remain our greatest asset and to help VMED O2 deliver on our purpose to reimagine connectivity and upgrade the UK. Our people strategy is focused on creating an environment that enables and empowers our people to perform at their best. This is achieved through empowering our teams through new ways of working and technology, ensuring a focus on talent development, creating a diverse and inclusive organisation, and engaging and motivating our teams by listening to and acting upon their feedback in order to make our Company a great place to work.

Diversity, Equity and Inclusion

Our policies provide clear guidance regarding our approach to diversity, equality and inclusion, including a zero tolerance approach to discrimination. All employees have the right to be free from harassment, bullying, discrimination or unwanted behaviour regarding gender, gender identity, race, disability, age, nationality, marital status, caring responsibilities, sexuality or political or religious beliefs. We are committed to ensuring that all employees have the same opportunities to achieve their potential and contribute to our success. In addition, we have a number of people policies covering the full range of employee lifecycle situations including family friendly leave policies, employee benefits, performance management, disciplinary and grievance. All our policies are reviewed and revised regularly.

We are committed to championing Diversity, Equity and Inclusion (**DE&I**). Our employee networks have now come together to form 6 new employee resource networks Enrich, Proudly, Gender Equality, Ultraviolet, Extra Ordinary and We Care. Our networks have hosted some fantastic events on topics such as Black History Month, International Day of Persons with Disabilities, Carers Rights Day, World Aids Day, Pride, National Infertility Awareness Week and Neurodiversity Celebration Week.

We are committed to embed DE& I across VMED O2. Prior to the Joint Venture both O2 and Virgin Media started the journey to increase diversity representation and we have continued to make steady progress towards being a truly inclusive employer including a long-term evolution of mind-set and behaviours.

	O2	Virgin Media
As at 31 December 2021:		
Percentage of females at middle management grade	32.0%	30.7%
Percentage of black, asian and minority ethnic employees at middle management grade	14.4%	9.8%
Percentage under 30s at middle management grade	5.0%	6.0%

During National Inclusion Week we launched "All In", our new DE&I brand and employees tuned in to our sessions on DE&I topics. We saw an increase of people within our new All In Workplace group during the week by almost 52% and received almost 1,000 comments, likes, shares and All In pledges from across the organisation. Our Executive team also led a DE&I Superstream to demonstrate our leadership commitment to driving a more diverse and inclusive organisation.

In October 2021, over 6,500 employees took part in our first ever Vibe DE&I survey. We announced our partnership with 2020 Change, an organisation providing hundreds of young people from underrepresented ethnic groups with coaching and advice, helping to bridge the gap between education and employment. We renewed key partnerships with Stonewall and Inclusive Employers who have both fed into our strategy design.

Through our inclusive hiring practices, we are also proactively looking at ways to attract and retain disabled talent within the organisation. We are a signatory to the Disability Confident Scheme (currently Level 1 status) and are working to achieve Level 2 by the end of 2022. Our work in this regard includes a commitment to implement a Guaranteed Interview Scheme for specific roles across the organisation, for those disabled candidates who are part of the scheme and meet the minimum requirements of the identified job roles. We have also begun a partnership with Microlink to ensure that we are offering the best, and most accessible and inclusive workplace experience to all of our employees, inclusive of those with disabilities.

Wellbeing

We have a number of people policies covering the full range of employee lifecycle situations including family friendly leave policies, employee benefits, performance management, disciplinary and grievance. All our policies are reviewed and revised as required regularly.

As a result of COVID-19, the UK announced a national lockdown with additional safe working restrictions in 2021. This meant that for the majority of 2021, our people were encouraged to work from home, and many of our employees were unable to legally travel to work on site (except for key workers). Our priority was to enable as many of our people as possible to work from home, including our call centre staff and retail stores team, who were supported with new ways of working. To facilitate this, we recruited additional contact centre employees to ensure our customers continued to receive a seamless service and our people continued to be supported in their roles. We immediately changed our recruitment and on-boarding practices to support and protect all employees, hiring managers and candidates, including conducting all interviews virtually.

During lockdown, all new starters collected their equipment during pre-booked appointments or were given the option of delivery to their home, with a full virtual induction plan to ensure a smooth onboarding process. We launched a number of people-focused initiatives to support new starters during lockdown including a financial wellbeing scheme which protected base pay for employees, not furloughing anyone during lockdown. In addition, we provided a range of financial wellbeing benefits such as a loan scheme with Virgin Money for our Virgin Media employees. We have also provided our people with guidance and support for emotional wellbeing, as well as equipping our leaders with specific content to ensure they have healthy and productive teams during the lockdown and ongoing pandemic.

As a result of COVID-19, some of our people were unable to attend work for various reasons including sickness, isolation, home-schooling or other caring responsibilities. It was important that we supported our people by providing financial security, and so we provided full pay where our people were unable to attend work as a result of these reasons. During COVID-19, we have regularly encouraged and enabled our people to 'do what they can, when they can', encouraging flexible working.

We have continued to support our employees and ensure the safe operation of our business by adapting some of our key people policies. Any interim adjustments made were shared with our people via one centralised document, our COVID-19 Policy. We regularly review and update this document and communicate any key changes to our people as we continue to respond to new Government advice.

Values and Culture

VMED O2 has launched shared Company values: Brave, Real and Together, which aim to unify and focus our business on the values and behaviours that define VMED O2. These values provided a key focus for discussion at Executive Management Team roadshows during 2021, with our leaders sharing their own examples of these values in action and inviting colleagues to do the same. The recognition scheme also celebrates and showcases these values in action, helping to build a values-led culture for the new business.

Our focus on ensuring that we retain and develop the talent, capabilities and skills of our people is a key priority. The supply and demand of knowledge and skills is constantly changing the size and shape of our workforce. It is therefore essential that we continue to develop the skills, capabilities, and behaviours of all our people to support the success of our future organisation. Our Learning & Development team and our partnership with LinkedIn Learning provides all of our people with access to a range of learning content (technical, professional and leadership) as well as the capability to promote targeted learning to specific teams. In addition to this we run targeted programmes to build the talent within the business. For example, our "future careers" programme focussing on apprentices and graduates is aimed at building future leaders and technical experts. In 2021, we hired and enrolled over 400 apprentices, interns and graduates.

Reward

At VMED O2, we have a variety of reward policies and frameworks in place to align reward with Company performance, which include:

- Variable Pay (e.g. commission and bonus). For both reward programmes, awards are directly linked to Company performance. In the commission schemes this is focussed on metrics and targets set by the divisions, while for the annual bonus plan it is measured against revenue, cash flow and our Net Promoter Score.
- In terms of individual reward:
  - Every employee has personal objectives in place which relate to their own role.
  - Pay progression is dependent on a range of factors which can include position against market, key skills and individual performance, linked to achievement of their commercial and sustainability objectives.
  - Variable pay (e.g. commission and bonus) is directly linked to commercial targets and metrics e.g. profit, revenue etc.

Regulatory Matters

VMED O2 is subject to the European Electronic Communications Code (the **Code**) which was adopted into UK law in 2020 prior to the withdrawal of the UK from the European Union (**EU**). In the UK, the Code is implemented through (i) the Communications Act 2003 (as amended), which regulates all forms of communications technology, whether used for telecommunications or broadcasting, and (ii) the Wireless Telegraphy Act 2006, which regulates radio communications in the UK (including spectrum licensing arrangements, usage conditions and charges, licence bidding and trading and enforcement and penalties).

In addition, the Privacy and Electronic Communications Regulations 2003 (as amended) implemented EU Directive 2002/58, which regulates the processing of personal data and the protection of privacy in the electronic communications sector. Telecommunications companies in the UK, including VMED O2, are also subject to regulation under the UK Broadcasting Acts 1990 and 1996 and other UK statutes and subordinate legislation, including the Competition Act 1998, the Enterprise Act 2002 and the Enterprise and Regulatory Reform Act 2013.

The Code does not generally address content matters, including radio and television programming, which are specifically regulated by the Audiovisual Media Services (AVMS) Directive which was also transposed into UK law in 2020. Ofcom regulates both linear and on-demand programming, with regulatory requirements derived from the AVMS Directive.

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

Our regulated financial service activities consist of insurance distribution (carried out by Telefonica UK Limited and giffgaff) and consumer credit activities (carried out by Telefonica UK Limited, giffgaff, Tesco Mobile and Virgin Media Mobile Finance Limited (**VMMF**). Telefonica UK Limited, giffgaff, Tesco Mobile and VMMF are authorised by the Financial Conduct Authority to carry out certain regulated activities under the Financial Services and Markets Act 2000 (**FSMA**).

Corporate Responsibility

Anti-Bribery and Corruption Framework

As a responsible business we are committed to conducting our operations with fairness and integrity. In August 2021, we launched a new Code of Conduct Policy as a key priority following the merger. The policy sets out a clear framework, formalising the principles and values of VMED O2 and demonstrates our commitment to doing the right thing and maintaining the highest ethical and legal standards. We comply with all applicable laws in relation to anti-bribery and corruption and our Executive Management Team has a zero-tolerance approach to bribery and corruption.

Prior to the merger, Virgin Media Limited and Telefonica UK Limited both operated Anti-Bribery and Corruption (**ABC**) frameworks aligned to the Ministry of Justice’s Six Principles for implementing adequate procedures to prevent bribery. This same approach has been used as a basis for the enhancements made as part of the Anti-Bribery & Corruption framework of VMED O2. The focus for VMED O2 is as follows:

Ministry of Justice Principle	Area of Progress
Top Level Commitment	• Enhanced Code of Conduct and Anti-Bribery and Corruption policy launched to all colleagues • ‘Zero tolerance’ approach to bribery and corruption, supported by the Executive team and reinforced through on-going multi-channel employee communications
Proportionate Procedures	• Consistent reporting, authorisation and guidance for the giving and receiving of gifts and hospitality • Enhanced guidance and restrictions in relation to the provision of gifts or hospitality to public sector officials or during a tender process • New Charitable Donations, Conflicts of Interest and enhanced supplier due diligence screening processes implemented
Communications and Training	• New Code of Conduct compliance learning module launched. Over 75,000 mandatory compliance learning modules at a completion rate of 97.8% were undertaken for the year ending 31st December 2021 • Risk based Anti-Bribery and Corruption webinars delivered, targeting higher risk teams

Compliance Monitoring	• New Compliance Function structure implemented including specialist team responsible for the day to day management of our Anti-Bribery and Corruption framework • Automated data analytic monitoring, controls and reporting established for all Virgin Media O2 Corporate Hospitality Assets

Separately, O2 has been addressing a request for disclosure made by Government authorities, in relation to possible violations of anti-bribery laws and regulations. O2 continues to co-operate with Government authorities investigating this matter, which is still ongoing.

Whistleblowing Channel

During 2021, we operated two whistleblowing channels (Speak Up and Speak Out). The whistleblowing channels are part of our continued commitment of being a responsible business. They support our people to speak up against behaviour inconsistent with the Virgin Media O2 Code of Conduct. In 2021 we have received 80 reports through the whistleblowing channels.

To support our whistleblowing processes, periodic updates are provided on the status of reports received and key themes identified, including reporting on key performance indicators to the Audit Committee. In 2022, Internal Audit will be implementing a new independent digital platform for the receipt and management of all whistleblowing reports relating to VMED O2. The new platform will increase the options and functionality through which internal and external stakeholders can report their concerns and communicate with Internal Audit, enabling us to review and investigate concerns raised.

Principal Risks and Uncertainties

Key risks of the business have been grouped here under five risk areas as follows:

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

Risks Relating to our Industry and our Business

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

How we manage this: In order to compete effectively, we consider market and competitor activity, market opportunities, our product & service offerings, our pricing, technology direction, and leveraging our assets and talent.

Mobile network performance related growth and customer satisfaction. Our ability to meet growing customer demand for mobile services and to expand our business depends, in part, on the capacity, speed and reliability of our mobile network. Recent technological advances and changes in customer behaviour and demands, have resulted in substantial growth in mobile data volumes. Total mobile data volumes in the UK have grown sharply in recent years, increasing to 4,271 petabytes in 2020 from 533 petabytes in 2014, a compound annual growth rate of 41.5% (source: Ofcom, July 2021).

How we manage this: We manage capacity constraints and/or network speed and reliability on an ongoing basis through a variety of yield management techniques.

Changes in technology, and our ability to develop and introduce new and enhanced products, may limit the competitiveness of and demand for our services. Technology in the video, telecommunications and data services industries is changing rapidly, including advances in current technologies and the emergence of new technologies. New technologies, products and services may impact consumer or business customer behaviour and therefore demand for our products and services.

How we manage this: We continue to work with various commercial and academic organisations on technological innovation and strategic areas of improvements. This forms just part of our approach for anticipating changes in technology and consumer tastes and developing/introducing new and enhanced products and services on a timely basis. A pertinent example of addressing such changes in technology and customer tastes is reflected in our deployment of 5G to expand our capacity and capability.

A failure to adequately manage our legacy technologies and transformation. A failure to adequately support legacy systems and to properly procure their replacement may result in a negative impact on the provision of services to customers, resulting in a loss of existing customers and making it more difficult to attract new customers, as well as an increased likelihood of data security incidents.

How we manage this: We focus heavily on this area of the business, with significant capital expenditure allocated, to ensure delivery of positive service continuity experiences, new capabilities and services, and suitable security.

Our significant property, plant and equipment additions may not generate a positive return. Additions to our property, plant and equipment, (including our Network Extension, upgrade of our fixed-line network to full FTTP, and deployment of our 5G network), require significant capital expenditures for equipment and associated labour costs to build out and/or upgrade, as well as for related Customer Premises Equipment. No assurance can be given that any rebuilds, upgrades or extensions of our networks will increase penetration rates, increase fixed-line or mobile revenue, or otherwise generate positive returns as anticipated.

How we manage this: In accordance with the comments above, this investment forms part of our strategy of anticipating changes in technology and consumer tastes and developing/introducing new and enhanced products and services on a timely basis, which we believe will attract new customers and drive a positive return on these investments.

Adverse economic developments could reduce customer spending for our mobile, broadband internet, video and fixed-line telephony services and increase churn. Most of our revenue is derived from customers (from consumer to enterprise and multinational companies) who could be impacted by adverse economic developments globally, in Europe and the UK. The UK officially entered an economic recession in August 2020 that lasted through to the second quarter of 2021 and ongoing struggles in Europe related to sovereign debt issues, amongst other things, has contributed to a challenging economic environment. The economic environment has been further challenged by the outbreak of COVID-19 and inflationary pressures such as increasing energy costs. Accordingly, our ability to increase, or, in certain cases, maintain, our revenue, margins and liquidity could be materially adversely affected if the economic environment in the UK or Europe remains uncertain or declines (including as a result of the UK's departure from the EU).

How we manage this: This risk is managed through many activities of the business, including strategic and financial planning, financial operations, customer and commercial focus, and business plan delivery.

Our fixed-line telephony revenue is declining and unlikely to improve. Business and residential fixed-line telephony usage is declining across the industry. There is a risk that business and residential customers will migrate from using fixed-line telephony to using other forms of telephony, such as VoIP, or mobile. There is no assurance that our fixed-line telephony customers will migrate to our mobile telephony services and they may eventually shift to other providers of mobile telephony services.

How we manage this: We are focused on anticipating changes in technology and consumer tastes and developing/introducing new and enhanced products and services on a timely basis, which we believe will attract new customers and drive positive future revenues.

A failure in our network and information systems could significantly disrupt our operations. Certain network and information systems are critical to our business activities. Network and information systems may be affected by cyber security incidents or system failures. These may include, but are not limited to: computer hackings, computer viruses, worms, ransomware or other destructive or disruptive software, third party sites, power outages, fire, flooding, theft of metals, natural disasters, terrorist attacks, climate change and war. Such events could result in a degradation of, or disruption to, our fixed-line and mobile services, and could prevent us from billing and collecting revenue due to us or could damage our equipment and data or could result in damage to our reputation.

How we manage this: Our mature operations, focus on sustainable supply chain and associated risk management activities ensure we implement preventative activities/controls which deliver resilience, support business continuity, include plans for swift recovery, and have insurance covering key potential loss events.

Unauthorised access to our network resulting in piracy could result in a loss of revenue. We rely on the integrity of our technology to ensure that our services are provided only to identifiable paying customers. Increasingly sophisticated means of illicit piracy of television, broadband internet and telephony services are continually being developed in response to evolving technologies.

How we manage this: We continue to invest in measures to manage unauthorised access to our networks.

Third-party supplier and licensor dependencies. We rely on third-party vendors for the equipment, software and services that we require in order to provide services to our customers and maintain significant outsourcing partnerships in connection with our customer services and management obligations. We rely upon intellectual property that is owned or licensed to use various technologies, conduct our operations and sell our products and services. We are also heavily reliant on certain handset suppliers to provide in-demand devices in conjunction with our mobile services, and certain suppliers in relation to maintenance of our network and services and the provision of parts. Our suppliers often conduct business worldwide and their ability to meet our needs is subject to various risks, including political and economic instability, climate change and natural disasters, interruptions in transportation systems, terrorism, labour issues and pandemics (including the COVID-19 pandemic). Additionally, failure of our suppliers to comply with our social and environmental guidelines may result in harm to our reputation and brands, which may have a negative impact on our business, sustainability rating and financial position.

How we manage this: We operate supply chain assurance activities which include, but are not limited to, contract management, relationship management, and active creditworthiness monitoring.

We face risks associated with the activities of device manufacturers, including disintermediation and commoditisation risks, and risks relating to our ability to secure adequate and timely supply of handsets that experience high demand. The importance of device manufacturers in the handset market gives rise to disintermediation and commoditisation risks. Any strategies or technologies that enable such device manufacturers, particularly those with significant market presence, to leverage their existing brand awareness to dominate customer relationships, or which otherwise compete with our offerings, could undermine the effectiveness of our customer-focused strategies. Separately, the availability and perceived attractiveness of new handsets, particularly new generations of smartphones, is an important area for our business.

How we manage this: We manage this risk, in part, through our constant focus on strong customer relationships and positive customer experiences, as well as through our exciting product and proposition offerings across our customer facing channels. The ability to secure timely access to, and sufficient supplies of, handsets and other products that experience high demand is important and we manage this through our agreements with device manufacturers and other suppliers.

Our mobile services rely on the radio access networks of third-party wireless network providers to carry our mobile communications traffic. Our services to mobile customers rely on the use of network sharing and network extension arrangements in which we utilise the radio access networks of third-party wireless network providers to carry our mobile communications traffic. If any of our network sharing or network extension arrangements are terminated, or if the respective third-party fails to provide the services required, this could prevent us from delivering our mobile services and meeting our contractual agreements.

How we manage this: We closely monitor and manage the contracts and relationships relating to our network sharing and network extension arrangements.

Our failure to maintain and further develop our direct and indirect distribution channels may affect our ability to acquire new customers and retain existing customers. We acquire new customers, and upgrade existing customers, both via direct distribution channels (i.e. our shops, franchised shops, our website and mobile app and telesales) and via indirect distribution channels (i.e. third-party retailers, as well as business partners, distributors, wholesale partnerships and MVNOs), and it is important that we suitably manage how we maintain, grow or invest in these distribution channels.

How we manage this: Through a combination of strategic planning, monitoring the market and consumer behaviours, and our dedicated teams which manage these respective channels.

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

How we manage this: We ensure compliance with our contractual agreements in relation to the continued use of the brands.

We depend almost exclusively on our relationships with third-party programming providers and broadcasters for programming content, and a failure to acquire a wide selection of popular programming on acceptable terms could adversely affect our business. We enter into agreements for the provision of television programmes and channels distributed via our entertainment service with programme providers, such as public and commercial broadcasters, or providers of pay or on-demand television and services. Our dependence on these suppliers for television programming could have a material adverse effect on our ability to provide attractive programming at a reasonable cost. Additionally, we rely on the products of some of these suppliers of television programming to incentivise customers to enter into contracts for our mobile services. Without their offering, the number of customer subscriptions may be adversely affected.

How we manage this: We actively manage these programming agreements with a view to positively influencing our rights, terms and annual costs.

VMED O2 does not currently insure the underground portion of its fixed-line network and various pavement-based electronics associated with its fixed-line network. Our fixed-line network is one of our key assets. Almost all of our fixed-line network is constructed underground. As a result, any catastrophe that affects our underground fixed-line network or our pavement-based electronics could prevent us from providing services to our customers and result in substantial uninsured losses.

How we manage this: The accepted risks of our business are monitored as part of our risk management processes and the risk treatment periodically discussed.

The UK's departure from the EU. We have not identified any material adverse effect on the Group's business, financial condition, results of operations or liquidity. The Group does not anticipate any material effect going forwards and will continue to monitor any potential risk that may arise as the Government continues to negotiate trade deals.

How we manage this: Cognisant of these risks we continue to monitor the landscape as it evolves and adjust our operations accordingly.

We are exposed to the risks arising from widespread epidemic diseases, such as the outbreak of COVID-19, which could have a material adverse impact on our business, financial condition and results of operations. Should the COVID-19 pandemic or equivalent widespread epidemic events prompt significant emergency measures imposed by the UK Government and/or governments worldwide, this could present material adverse impacts on our business. Examples include: reduced/insufficient ability to access essential capital; health impacts on our workforce and reduced capability to deliver services; reduced customer ability to pay for our products and services; inability to maintain or increase our residential and business subscriber levels; inability to offer attractive programming; reduced ability of our suppliers and vendors to provide products and services to us and possible new taxes by the UK Government.

How we manage this: Cognisant of these risks we continue to monitor the landscape as it evolves and adjust our operations accordingly, as we have during the COVID-19 pandemic.

Our business may be affected by perceived health risks associated with electromagnetic radiation from base stations and associated equipment. Alongside other MNOs in the UK, VMED O2 has experienced targeted vandalism of network equipment, including mast towers. Further activities by individuals who perceive network equipment to pose a health risk may cause disruption to our services.

How we manage this: All operational base stations have been installed in compliance with criteria established by the International Commission on Non-Ionizing Radiation Protection, the independent advisory body to the World Health Organization, which includes electromagnetic field exposure limits. In the event of service disruption events our network teams enact recovery processes to reinstate services as quickly as possible. Our insurance also provides a level of risk transfer to reduce material losses.

Climate change may drive medium-term to long-term increases in operational costs. Operational costs may increase as a result of shifts in climate patterns, examples include: Extreme temperatures affecting infrastructure cooling costs; low-lying facilities being subject to flooding, and the impacts of increased and reduced precipitation. Supply chain partners in areas that are vulnerable to the worst effects of climate change may also be affected.

How we manage this: Through a combination of proactively monitoring this area of risk, and the operational and financial planning, process controls and continuity planning and supporting a sustainable and resilient supply chain.

Risks Relating to Regulatory and Legislative Matters

We are subject to significant regulation, and changes in UK laws, regulations, and governmental policy. Regulatory change is an ongoing process in the communications sector. Our principal business activities are regulated and supervised by Office of Communications (**Ofcom**), the Financial Conduct Authority (**FCA**), the Information Commissioner's Office (**ICO**) and the Competition and Markets Authority, amongst other regulators. Changes in laws, regulations or governmental policy affecting our activities and those of our competitors could significantly influence how we operate our business and introduce new products and services, plus could adversely affect our ability to set prices, enter new markets or control our costs.

How we manage this: We proactively monitor the regulatory landscape and engage with our regulators. Our plans and processes are developed with conscious consideration of the applicable regulations, laws, additional standards that we have adopted to operate in certain markets, plus our internal policies.

A failure to comply with data protection laws may result in significant fines and reputational damage. We process a substantial amount of customer data as part of our day-to-day business. Failure to comply with applicable data protection laws could result in fines, penalties, litigation action, liabilities under certain commercial contracts, implications with other stakeholders, and damage our reputation.

How we manage this: We proactively monitor this regulatory area. Our processes have been designed with applicable data protection law requirements in mind. We operate controls and monitoring to support compliance with our related policies and process designs.

Regulatory and/or Government action on climate change may drive medium-to-long-term increases in operational costs. Due to the nature of our operations, we are subject to regulatory developments and Government action on climate change through energy-specific regulations and/or legislation in the UK. Changes in this area has the potential to affect operational costs. For example, increased fuel or energy prices could make it more expensive to purchase energy to power or networks and data centres, and the introduction of carbon taxation could also increase operating costs.

How we manage this: As well as setting progressive and challenging goals to decarbonise our business and supply chain to achieve Net Zero carbon, we continue to proactively monitor this regulatory area and consider the variables in our operational planning activities.

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

We may fail to attract or retain qualified, high-quality personnel. Given the substantial competition in the market for skilled and qualified personnel with relevant technical, industry and operational experience, there can be uncertainties regarding attracting or retaining suitably qualified, high-quality personnel.

How we manage this: A multifaceted approach which includes, but is not limited to, development, incentivisation, remuneration, team play and culture, support by our people managers and people teams, come together to help mitigate this risk.

The interests of the Joint Venture Parents, the direct or indirect parent companies of the Joint Venture, may conflict with our interests and those of the holders of our debt. Liberty Global and Telefonica are the Shareholders in our Company, directly or indirectly owning all the voting interests in VMED O2 UK Limited. When business opportunities, or risks and risk allocation arise, the interests of the Joint Venture Parents (or other entities controlled by the Joint Venture Parents) may be different from, or in conflict with, our interests on a stand-alone basis or the interests of holders of our debt.

How we manage this: Through our Shareholder interactions, planning activities and internal processes.

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

How we manage this: Through our financial teams' oversight, financial processes, and monitoring of applicable market dynamics.

Risks Relating to the Joint Venture Transactions

The VMED O2 Joint Venture is exposed to certain risks relating to the Joint Venture transactions. These include:

- The expected benefits and synergies from the Joint Venture transactions may not materialise.
- The integration of Virgin Media and O2 will be a significant exercise and could adversely affect the Joint Venture's business.
- The Joint Venture will depend on Liberty Global and Telefonica as well as third-party suppliers and licensors to supply necessary equipment, software and certain services required for the Joint Venture's business.

- As a result of the Joint Venture transactions, we have recorded a significant amount of goodwill, which could be subject to impairment.

How we manage this: Through strategic and operational planning, integration activities, service agreements with the Joint Venture Parents and other relevant parties, operational and commercial delivery.

Risks Relating to Our Indebtedness, Taxes and Other Financial Matters

Key financial risks with the ability to affect our strategic delivery, operations and financial performance include:

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

- ***We have substantial indebtedness that may have a material adverse effect on our available cash flow, our ability to obtain additional financing in the future, our flexibility in reacting to competitive and technological changes and our operations.*** As at 31 December 2021, the outstanding principal amount of our consolidated debt, together with our lease obligations, aggregated £18.6 billion, including £2.4 billion that is classified as current on our Consolidated Statement of Financial Position and £13.1 billion that is not due until 2027 or thereafter.

- ***We may not be able to fund our debt service obligations in the future.*** Our ability to refinance successfully is significantly dependent on stable debt capital markets. In addition, we may not achieve or sustain sufficient cash flow in the future for the payment of principal or interest on our indebtedness when due.

- ***The covenants under our debt agreements place certain limitations on our ability to finance future operations and how we manage our business.*** The agreements that govern our indebtedness contain restrictive covenants. These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

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

- ***We are exposed to pension liability for the defined benefit scheme of Telefonica UK Limited's pension plan (the TUK Pension Plan) and to risk around demographic, financial and other actuarial assumptions on all of our defined benefit schemes.*** The funding positions of our defined benefit schemes, i.e. the TUK Pension Plan, the National Transcommunications Limited Pension Plan and the defined benefit scheme of the NTL 1999 Pension Scheme, are based on a variety of assumptions and factors outside of our control, including discount rates, inflation, asset returns, life expectancy and other actuarial assumptions. Any variation in these assumptions could require us to make further contributions to our defined benefit schemes.

- ***We are subject to foreign currency exchange rate risks.*** All of our revenue and operating expenses are paid in pounds sterling, but we pay interest and principal obligations with respect to portions of our indebtedness in US dollars and euros. We also incur costs in US dollars and euros in the ordinary course of our business, including for CPE and network maintenance services. To the extent that the pound sterling declines in value against the US dollar and the euro (including as a result of the UK's departure from the EU), the effective cost of these activities will be higher.

- ***We are exposed to interest rate risks and other adverse changes in the credit market. Shifts in such rates may adversely affect our debt service obligations.*** We are subject to interest rate risks as we have certain interest determined on a variable basis, and although we enter into various derivative transactions to manage exposure to movements in interest rates, there is a future risk that if unable to do so any increase in market interest rates would increase our interest rate exposure and debt service obligations, which would exacerbate the risks associated with our leveraged capital structure.
- ***The phasing out of LIBOR will result in a new reference rate being applied to our LIBOR indexed debt, which may not be the same as the new reference rate applied to our LIBOR-indexed derivative instruments, and will have to be adjusted for.*** We anticipate managing this difference and any resulting increased variable-rate exposure through modifications to our debt and/or derivative instruments, however, future market conditions may not allow immediate implementation of desired modifications and the Company may incur significant associated costs.
- ***We are exposed to sovereign debt and currency instability risks that could have an adverse impact on our liquidity, financial condition and cash flows.*** Our operations are subject to macroeconomic and political risks that are outside of our control. For example, high levels of sovereign debt, combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our Company.
- ***We are subject to increasing operating costs and inflation risks, which may adversely affect our results of operations.*** Operating costs may rise faster than associated revenue, due to factors which include potential inflationary increases and constraints to increasing subscription rates, resulting in a material negative impact on our cash flow and net earnings/(loss).
- ***We are subject to tax in more than one tax jurisdiction and our structure poses various tax risks.*** We are subject to taxation in the UK and the US. Our effective tax rate and tax liability will be affected by a number of factors in addition to our operating results, including: the amount of taxable income, tax rates, tax treaties between jurisdictions, fund transfers, accounting standards, changes in accounting standards, and future changes in the law.
- ***Adverse changes in our financial outlook may result in negative or unexpected tax consequences which could adversely affect our net income.*** Future adverse changes in the underlying profitability and financial outlook of our operations could cause us to decrease the level of recognition of our deferred tax assets, which could materially and adversely affect our Consolidated Statements of Financial Position and Statement of Profit or Loss. A change in the level of deferred tax recognition will not result in any change to the amount of cash payments we make to the tax authorities.
- ***Strategic transactions present many risks, and we may not realise the financial and strategic goals that were contemplated at the time of any transaction.***
- ***Macroeconomic events, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics or epidemics and other similar events, including the ongoing invasion of Ukraine by Russia, may have an adverse effect on our business.***
- ***We are exposed to the risk of default by the counterparties to our cash investments, derivative and other financial instruments, and undrawn debt facilities.*** Any such instance of default or failure could have an adverse effect on our cash flows, results of operations, financial condition and/or liquidity.

How we manage this: These risks are actively monitored and managed by our finance, tax and treasury teams.

172(1) Statement

As Directors we have a responsibility to promote the success of the Company in good faith for the benefit of our Shareholders whilst having regard, at least, to the following matters:

- The likely consequences of any decisions in the long term;
- The interests of our employees;
- The need to foster positive business relationships with suppliers, customers and others;
- The impact of our operations on communities and the environment;
- The desire to maintain high standard of reputation and business conduct; and
- The need to act fairly between our Shareholders.

VMED O2 Governance Framework

In discharging our responsibilities as Directors to the Company and VMED O2 as a whole, the Board has put in place a governance framework which includes best practice procedures to support the assessment of those matters necessary to make informed decisions in furtherance of the long-term success and sustainability of the Company and VMED O2 as a whole. The Board is made up of an equal number of Directors nominated by each Shareholder and the Shareholders have agreed that the role of the Board includes ensuring that the affairs of the Company and VMED O2 are conducted in accordance the provisions of the Shareholders' Agreement and the articles of association of the Company, making sure that each Shareholder's interests are taken into account in decision-making. The Directors have delegated the day-to-day management of VMED O2 to the Executive Management Team whilst retaining sufficient oversight over specific reserved matters in addition to statutory matters. Further details of our governance arrangements can be found in the Corporate Governance Statement on pages 50 to 56.

VMED O2 was formed to bring together two major businesses in the UK, O2 and Virgin Media, to create a connectivity challenger in the market. As a business we are a customer-first organisation that brings a range of connectivity services together in one place with a clear mission: to upgrade the UK. Accordingly, our Board has defined our corporate purpose as being to "Upgrade the UK" and "Reimagine Connectivity" and we are committed to using the power of connectivity to supercharge communities across the UK, taking action to close the digital divide and helping to build an inclusive, resilient and low carbon economy. We continue to focus on all our key stakeholders; employees, customers, the regulators and the community and to take their interests into account in decision-making.

The size and spread of VMED O2's business and our stakeholders mean that our stakeholder engagement generally takes place at an operational level. We find that this is the most efficient and effective approach and helps us achieve a greater positive impact on environmental, social and other issues that are relevant to our business. Some examples of our stakeholder engagement are set out in our Corporate Governance Statement on pages 50 to 56. The Executive Management Team provide regular updates to the Board to help them understand the interests and views of VMED O2's key stakeholders and other relevant factors, which ensures that the Directors can take them into account when making decisions and can comply with their section 172 duty to promote the success of the Company. We set out below some examples of how the matters set out in section 172(1)(a) to (f) have been taken into account and the impact that has had on our decisions.

Employees

VMED O2's workforce is its most valuable asset. From the outset we recognised that our employees not only had the challenges posed by the COVID-19 pandemic to deal with, but they also had to deal with uncertainty about their future roles in the combined business as we remodelled the organisational structure to ensure that it remains fit to support our ambition. The focus from day one was to engage and motivate the respective teams at Virgin Media and O2 to ensure everyone was ready for the journey to integrate both businesses. Following the requisite regulatory clearance and press release, the incoming CEO sent a welcome email to all the employees followed by a livestream event that afternoon watched by about 11,000 employees, either live or on catchup within the first week. The members of the Executive Management Team had additional briefing sessions with their respective teams and we had many workplace interactive sessions and roadshows as part of the employee engagement strategy to keep employees informed on all matters of concern. From these sessions we were able to gauge the morale of the team and understand what really matters to our people which has informed our priorities for our people strategy. To demonstrate our commitment to our employees, within a week of the Joint Venture formation we launched two new staff offers to integrate the staff offerings across both businesses. These had successful uptake from employees. To enable a culture of continuous learning we have partnered with LinkedIn Learning to provide all of our people with access to a range of learning content (technical, professional, leadership and targeted learning on specific matters). In addition to this we run targeted programmes to build the talent resource within the business, for example the "future careers" programme focussing on apprentices and graduates. Further details on our employee relations can be found on pages 54 to 55 of the Corporate Governance Statement.

Customers

We did not lose sight of our customer-first strategy as we continue to maintain commercial momentum. Within the first four months of the Joint Venture we launched VOLT, our joint customer proposition, which provides exclusive benefits for being with the Virgin Media and O2 brands. Through our interactions with our customers and our artificial intelligence solutions, we understand our customers' pinch points, and as a result we made the decision to continue with the "roam like home" offering despite the UK's withdrawal from the European Union. The decision has received positive feedback from customers, society and government. Further details of our customer engagement to understand the customers' needs can be found on page 54 of the Corporate Governance Statement.

Responsible Business

We are committed to running our business responsibly, looking beyond our environmental and social impact initiatives to foster positive social and environmental change in our daily business operations. We communicate regularly and openly on our progress, with the annual publication of reports on corporate responsibility, modern slavery, gender pay gap and payment practices for the significant businesses in VMED O2.

Following the launch of the Joint Venture, we announced the Together Fund, working in partnership with the Together Coalition and Neighbourly to provide grants of £1,000 to 400 small charities across the UK that champion community spirit, belonging and togetherness. We also launched the National Databank in partnership with the Good Things Foundation to tackle data poverty across the UK, committing to provide £12.5m worth of O2 connectivity (7.5 million GB of data) by the end of 2023. In November, VMED O2 increased its data pledge to gift 10GB of mobile data to the Databank for every O2 plan purchased between 1 November 2021 and 31 January 2022. In July 2022, VMED O2 extended its original commitment to the National Databank to more than 61 million GB of data to be donated by the end of 2025. The Databank is now being utilised by multiple mobile operators with the aim of helping over a quarter of a million people to get connected by the end of 2023.

These partnerships demonstrate our commitment to tackle key social issues, developing innovative partnerships that create a fairer and more resilient economy and society. We have also set out our commitment to support a low carbon future, aiming to achieve net zero operations by the end of 2025 and supporting our customers to decarbonize too. Further details of our approach to responsible business can be found on pages 39 to 40 of the Non-Financial Report Statement.

In May 2022, VMED O2 launched its new sustainability strategy, the *Better Connections Plan,* which has commitments to cut carbon, champion circularity, and support communities as it upgrades the UK. This includes targeting net zero carbon emissions in its full value chain, including operations, products and supply chain, by 2040. These commitments are all underpinned by an ambition to find a better way to do business by championing inclusive, equitable values, create a great place to work, and ensure partners and suppliers uphold its stringent ethical and environmental standards. Further details about the *Better Connections Plan* can be found at ***news.virginmediao2.co.uk/responsible-business/.***

The Strategic Report was approved by the board on 23 September and signed on its behalf by:

E Medina Malo

Company Secretary

Non-Financial Report Statement

For the year ended 31 December 2021

Introduction

At VMED O2, we believe that the power of connectivity can help us thrive, living healthier and more sustainable lives. We are committed to reimagining connectivity and upgrading the UK, championing the principles of fairness, inclusivity and trust, and leading the way to a zero-carbon future.

Prior to the formation of VMED O2, Virgin Media and O2 had strong and demonstrable track records of driving positive change for our people, communities and our planet. Together as VMED O2, we are even stronger. We have launched a number of sustainability initiatives since combining our operations, whilst building an ambitious new strategy that will deliver lasting positive social and environmental change. VMED O2 has launched that single sustainability plan, the 'Better Connections plan' in May 2022.

Environment

We are excited by the potential of our newly combined operations to help create a zero-carbon future, taking action across our value chain and mobilising our technology to help others decarbonise. We firmly believe that mobile technology can deliver environmental benefits that outweigh our own impacts.

Our shared ethos means we send zero waste to landfill across our operations, source 100% renewable electricity wherever we directly control the bill and have set a goal of becoming net zero in our operations (Scopes 1 and 2) by 2025. We have developed an environmental policy and will continue to be measured and assessed through the internationally recognised environmental management standard ISO14001.

We have since developed our first value chain carbon footprint baseline for the combined business and conducted communication and engagement activities with our customers and employees to raise awareness of climate change during the COP26 climate summit.

Together, we remain committed to transitioning our network to renewable energy and reducing our emissions. We'll roll out more solar panels, explore new technology, and continuously invest in innovative solutions to improve the efficiency of our operations.

From a brand and consumer engagement perspective, we used the COP26 Climate Conference as a platform to campaign for the inclusion of young people in conversations on climate change. We published the results of a UK-wide survey that revealed one in four young people hold back from talking about the climate crisis for fear of judgement by their peers. In response, we launched a white paper with Global Action Plan, with recommendations for charities, brands and media companies to consider how best to inspire, engage and include more young people in conversations and solutions to the climate crisis.

Our new Better for the Planet employee engagement platform, which has over 1,000 members, hosted a series of live events to coincide with COP26, helping to engage our people and inspire them to take action in the workplace and at home.

Society

We believe our connectivity can play an important role in bringing together the communities where we operate, leveraging the combined power of our people, products and partnerships to make a lasting difference. We are determined to make our digital services accessible for everyone, and help people enjoy a safer and more positive experience with technology.

In partnership with Together Coalition and Neighbourly, the Virgin Media O2 Together Fund was launched in July 2021. The fund distributed 400 grants of £1,000 to small charities across the UK in recognition of the incredible contribution of these organisations to their communities throughout the pandemic. The grants championed and celebrated community spirit, belonging and togetherness, for example:

- Tortoise in a Nutshell (Edinburgh, Scotland) ran a series of workshops and visual theatre performances for families and individuals in Glasgow focusing on those who have been particularly isolated as a result of the COVID-19 pandemic and who have experienced a decrease in their mental health and wellbeing.

- Habitats & Heritage (London, England) is a charity that cares for the natural and historic environment in south and west London. They held an event in July to engage and bring together staff, volunteers, residents and other members from the local community.

In the wake of the pandemic where connectivity became more important than ever, our 'Community Calling' scheme, in partnership with environmental charity Hubbub, helps vulnerable people stay connected to friends, family and essential services by gifting refurbished devices and free data. More than 8,000 refurbished devices have been gifted to vulnerable groups in cities across the UK and each device is accompanied by an O2 SIM card and 12 months of free connectivity.

In a bid to further tackle data poverty across the UK, VMED O2 also established a new National Databank, working in partnership with Good Things Foundation to provide £12.5millon worth of O2 connectivity (7.5 million GB of data) by the end of 2023. In November, we increased our data pledge to gift 10GB of mobile data to the Databank for every O2 plan purchased between 1 November 2021 and 31 January 2022. In July 2022, VMED O2 extended its original commitment to the National Databank to more than 61 million GB of data to be donated by the end of 2025. The Databank is now being utilised by multiple mobile operators across the industry and aims to help over a quarter of a million people get connected by the end of 2023.

We have rigorous expectations of our suppliers and we work closely to ensure they uphold our stringent ethical and environmental standards. We fully support the principles of the Modern Slavery Act 2015 (MSA) and take a zero-tolerance approach to modern slavery and human trafficking in our operations and supply chain. We are adopting the best practices right across our business to establish clear sustainability expectations of our suppliers, underpinned by our respective supplier-facing codes of conduct.

The Non-Financial Report Statement was approved by the board on 23 September and signed on its behalf by:

E Medina Malo

Company Secretary

Task Force for Climate Related Financial Disclosures

For the year ended 31 December 2021

Introduction

This statement sets out VMED O2's approach to identifying and managing climate-related risks and opportunities, in accordance with the recommendations of the Task Force for Climate Related Financial Disclosures (**TCFD**). Our first voluntary TCFD disclosure describes our initial assessment of how we quantify and respond to the challenges climate change presents. Over the next year and beyond, we will continue to embed the TCFD recommendations within our organisation and conduct more in-depth climate scenario analysis to identify how vulnerable VMED O2 is to a range of physical and transition climate risks and their associated financial impact. We will also publish an annual disclosure statement.

Since combining operations in June 2021, VMED O2 has reviewed the existing organisations' sustainability strategies: Virgin Media's Meaningful Connections plan and O2's Blueprint. A single environmental, social and governance (**ESG**) strategy for the Group has been launched in May 2022 and includes more detail on how the business plans to tackle climate change. During the interim period, both existing strategies have continued to guide social and environmental activity.

Governance

The overall management of risk is the responsibility of the VMED O2 UK Limited Board of Directors, managed through the delegated authority to the Audit Committee.

Climate-related risk is overseen by the Sustainability and Responsible Business Committee (a committee of the Executive Management Team), which is chaired by the Chief Communications and Corporate Affairs Officer. It meets quarterly and is comprised of committee members who represent all key business areas. Responsibilities include the development, delivery and communication of VMED O2's Sustainability and Responsible Business strategy; the identification of key objectives with supporting targets; and the management of climate-related risks and opportunities.

The day-to-day management and governance of climate-related risks and opportunities is undertaken by the Corporate Responsibility and Sustainability team.

Strategy and Risk Management

For this first voluntary disclosure statement, we have combined the two TCFD thematic areas of Strategy and Risk Management.

At VMED O2, risk management is a key consideration in our day-to-day activities. Our employees, partners and suppliers all have a responsibility to identify, manage and report risk, in accordance with our stated risk management policy, framework, and process.

All risks are assessed to determine their importance, appropriate prioritisation, and risk response. The Board of Directors and Executive Management Team have increased oversight of the most significant risks of the business. Further details of the Company's comprehensive approach to risk management are set out in the Corporate Governance Statement on pages 50 to 56.

Risk Identification and Mitigation

Currently climate-related risks are identified and reviewed through the existing business risk management process. We have considered the impact of physical and transitional climate-related risks and the potential consequences for our UK operations.

Physical Risks

Chronic and acute physical risks were assessed at a high level, with the key risks related to property and infrastructure. Two key risks were identified in the initial assessment:

Extreme External Temperatures

Due to the high ambient temperatures experienced in recent years, we have seen temperatures exceeding 35 degrees Celcius, which creates an issue with the effectiveness of the cooling units. When air-conditioning fails within network sites, overheating can cause potential failures.

To mitigate this risk, cooling across the estate is maintained to ensure the network is always operational, with resilient systems in place to support any failures of air-conditioning units. End-of-life programmes are delivered every year to ensure all assets are up to date. We have temperature monitoring for all sites via ECOSENSE and BMS systems with 24/7 monitoring. We have also established an agreed temperature cooling contingency plan for every site, reviewed annually, which allows for temporary units to be used where needed.

Flooding

We have several sites situated near main rivers in the UK, meaning there is a potential risk of localised ground water flooding where local drains could overflow, putting these sites at risk.

A flood plain review was conducted in 2019 to ascertain any risk for the sites that fell under the risk of flooding. Ground water flooding was identified as a risk, leading to the installation of flood prevention systems on site, in addition to borehole monitoring. All equipment is tested every six months and all VMED O2 sites are continuously monitored.

Transition Risks

The increasing cost of energy and transition to a decarbonised economy are important financial impacts to consider. They affect the cost of maintaining our properties (including office space and large retail estate) and fuel for our vehicle fleet. Extreme weather events can impact supply and cost, as can global conflicts. These challenges underline the need for the UK to accelerate the move towards increasing production capacity and infrastructure to source greater quantities of renewable energy.

Opportunities

Mobile and smart technology has the potential to power a thriving society that is more sustainable, inclusive and resilient. Over the next decade, we believe that connectivity enabled by gigabit and 5G connectivity will power a green revolution. We have trialled and continue to develop smart digital solutions to help customers and communities grow and thrive in a sustainable way – reducing household energy consumption through smart metering; a connected car trial with the Smart Mobility Living Lab; air pollution monitoring as part of an Adept Living Labs pilot in the Thames Valley area and a mobile health clinic on wheels to assist with testing and monitoring of Covid-19, in partnership with Glasgow University and the James Watt School of Engineering.

We will continue to share our learnings from digital trials and scale digital solutions to tackle key sustainability challenges.

Net Zero Transition

We aim to unlock the potential of connectivity to deliver a zero-carbon future. A key part of this is leading the charge on net zero, with a forthcoming goal to achieve net zero across our full value chain by 2040. Delivering net zero will require us to focus on renewable energy, our transition to electric vehicles, addressing fugitive emissions and drive down emissions through our products and supply chain.

Renewable Energy

We are in the process of removing all possible non-renewable energy across our business and network. We source 100% renewable electricity at all sites, where we directly control the bill, and we are working with landlords at third-party sites to support the transition to renewables, as part of our net zero plan.

Low Carbon Fleet

In 2021, we unveiled the first of our new electric vehicles (**EVs**) and announced plans to install EV charging points at fleet drivers' homes (we already offer EV charging for employees at our Reading and Hammersmith offices). We have ordered 280 electric vans as a first step towards moving our 4,300-strong fleet to EVs by 2030.

Assessing Risks and Opportunities in the Value Chain

We are reviewing the impacts of climate change globally, specifically the risks to our outsourced overseas operations and the device supply chain, located predominantly in Asia. We will produce modelling based on varying temperature shift scenarios and consider the impact of these to our business across the short, medium, and long term.

Key Metrics and Targets

We publish comprehensive data on our ESG performance - including emissions data - through our global and local reporting processes. To find out more about our ESG targets (and our progress against them), please refer to our annual Streamlined Energy and Carbon Reporting (**SECR**) statement on pages 45 to 46 for more detailed information on our greenhouse gas (**GHG**) emissions.

As part of our forthcoming ESG strategy, we have been developing new goals and targets across the themes of carbon and circularity.

We will review progress and performance against future strategic goals through the Sustainability and Responsible Business Committee to ensure progress against key targets and to drive cross-functional alignment. Additionally, we have created a dedicated Net Zero transformation project to monitor and report on progress and are working with the Carbon Trust to achieve their 'Route to Net Zero Standard' – a certification that recognises an organisation's progress on their journey to Net Zero.

Roadmap to align to the TCFD recommendations

Whilst we continue to embed the TCFD recommendations as part of our new organisation, we will be prioritising full alignment from next financial year. The areas we are progressing throughout 2022 to meet all framework recommendations are detailed below:

1. **Governance** (Sections A and B*) – We will further bolster the Executive Management Team's oversight by running specific TCFD workshops and expand detail on how the Board oversee and monitor progress.
2. **Strategy** (Sections A, B and C*) – We will develop a number of climate scenarios and analyse impacts across set time horizons reflecting on how these would impact our geographical sites, products and services, supply chain, operations, finance and potential adaption and mitigation strategies.
3. **Risk Management** (Sections A, B and C*) – We will detail the physical and transition risks including the processes behind risk identification and prioritisation.
4. **Metrics** (Sections A, B and C*) – We will include methodology underpinning targets including further context on Net zero, internal carbon pricing and carbon off-setting strategy.

These areas will be addressed following a comprehensive review of our climate-related financial risks and opportunities, as we seek to incorporate TCFD guidance into our business operations. The results will be reported in the 2022 Annual Report and Financial Statements.

* *As outlined in the Task Force on page 14 of the Climate Related Financial Disclosures Recommendations Report.*

The Task Force for Climate Related Financial Disclosures Report was approved by the board on 23 September and signed on its behalf by:

E Medina Malo

Company Secretary

Streamlined Carbon and Energy Report

For the year ended 31 December 2021

Introduction

We are pleased to report on our Energy and Carbon Report for the year ended 31 December 2021.

The scope of the report includes our company owned stores, all corporate sites, switch/datacentres, and cell sites (mast/antennae sites), it does not include our O2 Franchise stores; these are separate legal entities. The calculation approach is based on invoicing (where applicable) and estimation where the scope includes emission sources outside our operational control (for example landlord supplied sites). Emissions factors have been taken from the BEIS 2021 Conversion Factors first published in June 2021 and O2 data has been externally validated by Aenor as part of legacy arrangements, in future all VMED O2 data will be externally validated.

	Virgin Media	O2	giffgaff
Emissions	**2021 (tCO2e)**	**2021 (tCO2e)**	**2021 (tCO2e)**
Scope 1 - Direct emissions from activities owned or controlled by the Company			
This is low impact and fuel used is primarily for space heating (gas) and fuel used in standby generators (diesel)			
Static fuel	2,555	2,671	-
Fugitive gases	10,446	558	-
Vehicle fuel	13,534	211	-
Total	**26,535**	**3,440**	-
Scope 2 - Indirect emissions into the atmosphere associated with purchased, electricity, heat, steam and cooling			
Emissions from electricity consumed across the following site types (cells/switch sites/offices and stores)			
Electricity (includes renewables - location based)	99,130	115,352	894
Renewable electricity purchase	99,130	87,969	894
Electricity (exc renewables - market based)	-	27,383	-
Scope 3 - A consequence of an indirect source and not Scope 2 (e.g. business travel by vehicles not owned by the Company)			
Business travel (business mileage, flights etc.).			
Air travel	72	53	0.3
Land travel	1,526	155	0.1
Total	**1,598**	**208**	**0.4**
Methodology for scope data	ISO14001:2015 and GHG Protocol		
Intensity Ratio using the UK Gov BEIS emissions factors	0.72 kg CO2e/TB	78.9 tCO2e/PB	78.9 tCO2e/PB
Carbon offsets (tCO2e)		**Zero**	

An overview of the progress made in our fixed line business during the year against our objectives are:

- ***Net Zero:*** Delivered 24% reduction in Scope 1 and 2 emissions in 2021.
- ***Renewable energy:*** Continued to source 100% renewable electricity across all electricity consumption.

- ***Energy efficiency and reduction:*** Delivered a 3% year-on-year reduction in electricity consumption, reducing overall electricity consumption for the fourth year in a row. This has been delivered through a focus on upgrading to newer, more efficient equipment and continuing to roll out our award-winning Overall Room Energy Optimisation (OREO) programme to a further seven sites in 2021. We use less electricity now than at any point in the last six years. We also reduced consumption per unit of data (TB) by 17% compared to 2020.
- ***Fugitive emissions:*** 2021 saw a 43% reduction in fugitive emissions, in large part due to a reduction in fire suppression discharges. As we rollout further risk management approaches to prevent fire suppression discharges, we aim to maintain and further reduce the emissions from this source in line with our net zero pathway.
- ***Static fuel:*** A 32% reduction in emissions from static fuel combustion was delivered through a 5% reduction in gas consumption linked to warmer temperatures in 2021, and reduced diesel use for backup generators with our units being called on less to support the UK National Grid's Demand Side Response programme.
- ***Fleet:*** Emissions from our vehicle fleet grew by 5% year-on-year as we saw the full year impact of an insourcing programme for field technicians. As we start the rollout of electric vehicles during 2022, we expect to start driving fleet emissions down in line with our net zero pathway.

An overview of the progress made in our mobile business during the year against our objectives are:

- ***Net Zero:*** Achieve net zero emissions by 2025 (Scopes 1 and 2). Progress: 52% reduction from baseline (2015) and a 27% CO_2e reduction in between 2020 to 2021.
  - O2 Scope 1 tCO_2e emissions grew by 14% year-on-year due to an increase in natural gas consumption in corporate offices and retail stores.
  - giffgaff Scope 2 tCO_2e emissions grew from 19 to 894 due to the return of daily staff occupancy in offices throughout 2021 resulting in increased heating and cooling requirements.
- ***Renewable energy:*** Continue to source 100% electricity from renewable sources, promoting its development with long-term contracts and self-generation (within operational control). Progress: 100% renewables where these are within our operational control.
- ***Energy efficiency and reduction:***
  - Reduce energy consumption by 90% per unit of traffic by 2025 compared to 2015. Progress: 88% from the 2015 baseline and 29.9% reduction between 2020 and 2021.
  - We continue to procure and deploy more efficient network transmission equipment and install fresh air cooling (reducing the reliance on refrigerant gasses) for cell sites, enhanced cooling optimisation to improve operational efficiency of our switch/datacentres and we also turned down parts of our network during low traffic use.

The Streamlined Energy and Carbon Report was approved by the board on 23 September and signed on its behalf by:

E Medina Malo

Company Secretary

Directors' Report

For the year ended 31 December 2021

We are pleased to present the Directors' Report for the year ended 31 December 2021. The report does not include matters of strategic importance which are disclosed in other parts of the Annual Report and referenced accordingly.

Directors

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

L Abasolo García de Baquedano (appointed 1 June 2021)

C H R Bracken

P A Erskine (appointed 1 June 2021)

J L Evans (resigned 1 June 2021)

M T Fries (appointed 1 June 2021)

E Rodriguez (appointed 1 June 2021)

A V Salvato (appointed 1 June 2021)

Á Vilá Boix (appointed 1 June 2021)

J M Álvarez-Pallete López (appointed 1 June 2021)

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

Corporate Governance Statement

Details of our governance arrangement is set out in a separate report, Corporate Governance Statement, on page 50 to 56 which forms part of this Annual Report.

Stakeholder Statement

Details of how we have fostered business relationships with suppliers, customers, and other stakeholders and the effect on principal decisions can be found throughout the integrated report. For ease of reference the key stakeholders are detailed in the Consumer and Business sections of the Strategic Report, the Non-Financial Statement and the Principle 6 Stakeholder Engagement section of the Corporate Governance Statement on page 53.

UK Employee Engagement Statement

We solely operate in the UK and our people are based in the UK, apart from a handful which are seconded to other Group companies from time to time. Details of our people engagement and how we have had regard to matters of concern to them can be found in the People section of the Strategic Report on page 24 and in Principle 6 of the Corporate Governance Statement on page 54.

Energy and Carbon Report

Details of our energy and carbon emissions during the year ended 31 December 2021 are set out in a separate report, Streamlined Energy and Carbon Statement on pages 45 to 46 which forms part of this Annual Report.

Dividends

On 27 May 2021, the Company paid cash dividends of £68,200,000 and on 16 December 2021, the Company paid £385,400,000 cash dividends. Furthermore, the Company paid £2,043,600,000 dividends in specie throughout the year as part of the larger Group re-organisation project in preparation for the Joint Venture.

Political Donations

In accordance with VMED O2 policy, no political donations were made or political expenditures incurred in accordance with the Companies Act 2006 during the financial year ended 31 December 2021.

Financial Risk Management Objectives, Policies and Exposure

Details of the Group's approach to financial risk management objectives and policies are set out in the financial statements in note 22 "Financial risk management".

Capital Structure and Rights Attached to Shares

The details of the Company's capital structure including the rights attached to shares is detailed in note 31 of the financial statements.

Going Concern

Notwithstanding net current liabilities of £3,380,000,000 as at 31 December 2021 and a loss for the year then ended of £212,400,000, the financial statements have been prepared on a going concern basis, which the Directors consider to be appropriate for the following reasons.

After making suitable enquiries and obtaining the necessary assurances that sufficient resources will be made available to meet any liabilities as they fall due, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

It is VMED O2's practice for operational and financial management to be undertaken at a group level rather than for individual entities that are wholly owned by the Group. Treasury operations and cash management for all VMED O2 UK Limited wholly owned subsidiaries are managed on a group basis. As part of normal business practice, regular cash flow forecasts for both short- and long-term commitments are undertaken at group level.

Forecasts and projections, which take into account reasonably possible downsides in trading performance, prepared for the Group as a whole, indicate that cash on hand, together with cash from operations and revolving credit facilities, is expected to be sufficient for the Group's cash requirements through to at least 12 months from the approval of these financial statements.

Taking into account these forecasts and projections and after making enquiries, the Directors have a reasonable expectation the Group has adequate support and resources to continue in operational existence for the foreseeable future. Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

Subsequent Events

Financing transactions

In January 2022, CTIL entered into a £500 million term loan facility. The facility was issued at 99.25%, maturing on 31 December 2026, with interest charged at a rate of SONIA plus 2.00%, subject to a SONIA floor of 0.0%. The net proceeds from the facility were used to redeem the outstanding amount of CTIL's shareholder loans of £460.0 million, which were due to be repaid 8 January 2022. As discussed further in note 3.4 of the financial statements, specifically within principles of consolidation, we consolidate our portion of CTIL as a joint operation, and as such 50% of the outstanding borrowings under the new term loan facility will be consolidated into our statement of financial position.

In January 2022, we performed two drawdowns of the Revolving Facility, aggregating £400 million, to meet working capital requirements, which was subsequently repaid in full in March 2022.

On 30 June 2022, the Company paid a £250,000,000 cash dividend to its Shareholders.

In August 2022, we entered into a £1,474.5 million sustainability-linked term loan facility comprised of £1,124.0 million of new commitments and £350.5 million of commitments rolled from an existing facility. The loan will mature five years from first drawdown and bear interest at a rate of SONIA + 3.25% (subject to adjustment based on the achievement or otherwise of certain Environmental, Social and Governance (ESG) metrics). The proceeds from the loan are expected to primarily be used for general corporate purposes.

Shareholders' announcement of fibre joint venture

On 29 July 2022, Liberty Global and Telefónica announced an agreement with investment firm InfraVia Capital Partners to form a new fibre joint venture (Fibre Joint Venture) to build a wholesale "fibre to the home" network in the UK, subject to regulatory approval. The Fibre Joint Venture will initially roll out fibre to 5 million greenfield premises not currently served by VMED O2's network by 2026, with the opportunity to expand to an additional approximately 2 million greenfield premises. VMED O2 will commit to being an anchor tenant of the new network, extending its total fibre footprint to up to 23 million premises, as well as providing its well established network expansion expertise, systems and relationships to the Fibre Joint Venture, including construction, IT, technology and corporate services.

Disclosure of Information to the Auditor

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

Auditor

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

This report was approved by the board on 23 September and signed on its behalf by:

E Medina Malo
Company Secretary

Corporate Governance Statement

For the year ended 31 December 2021

Introduction

Prior to the formation of the Joint Venture each operating business within VMED O2 operated under the governance framework of its respective parent company, which set out a clear structure in respect of the delegation of authorities and management and supervision of the relevant business. Following the formation of the Joint Venture, steps are underway to align the governance framework across VMED O2.

We have chosen to report the governance arrangements for VMED O2 against the Wates Principles detailed below.

Principle One: Purpose and Leadership

An effective board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose.

The Joint Venture was formed to be a connectivity challenger in the UK, combining the UK's largest and most reliable mobile network with a broadband network offering the fastest widely-available broadband speeds. Accordingly, VMED O2's purpose is to "Upgrade the UK" and "Reimagine Connectivity".

The principal strategic focus of the Board and the Executive Management Team since formation of the Joint Venture has been to oversee plans for the successful integration of the Virgin Media and O2 businesses. As part of this, a project to identify VMED O2's core values was undertaken and these values are encapsulated by the words "Brave", "Real" and "Together". The Board and the Executive Management Team have begun work to set the strategy and to develop and embed a high-performance culture that lives VMED O2's values and aligns with its purpose.

The Board encourages its employees to live by the Company's culture and values. Following the formation of the Joint Venture, the Board organised tours by the Executive Management Team across the country and conducted livestreams of company-wide events and interactive sessions in the workplace, in order to directly engage and encourage employees. The Board also adapted the approach to employee listening, creating a more agile strategy to inform and enhance the employee experience during the integration. Using a variety of methods, such as surveys and focus groups they established a greater understanding of employee engagement and sentiment, providing employees with a voice on the most important topics. Insights have enabled company-wide and department specific action planning on focus areas through a network of people champions.

The first employee engagement survey ran just 30 days into the Joint Venture and results showed levels of engagement and advocacy (both as a place to work and for our products) equal to the High Performing Benchmark. VMED O2 undertook another survey in November in which engagement and advocacy metrics as a place to work took a small dip as a result of the volume and pace of organisational change and the need for greater clarity on the strategic direction of our new organisation. Advocacy for our products remains above the benchmark. A cultural diagnostic run at the same time in November revealed the intrinsic motivations of employees that directed the shifts needed to create a high performing culture. In January 2022 VMED O2's four strategic priorities were communicated to all employees and a new approach to Performance & Development launched to enable all employees to create clear and aligned goals.

In addition to focusing on the employees of VMED O2 and the integration of the two businesses, the Board's priorities are to maintain VMED O2's commercial momentum in the volatile economic climate, accelerate its digital transformation to future-proof the business and support the development of the network infrastructure to ensure that VMED O2's purpose can be achieved.

Principle Two: Board Composition

Effective board composition requires an effective chair and a balance of backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

The statutory Board is appointed by the shareholders and consists of four representatives from each shareholder. The Chair of the Board is rotated biennially, with the first Chair being appointed by Liberty Global. In accordance with the terms of the shareholders' agreement and articles of association of the Company, in order for a meeting of the Board to be quorate, at least three Director nominated by each Shareholder must be present and at least one Director appointed by each shareholder must vote in favour of a proposed resolution in order for it to be passed; the Chair does not have a casting vote. The role of the Chair and the Chief Executive are separate, which ensures that the balance of responsibilities, accountabilities and decision making across VMED O2 is effectively maintained.

The Board consists of highly skilled individuals with global experience and knowledge. Members include the chief executive officers and chief financial officers of both Liberty Global and Telefonica, and other senior executive-level individuals with long-standing involvement in the telecommunications and media industries in the UK, United States and Spain. The Board comprises a mix of nationalities.

The Board has delegated day-to-day management of VMED O2's business activities to the Executive Management Team, overseen by the Board and various Board Committees. The Executive Management Team is gender diverse with mixed nationalities and its members have a wide range of skills, experience and expertise appropriate to the scale and complexity of VMED O2's business. The Executive Management Team meets weekly and these meetings are chaired by the Chief Executive Officer. The Executive Management Team comprises the Chief Executive Officer; Chief Financial Officer; Chief Operating Officer, TV, Broadband and FMC; Chief Commercial Officer, Mobile; Managing Director, Business and Wholesale; Managing Director, Fixed Network Expansion; Chief Technology Officer; Chief Information Officer; Chief Communications and Corporate Affairs Officer; General Counsel and Chief Regulatory Officer; Chief Digital Officer and Chief People and Transformation Officer. Each of these individuals report directly to the Chief Executive Officer.

The Chief Executive Officer and each member of the Executive Management Team has a clear role and responsibility for their specified area of the business, including in relation to engaging with key stakeholders of their business area and keeping the rest of the Executive Management Team and the Board informed about the outcome of such engagement. The Executive Management Team have the necessary skills and experience to make valuable contributions in promoting the success of the Company. During the period the Executive Management Team undertook the necessary professional development to perform their roles, including briefings on specialist matters and keeping abreast with regulatory changes, in particular the government guidance and national restrictions due to the COVID-19 pandemic. A biography of each member of the Executive Management Team can be found on the Company's website at **https://news.virginmediao2.co.uk/leadership/**.

Principle Three: Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.

As the Directors have been appointed by the shareholders it is particularly important for them to have a clear understanding of the nature of their duties and to whom they are owed. To assist the Directors in this regard, a draft charter of roles and responsibilities of the Board, the Executive Management Team and the Company's subsidiaries (the **Charter**) has been prepared. Whilst the terms of the Charter are still being settled, the Charter makes it clear that the Board is responsible for providing strategic leadership of VMED O2 and retains overall direction and supervision of VMED O2. The Charter also contains clear delegation of authority by the Board to the Executive Management Team, who are responsible for the overall management and operational control of VMED O2 (other than in respect of certain regulated entities to which a separate senior manager regime applies). In addition, certain governance responsibilities are delegated to other Board committees, namely the Audit Committee and the Remuneration Committee.

The Board and the Executive Management Team are required to act in accordance with the terms of the shareholders' agreement and articles of association relating to the Company, in particular those provisions relating to dealing with conflicts of interest and in respect of certain matters which require the requisite approval of at least three Directors nominated by each shareholder or by both shareholders. The shareholders' agreement also contains provisions dealing with meetings of the Board, the supply of certain information to shareholders, and a process for agreeing the annual business plan and any changes thereto. In accordance with the terms of the shareholders' agreement, the Board holds regular meetings to oversee the management of VMED O2, with at least six formal meetings and six further shorter update sessions scheduled each year. There is open debate and constructive challenge at meetings, with members of the Board participating in all discussions and demonstrating a high level of engagement with the business and a sound understanding of VMED O2's strategy.

Principle Four: Opportunity and Risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight to identify and mitigate risks.

In accordance with the terms of the shareholders' agreement, the Executive Management Team prepares an annual business plan for approval by the Board/shareholders, which includes a consideration of long-term strategic opportunities. Once approved, any material changes to the business plan will require Board/shareholder approval, in accordance with the terms of the shareholders' agreement. Short term opportunities to improve business performance and achieve operational efficiencies identified by the Executive Management Team are reported to the Board as part of their regular meetings.

The Board has established an Audit Committee which is chaired by a member of the Board and includes both Board and Executive Management Team members. The Audit Committee is responsible for the overall oversight of the audit responsibilities and duties, the accounting and financial reporting, non-financial reporting, internal control, risk management and compliance processes of the Company and VMED O2 (subject to certain other arrangements in relation to VMED O2's regulated entities).

An effective risk management system contributes to the development of the business through an appropriate balance between growth, return and risk. VMED O2 has implemented a new Group-wide risk management framework which combines the best elements of the previous Virgin Media and O2 frameworks, applies core principles from COSO and ISO31000 standards, and is tailored to the VMED O2 Group. The framework enables the business to consistently identify, assess, manage and monitor risks across the enterprise and escalate priority risks that could adversely affect the future success of VMED O2.

The most significant risks to the business are presented to the Executive Management Team at regular intervals each year for discussion, validation and direction, as well as being reported to the audit committee at regular intervals for further oversight and assurance. Details of the Principal Risks and Uncertainties facing the business are disclosed in pages 28 to 35 of the Strategic Report.

VMED O2's "Risk Appetite" is created through a combination of internally defined parameters and those set by VMED O2's ultimate shareholders. This defined appetite enables VMED O2 to deliver value creation, growth and performance whilst managing risk exposure in a measured and accountable way. When applied to VMED O2's strategy decision making, this helps the Executive Management Team to select appropriate strategies within its acceptable risk level.

Internal Audit is configured as an independent function from the management of the Company. Internal Audit supports the Executive Management Team, Audit Committee and Statutory Board in providing services related to assurance, through applying a systematic and disciplined approach in the definition and delivery of an annual audit plan. This includes reporting to senior management on issues identified (such as unmitigated risks or control weaknesses) through independent audit reviews performed. Internal Audit also reports on the effectiveness of the internal control framework, which is also subject to an annual assessment for the purposes of financial reporting, covering business processes, technology, data and significant programmes.

The Executive Management Team and Audit Committee participate in the creation of the Annual Internal Audit Plan. Each year the proposed Internal Audit Plan is submitted for approval by the Audit Committee. On a quarterly basis, Internal Audit reports to the Audit Committee the implementation of any control and/or internal audit actions identified. Internal Audit was the subject of an External Quality Assessment Review performed by the Institute of Internal Auditors which assessed adherence to the International Professional Standards of Internal Auditing and achieved the highest assessment rating, indicating conformance with the requirements of the Standards.

The internal control framework incorporates preventative activities, covering such aspects as Group policy management, continuous monitoring and risk management, alongside the detective activities of audit and Speak Up investigation. The detective audit activities include reviews of the internal controls over financial reporting (ICFR or SOX) control framework at a minimum annually which is undertaken by both the Internal and External Audit teams. The internal control framework is based upon the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control model. This model develops proportionate control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, including the development of general control activities over supporting technologies that meet the established Group Policy criteria. These control activities support VMED O2 to meet its objectives and to sustain and improve performance, whilst providing the required level of Executive Management Team, Audit Committee and Board oversight.

Principle Five: Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

The Board has established a Remuneration Committee which comprises of four board members with terms of reference that includes: (i) setting and assessing the remuneration policy and practices that foster the retention and attraction of talent, incentivises performance and good short-term and long-term decision-making to drive the achievement of VMED O2's strategy; (ii) approving certain senior level nominations and remuneration packages; and (iii) defining policies for certain senior level appointments, and such other issues or matters as the Board may determine from time to time.

In order to align the success of the Executive Management Team with the sustainable success of VMED O2's business, a significant portion of executive remuneration is delivered in the form of short and long-term variable remuneration and based on financial and non-financial performance. The short-term variable remuneration is linked to achieving specific financial, business, customer satisfaction and sustainability objectives. The long-term variable remuneration is linked to the long-term value creation in VMED O2 by measuring shareholders' return on investment and key economic financial objectives. The Remuneration Committee sets the remuneration policy and terms for senior management in the context of the renumeration of the workforce as a whole which is determined by the Executive Management Team, with a view to ensuring that proposals are balanced, proportionate and aligned with VMED O2's commitment to building a diverse and inclusive workforce.

Within each of the Virgin Media and O2 businesses every employee has a grade which in turn has its own pay range or pay points. These pay points and pay ranges are reviewed annually against the external market to ensure that they remain competitive. We also seek to offer a wide range of benefits to our employees with the flexibility for them to select benefits that suit their own circumstances. Both Virgin Media and O2 have strong track-records of making positive change for their people, further details of which can be found via the Virgin Media sustainability and O2 sustainability links on our Responsible Business web page: **https://news.virginmediao2.co.uk/responsible-business/**.

Principle Six: Stakeholder Relationship and Engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Our stakeholders are classified as any group or interest that may be affected by our business in a significant manner such as our Shareholders, customers, people, regulators, government, suppliers, society and the environment. The Board is focused on promoting the Company's long-term success, taking into consideration the interests of all our stakeholders. In accordance with the shareholders' agreement, the Shareholder-nominated Directors are able to share information about the Company's business and performance with the Shareholders and the Company has obligations to provide certain information, such as monthly management accounts, to the Shareholders and to keep them informed about all material developments in the Company's business. The Shareholder-nominated Directors ensure that the Shareholders' views are taken into account in decision-making at Board level, and that decisions relating to certain matters identified in the shareholders' agreement as requiring the requisite approval of at least three Directors nominated by each Shareholder or by both Shareholders are taken in accordance with the process set out in that agreement.

Customers

We have established a customer advisory board (**CAB**), comprising customers from both the public and private sector. Members of the customer advisory board periodically discuss their key strategic goals for the upcoming year with the Company. The Board has also established a customer insights framework which tracks and monitors market developments as well as market needs, so as to inform VMED O2's priority in putting its customers first. VMED O2's thought leadership and research team undertakes primary research to understand strategies employed by other companies and market trends and shares such findings with the Board and the Executive Management Team to better inform VMED O2's customer strategy. In line with improving VMED O2's delivery of services, VMED O2 hosts regular account review meetings with its customers in the public sector to understand their local requirements. Further examples of events to better understand customers include regular round tables, customer advisory board and customer innovation workshops to embed a customer-first strategy into VMED O2's decisions.

Employees

We have various means to engage with our employees and to act upon their feedback including:

- **CEO & executive live streams and roadshows:** Through 2021 we continued regular CEO and Executive Management Team digital livestreams, in addition to face to face Roadshows. These events are an opportunity for the Executive Management Team to share important updates and provide an opportunity for our people to ask questions and to make comments.
- **Employee network groups:** Our six employee network groups (Enrich, Proudly, Gender Equality, Ultraviolet, Extra Ordinary and We Care) work to ensure the views, needs and sentiment of our diverse populations are represented on an on-going basis within and across the business. There are both formal and informal collaborative working sessions.
- **Executive management team briefings:** Each month the Executive Management Team brings together VMED O2's senior leaders to discuss a range of commercial, customer and leadership priorities. These forums are opportunities to invite questions, feedback, views and insights from the wider senior leadership community.
- **Workplace:** Our internal social media platform actively drives and encourages openness, communication and collaboration. All of our people have access to Workplace and are able to post comments, questions, ideas and set up groups. Workplace is a key vehicle in our communications and employee engagement approach, supporting business updates, dissemination of key information e.g. COVID-19 updates, and bespoke campaigns centred on key topics e.g. internal career opportunities. Workplace provides an always-on forum for people to share updates, feedback, ideas and news from around the Business.

- **Engagement survey and pulse surveys:** These tools gather our people's views and enable everyone to have a voice through the year. The results provide a company-wide view of our people's levels of motivation and identify what is going well and what can be improved.
- **Quarterly update:** Each quarter, members of the Executive Management Team share our commercial and financial results and business strategy updates with all of our people. These have been held digitally via Workplace through 2021, are accessible to all of our people and provide the opportunity for questions or comments.
- **Employee representatives for the O2 group:** We work continuously and in partnership with our Trade Unions (CWU and Prospect) and employee representatives on a broad range of employee related matters to maintain a positive and collaborative industrial climate within the business.
- **Employee representatives for the Virgin Media group:** We work continuously and in partnership with our Voice Forum on a broad range of employee related matters to maintain a positive and collaborative industrial climate within the business.

Regulators

Our three main Regulators are the Office of Communications (**Ofcom**), the Information Commissioner's Office (**ICO**) and the Financial Conduct Authority (**FCA**). We engage with all these regulators to foster a constructive relationship and support our business strategy.

During 2021, we have been involved in Ofcom's mobile strategy review and Ofcom's Consultation on 2100 MHz Spectrum Annual Licence Fees. In relation to its mobile strategy review, Ofcom invited us to several calls to discuss our experience of and views on the current state and future developments of the mobile value chain. Ofcom published its Discussion Paper in February 2022, consulting on its approach and findings to develop its future mobile strategy. We responded to this paper highlighting areas where we agree with Ofcom's assessment as well as where it appears that Ofcom did not appreciate (and thus should revisit) the merits that a more pro-investment regulatory approach would deliver. Also, we responded to Ofcom's 2100 MHz Spectrum Annual Licence Fees Consultation by setting out our views on Ofcom's proposals for both Frequency Division Duplex (**FDD**) and Time Division Duplex (**TDD**) fees. Ofcom then published their decisions on 2100 Annual Licence Fees in December 2021. This included setting FDD fees (which are payable by operators holding this spectrum from January 2022 onward) and communicating that TDD use of spectrum and fees would be considered as part of a separate Consultation, due in first half of 2022.

The Information Commissioner's Office is the UK's independent body set up to uphold information rights. We monitor relevant regulatory developments and take appropriate measures accordingly. For example, ICO publishes Statutory Codes of Practice, details of which can be found at **https://ico.org.uk/for-organisations/guide-to-data-protection/ico-codes-of-practice/**. We have started to prepare to implement changes to the requirements set out in the Age Appropriate design. The data sharing code came into force on 05 October 2021. We engage constructively with the ICO in relation to any enquiries we may receive from the regulator under relevant data protection law.

Certain entities within VMED O2 are authorised by the FCA to provide regulated consumer credit facilities, to arrange insurance contracts and to support our customers with their digital connectivity needs. We are committed to treating customers fairly and giving due regard to the FCA's objectives of protecting consumers, ensuring market integrity, and promoting effective competition. VMED O2 has four FCA regulated entities, each of which is regulated individually by the FCA: Telefonica UK Limited; Virgin Media Mobile Finance Limited; Tesco Mobile Limited (a joint venture with Tesco plc); and giffgaff Limited.

Supported by the FCA Compliance team the identified Senior Managers of both Virgin Media Mobile Finance and Telefonica UK Virgin Media O2 are committed to "Treating Customers Fairly" and delivering good customer outcomes. Due to the impacts of the COVID-19 pandemic on consumers, one of the FCA's focus areas in 2021 was the treatment of customers in financial difficulty. Examples of how the businesses have had regard to the FCA's interest during the reporting year are as follows:

- Full implementation of the Breathing Moratorium across both FCA and non FCA regulated activity for mobile;
- Partnered with 20/20 Change to enable 400 people young people from underrepresented ethnic groups with coaching and advice, helping to bridge the gap between education and employment;
- Maintaining our inclusive roaming so that our customers can travel to destinations all over Europe and use their data, calls and texts just as they would in the UK; and
- In partnership with the Good Things Foundation we launched the first ever National Databank – to tackle data poverty by providing free mobile data to people in need.

Government and Local Authority

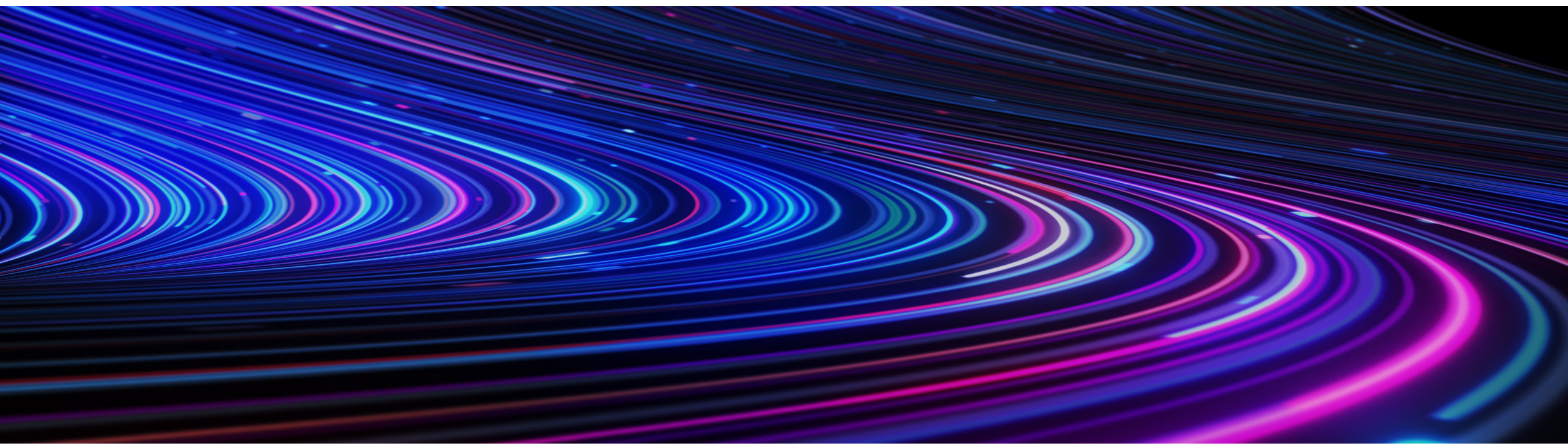
We have continued to engage with the Government to support communities across the UK, ensuring we keep the nation connected and helping to rebuild Britain. For example, on network coverage, open market reviews, planning policy, regulation and our Net Zero commitments. The pandemic has increased appreciation of the importance and value that digital connectivity can bring. We are leveraging this to ensure that public policy in key areas (e.g. planning, regulation) reflects the increased importance people now attach to digital connectivity, reinforcing the contribution that mobile can play in supporting economic growth in a post-Brexit, post COVID-19 economy. For example, we have secured Government backing for the Shared Rural Network, winning investment and policy support that will help us improve rural coverage. We also liaise with local authorities supporting Network Expansion build plans and Open Market Reviews. Relationships with local authorities are positive, enabling us to leverage existing relationships to help unblock issues with permits or wayleaves for Network Expansion.

Responsible Business

We are committed to using our connectivity, people and brands to create a lasting positive impact on the communities we serve, while accelerating action on climate change. We will put sustainability at the heart of how we do business, creating products and services with a one planet mindset and we will take action to support vulnerable and under-represented groups in the communities we serve. Both Virgin Media and O2 have strong track-records of making positive change for our people, communities and our planet and VMED O2 has built on these strong foundations through launching a new integrated sustainability strategy for the Joint Venture as a whole in May 2022. Further details can be found via our Responsible Business web page: **https://news.virginmediao2.co.uk/responsible-business** and on pages 39 to 40 of the Non-Financial Statement.

The Corporate Governance Statement was approved by the board on 23 September and signed on its behalf by:

E Medina Malo
Company Secretary



Statement of Directors' Responsibilities in Respect of the Annual Report and the Consolidated Financial Statements

For the year ended 31 December 2021

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the rules of both the Luxembourg Stock Exchange and The International Stock Exchange they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's Profit or Loss for that year. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of VMED O2 UK Limited

For the year ended 31 December 2021

1. Our opinion is unmodified

We have audited the financial statements of VMED O2 UK Limited (the **Company**) for the period from 1 January 2021 to 31 December 2021, which comprise the Consolidated Statement of Financial Position, Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company Statement of Financial Position, Parent Company Statement of Equity, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31st December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (**ISAs (UK)**) and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Initial and subsequent valuation of VMED O2 UK Limited (VMED O2 Joint Venture)

The risk – Accounting treatment:

Initial measurement of VMED O2 Joint Venture – The VMED O2 Joint Venture was formed on 1 June 2021, when Liberty Global and Telefonica S.A. entered into a 50:50 joint venture agreement to merge the UK operations of Virgin Media Inc. and O2 Holdings UK Limited. VMED O2 Joint Venture management engaged Duff and Phelps to determine the initial valuation of the Joint Venture using a debt free cash flow valuation model, which valued the Joint Venture at £40,046m, with a net financial position £18,424m. There is a high degree of judgement and uncertainty in the estimation of the key assumptions used by management to determine the initial fair value of the Joint Venture.

Subsequent measurement of VMED O2 Joint Venture – There is a risk that potential indicators of impairment of the investment in the VMED O2 Joint Venture are not appropriately identified or are not identified in a timely manner. This may result in an impairment not being reflected in the financial statements in accordance with the applicable financial reporting framework.

Subsequent measurement of VMED O2 Joint Venture – There is a risk that potential indicators of impairment of the investment in the VMED O2 Joint Venture are not appropriately identified or are not identified in a timely manner. This may result in an impairment not being reflected in the financial statements in accordance with the applicable financial reporting framework.

Our response

Process understanding - Obtaining an understanding of the process to determine the initial valuation of the Joint Venture through a review of the valuation report produced by Duff and Phelps.

Assessment of the initial and subsequent valuation – We engaged the support of valuation specialists for the initial and subsequent valuation of the VMED O2 Joint Venture. These procedures consisted of testing the key assumptions which are the weighted average cost of capital discount rate (**WACC**) and terminal growth rate; in addition to assessing validation of the methodology used in the Joint Venture valuation through verifying its consistency with comparable business transactions within the telecommunications industry.

Personnel interviews - We performed testing over the data included in the forecast through inquiry of management over the approval and validity of the forecast (Joint Business Plan) as well as obtaining supporting documentation to substantiate the assumptions and underlying data used by management. Trends within the forecast were analysed to assess the feasibility of managements joint business plan.

Our results

We considered the initial and subsequent valuation of the VMED O2 Joint Venture to be acceptable.

Impairment of goodwill

The risk – Accounting treatment:

VMED O2 Joint Venture management used a 5-year forecast in compliance with IAS 36 to assess impairment annually for intangible assets with an indefinite life. This model contains a high degree of judgement and uncertainty in the estimation of the key assumptions used in the goodwill impairment test for the VMED O2 Joint Venture.

Our response

Process understanding – We obtained an understanding of the goodwill impairment review conducted by management through observing the model used by management to assess the impairment of intangible assess with an indefinite life. The model was subject to a test of operating effectiveness to ensure the inputs within the model were accurate and complete for the purpose of an impairment review.

Tests of details - Baseline forecasts and assumptions used in managements impairment model were tested to ensure they are consistent with the forecasts and assumptions used in the initial business enterprise valuation (see *Initial and subsequent valuation of VMED O2 UK Limited* above).

Assessing appropriateness – Considering the requirements of IAS 36 to ensure that the assessment made by management is in line with the accounting standard. We challenged the cash flows included in management's forecast that were not included in the initial valuation to gain an understanding of the nature and appropriateness of their inclusion in the impairment model. Supporting documentation was obtained for these items to substantiate the inclusion in the impairment model as well as verify the accuracy of the data.

Personnel interviews – We challenged the key assumptions made by VMED O2 Joint Venture management in the impairment model; assumptions and underlying data included were compared to the forecasts within Duff and Phelps initial valuation of VMED O2 Joint Venture, ensuring that they were within an acceptable range.

Our results

We considered the valuation of goodwill to be acceptable, with significant headroom available within the impairment calculations.

Revenue recognition – IFRS 15

The risk – Accounting treatment:

Professional standards require a presumed fraud risk from revenue recognition to be a determined significant risk, unless it is rebutted. The revenue streams of subscription, hardware and MVNO revenue are key drivers when assessing management's performance and impact business performance targets.

These revenue streams comprise automated and manual processes and there is a risk relating to the recognition and recording of revenue due to management intervention in the revenue process.

Our response

Process understanding – We obtained an understanding of the revenue process and the key controls around IFRS 15, through observing transactions from customer initiation to cash received for certain material revenue streams.

Test of details – We reconciled manual revenue journals to the billing systems to ensure they were accurately recorded. A sample of revenue transactions were selected, including credit notes, and were vouched to supporting evidence e.g. customer bills, orders, price lists, contractual terms, proof of service and cash received, where applicable.

Our results

We considered the recognition of revenue to be acceptable, in accordance with IFRS 15.

Pension assets – Level 3

The risk – Accounting treatment:

The Telefonica UK pension scheme has approximately 35% level 3 pooled investment vehicles, totalling £629m. Valuation of these assets is inherently challenging and involves a degree of estimation and therefore this is considered to be a significant inherent risk factor.

The financial statements (note 27) disclose the sensitivity of key assumptions for the asset's valuation.

Our response

Assessing fund managers' credentials – We evaluated the competence, independence and integrity of the pension scheme's third-party expert fund managers, who were engaged to determine the value of the level 3 pension assets.

Tests of details – We obtained third-party valuation confirmations directly from fund managers to assess against the unaudited net asset value statements. We tested the ability of fund managers to prepare accurate valuations by performing a retrospective review, comparing the net asset value statements available during the year to audited financial statements.

Our results

We considered the valuation of the level 3 pension assets within the Telefonica UK pension scheme to be acceptable.

Pension liability – Sensitivities

The risk – Accounting treatment:

The defined benefit obligation (**DBO**) is valued at £1,780m, which is considered to be a significant inherent risk factor on valuation of the DBO. Small changes in certain key actuarial assumptions used to determine the valuation are materially sensitive and can have a significant impact on the DBO.

We determined that the valuation of the defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality.

The financial statements (note 27) disclose the sensitivity of key assumptions for the obligation estimated by the mobile division.

Our response

Personnel interviews – We challenged key assumptions applied (discount rate, inflation rate and mortality rate) with the support of our actuarial specialists, including a comparison of key assumptions against market data.

Tests of details – We assessed the sensitivity of the defined benefit obligation to changes in certain assumptions. The assumptions adopted were assessed to ensure they are balanced and within an acceptable range, in compliance with IAS 19.

Actuary's credentials – We assessed the competence, independence and integrity of the VMED O2 Joint Venture's actuarial expert.

Our results

We considered the valuation of the defined benefit obligation within the Telefonica UK pension scheme to be acceptable.

Internal and external cost capitalisation

The risk – Accounting treatment:

Certain internal and external labour and overhead costs are capitalized as Property and equipment within fixed line division amounting to £695m. These capitalised costs relate to the capital projects undertaken by the Group and involve estimation, when determining the amount of time and costs that should be capitalised.

The key risks in determining if construction and installation costs qualify for recognition as an asset are whether the costs are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by VMED O2 and whether the cost can be measured reliably.

Our response

Control operations - We evaluated the design and implementation of key controls across the various divisions. These controls were tested to ensure that overhead rates are calculated and reviewed on a regular basis and are applied to the appropriate cost base.

Personnel interviews – We enquired of management to understand the significant judgement areas, being capitalised expenditure and operating expenditure, and VMED O2 UK Limited management's approach to these in advance of year end. We challenged VMED O2 UK Limited management on the amount of internal costs capitalized during the year by comparing to budgets, interviewing departmental heads to determine the level of time individuals have spent on capital projects, and analysed the changes to significant estimates utilized by VMED O2 UK Limited to determine the amount of internal costs to be capitalized (if any), and other changes in the business that could have a potential impact on cost capitalization during the year.

Tests of details – For both internal and external costs capitalised, we selected a sample of costs capitalised in the year and assessed the nature of the costs based on underlying internal and third-party documentation. These costs were assessed against the cost capitalisation policy in place for appropriateness.

Our results

We considered the capitalisation of internal and external costs for 2021 to be acceptable.

Recoverability of parent Company investment in subsidiaries and loans to Group undertakings

The risk – Accounting treatment:

The carrying amount of the parent Company investment in subsidiaries and the amount of loans to Group undertakings represent 96.9% and 3.1% respectively, of the Company's total assets.

Their recoverability is not considered a significant risk or subject to significant judgement. However, due to their materiality in the context of the financial statements, these are considered to be the areas that had the greatest effect on the parent Company audit.

Our response

Tests of details – We compared the carrying amount of the parent Company's investment and loans to Group undertakings, with the relevant subsidiary Balance Sheet to identify whether its net assets, being an approximation of their minimum recoverable amount, were in excess of its carrying amount and assessed whether that subsidiary group has historically been profit-making.

Our results

We found the carrying amounts of the investments in subsidiaries and debt due from Group entities to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £61,500,000, determined with reference to a benchmark of total revenue of £6,158,200,000, which represents 1%. We consider total revenue to represent the most relevant benchmark for the purposes of our materiality assessment.

Materiality for the parent Company financial statements as a whole was set at £61,000,000, determined with reference to a benchmark of total assets of £20,212,800,000, of which it represents 0.3%.

Performance materiality was set at 75% of materiality for the financial statements as a whole, which equates to £46,100,000 for the group and £45,750,000 for the parent Company.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £3,000,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (the **going concern period**).

Our procedures included:

- We assessed the appropriateness of the forecasts and projections undertaken at the Group level.
- We critically assessed assumptions in Group's base case and downside scenarios relevant to liquidity and covenant metrics, in particular by comparing to economic forecasts, approved budgets and our knowledge of the Group and the sector in which it operates.
- We also compared past budgets to actual results to assess the Directors' track record of budgeting accurately.

We considered whether the going concern disclosure in note 2.3 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure in note 2.3 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (**fraud risks**) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and management as to the Group and Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes;
- Considering remuneration incentive schemes and performance targets for management/ Directors;
- Using analytical procedures to identify any unusual or unexpected relationships

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment.

We also identified a fraud risk related to inappropriate capitalisation of external and internal costs in response to possible pressures to meet profit targets. Further detail in respect of the inappropriate capitalization of external and internal costs is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual accounts;
- Evaluated the business purpose of significant unusual transactions; and
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: data and privacy law reflecting the growing amount of personal data held and competition and markets regulation, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 57, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities.**

9. The purpose of our audit work and to whom we owe our responsibilities

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

Robert Seale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London, United Kingdom,
E14 5GL

23 September 2022

Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 £ million	8 month period 2020 £ million
Revenue	5	6,158.2	-
Cost of sales		(2,217.6)	-
Gross profit		3,940.6	-
Administrative expenses		(3,928.1)	-
Group operating profit	6	12.5	-
Finance costs	10	(773.0)	(155.3)
Finance income	10	498.8	-
Net finance costs		(274.2)	(155.3)
Loss before tax		(261.7)	(155.3)
Income tax benefit	11	49.3	-
Loss for the year/period		**(212.4)**	**(155.3)**
Other comprehensive income			
Items that will or may be subsequently reclassified to profit or loss			
Foreign currency translation adjustments		13.3	-
		13.3	-
Items that will not be reclassified to profit or loss			
Pension-related adjustments and other	27	25.6	-
		25.6	-
Total comprehensive loss for the year/period		**(173.5)**	**(155.3)**

The notes on pages 71 to 132 form part of the financial statements.
All results were derived from continuing operations.

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	2021 £ million	2020 £ million
Non-current assets			
Intangible assets	12	30,045.8	-
Property, plant and equipment	13	9,757.9	-
Investments	25	8.9	0.1
Financial assets	14	105.9	-
Derivative instruments	14	398.9	32.0
Trade receivables and other non-current assets	15	257.3	-
Deferred tax assets	11	73.0	-
Defined benefit pension plan asset	27	369.0	-
		41,016.7	32.1
Current assets			
Financial assets	14	296.0	-
Derivative instruments	14	95.6	165.8
Trade receivables and other current assets	15	2,075.9	-
Inventory	16	157.6	-
Cash and cash equivalents		348.9	-
		2,974.0	165.8
Total assets		**43,990.7**	**197.9**
Current liabilities			
Trade payables and other liabilities	17	(3,909.5)	-
Current tax payable	17	(32.0)	-
Financial liabilities	18	(2,189.9)	(0.1)
Derivative instruments	18	(191.5)	-
Provisions	21	(31.1)	-
		(6,354.0)	(0.1)
Non-current liabilities			
Trade payables and other liabilities	17	(186.4)	-
Financial liabilities	18	(16,225.0)	-
Derivative instruments	18	(734.5)	(353.1)
Provisions	21	(171.4)	-
Deferred tax liabilities	11	(7.5)	-
Defined benefit pension plan liability	27	(4.5)	-
		(17,329.3)	(353.1)
Total liabilities		**(23,683.3)**	**(353.2)**
Net assets		**20,307.4**	**(155.3)**
Capital and reserves			
Ordinary shares	31	-	-
Additional paid in capital	32	15,225.0	-
Accumulated other comprehensive income	32	38.9	-
Retained earnings/(Accumulated losses)	32	5,043.5	(155.3)
Total owner's equity		**20,307.4**	**(155.3)**

The notes on pages 71 to 132 form part of the financial statements. The Financial Statements were approved and authorised for issue by the board on 23 September 2022 and were signed on its behalf by:

C H R Bracken
Director, Company Registration Number: 12580944

Consolidated Statement of Shareholders' Equity

For the year ended 31 December 2021

	Notes	Ordinary shares £ million	Additional paid in capital £ million	Accumulated other comprehensive income £ million	Retained earnings £ million	Total owners' equity £ million
At 1 January 2021		-	-	-	(155.3)	(155.3)
Shares issued	31	-	15,402.4	-	-	15,402.4
Joint Venture formation	4	-	8,223.1	-	-	8,223.1
Cancellation of own shares	31	-	(515.5)	-	-	(515.5)
Capital reduction	32	-	(7,885.0)	-	7,885.0	-
Dividends	9	-	-	-	(2,497.2)	(2,497.2)
Other comprehensive income		-	-	38.9	-	38.9
Share based compensation	26	-	-	-	23.4	23.4
Loss for the year		-	-	-	(212.4)	(212.4)
At 31 December 2021		-	**15,225.0**	**38.9**	**5,043.5**	**20,307.4**

For the period ended 31 December 2020

	Notes	Ordinary shares £ million	Additional paid in capital £ million	Accumulated other comprehensive income £ million	Accumulated losses £ million	Total owner's equity £ million
At 30 April 2020		-	-	-	-	-
Loss for the period		-	-	-	(155.3)	(155.3)
At 31 December 2020		-	-	-	**(155.3)**	**(155.3)**

The notes on pages 71 to 132 form part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 £ million	8 month period 2020 £ million
Cash flows from operating activities:			
Net loss		(212.4)	(155.3)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Share-based compensation expense	26	23.4	-
Depreciation and amortisation	12, 13	2,041.8	-
Impairment, restructuring and other operating items, net	20, 21	37.4	-
Amortization of deferred financing costs and non-cash interest		(5.5)	-
Realized and unrealized (gains)/losses on derivative instruments, net	10	(489.4)	155.3
Foreign currency transaction losses, net	10	315.0	-
Loss on debt modification and extinguishment, net	10	0.3	-
Loss on sale of investment	6	1.4	-
Deferred income tax benefit	11	(2.2)	-
Interest paid		(368.5)	-
Income taxes paid		(6.9)	-
Changes in operating assets		(496.0)	-
Changes in operating liabilities		980.7	-
Net cash provided by operating activities		**1,819.1**	**-**
Cash flows from investing activities:			
Capital expenditures, net	12, 13	(748.1)	-
Net advances to related parties	30	(322.2)	-
Cash acquired as a result of the Joint Venture transaction		195.0	-
Net cash used by investing activities		**(875.3)**	**-**
Cash flows from financing activities:			
Repayments of debt and lease obligations	19, 20	(3,447.7)	-
Borrowings of debt	19	2,903.4	-
Payment of financing costs and debt premiums		(27.6)	-
Net cash received related to derivative instruments	23	26.9	-
Other financing activities, net		(7.2)	-
Net cash used by financing activities		**(552.2)**	**-**
Effect of exchange rate changes on cash and cash equivalents and restricted cash		(1.7)	
Net increase in cash and cash equivalents and restricted cash		389.9	
Cash and cash equivalents and restricted cash:			
Beginning of period		-	-
End of period		**389.9**	**-**
Details of end of period cash and cash equivalents and restricted cash:			
Cash and cash equivalents		348.9	-
Restricted cash included in current and non-current financial assets		41.0	-
Total cash and cash equivalents and restricted cash		**389.9**	**-**

The notes on pages 71 to 132 form part of the financial statements.

Notes to the Consolidated Financial Statements

As at 31 December 2021

1. General information

VMED O2 UK Limited (the **Company**) is a private company incorporated, domiciled and registered in the UK. The registered number is 12580944 and the registered address is Griffin House, 161 Hammersmith Road, London, United Kingdom, W6 8BS.

As described in detail in the Strategic Report, the principal activity of VMED O2 is the provision of telecommunication services in the UK.

The Consolidated Financial Statements of VMED O2 UK Limited for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 23 September 2022 and the Consolidated Financial Statements were signed on the board's behalf by C H R Bracken.

2. Accounting policies

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

2.1. Basis of accounting

The principal accounting policies adopted by the Group are set out below and have all been applied consistently throughout the current period.

These Consolidated Financial Statements were prepared on a going concern basis and under the historical cost basis in accordance with the Companies Act 2006 and International Financial Reporting Standards (**IFRS**).

The Consolidated Financial Statements are presented in sterling and all values are rounded to the nearest million, except otherwise stated.

2.2. Basis of consolidation

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

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

Joint arrangements are defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities required the unanimous consent of the parties sharing control. For additional information regarding VMED O2's joint arrangements, see note 3.4.

2. Account policies (continued)

2.3. Going concern

Notwithstanding net current liabilities of £3,380.0 million as at 31 December 2021 and a loss for the year then ended of £212.4 million, the financial statements have been prepared on a going concern basis, which the Directors consider to be appropriate for the following reasons.

After making suitable enquiries and obtaining the necessary assurances that sufficient resources will be made available to meet any liabilities as they fall due, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

It is VMED O2's practice for operational and financial management to be undertaken at a group level rather than for individual entities that are wholly owned by the Group. Treasury operations and cash management for all VMED O2 UK Limited wholly owned subsidiaries are managed on a group basis. As part of normal business practice, regular cash flow forecasts for both short- and long-term commitments are undertaken at group level.

Forecasts and projections, which take into account reasonably possible downsides in trading performance, prepared for the Group as a whole, indicate that cash on hand, together with cash from operations and revolving credit facilities, is expected to be sufficient for the Group's cash requirements through to at least 12 months from the approval of these financial statements.

Taking into account these forecasts and projections and after making enquiries, the Directors have a reasonable expectation the Group has adequate support and resources to continue in operational existence for the foreseeable future. Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

2.4. Foreign currency translation and transactions

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

2.5. Intangible assets

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

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

2. Accounting policies (continued)

2.5. Intangible assets (continued)

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

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

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

2.6. Property, plant and equipment

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

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

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

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

2. Accounting policies (continued)

2.7. Provisions

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

A provision for restructuring is recognised when management has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced to the parties concerned.

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

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

2.8. Leases

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

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

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

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

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

In some instances, we act as lessor, notably in respect of agreements with business-to-business (**B2B**) customers for use of various network assets. For arrangements which meet the criteria to be recognised as

2. Accounting policies (continued)

2.8. Leases (continued)

a finance lease-out, we derecognise the asset, recognising revenue arising from the lease component when control of the network asset is transferred to the customer.

2.9. Non-derivative financial instruments

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

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

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

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

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

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

For information concerning the fair values of our derivatives and debt, see notes 23 and 19, respectively. For information concerning how we arrive at certain of our fair value measurements, see note 24.

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in interest income or expense. Finance costs which are incurred in connection with the issuance of debt are deferred and set off against the borrowings to which they relate. Deferred finance costs are amortised over the term of the related debt using the effective interest method.

2.10. Derivative instruments

All derivative instruments, whether designated as hedging relationships or not, are recorded in the statements of financial position at fair value. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognised in earnings. If the derivative instrument is designated as a fair value hedge, the changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognised in earnings.

2. Accounting policies (continued)

2.10. Derivative instruments (continued)

If the derivative instrument is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative instrument are recorded in other comprehensive income or loss and accumulated in other reserves, and subsequently reclassified into our Consolidated Statement of Profit or Loss when the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognised in earnings. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instruments expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to Profit or Loss from that date. We do not currently apply hedge accounting to our derivative instruments.

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

2.11. Inventories

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

2.12. Trade receivables

Our trade receivables are initially measured at fair value and subsequently reported at amortised cost, net of an allowance for impairment of trade receivables. The allowance for impairment of trade receivables is estimated based upon our current estimate of lifetime expected credit losses. We use a number of factors in determining the allowance, including, amongst other things, collection trends, prevailing and anticipated economic conditions, and specific customer credit risk. The allowance is maintained until either payment is received or the likelihood of collection is considered to be remote. For additional information regarding our trade receivable and allowance for impairment of trade receivables, see note 15.

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

2.13. Cash and cash equivalents and restricted cash

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

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

2. Accounting policies (continued)

2.14. Employee benefits – retirement benefit obligations

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

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

2.15. Revenue recognition

2.15.1. Service revenue - fixed-line network

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

2.15.2. Sale of multiple products and services

We sell broadband internet, video and fixed-line telephony and mobile services to our customers in bundled packages at a rate lower than if the customer purchased each product on a standalone basis. Revenue from bundled packages generally is allocated proportionally to the individual products or services based on the relative standalone selling price for each respective product or service.

2.15.3. Mobile revenue

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

Revenue from pre-pay customers is deferred prior to the commencement of services and recognised as the services are rendered or usage rights expire. Some of our mobile handset contracts that permit the customer to take control of the handset upfront and pay for the handset in instalments over a contractual period may contain a significant financing component. For contracts with terms of one year or more, we recognise any significant financing component as revenue over the contractual

2. Accounting policies (continued)

2.15. Revenue recognition (continued)

2.15.3. Mobile revenue (continued)

period using the effective interest method. We do not record the effect of a significant financing component if the contractual period is less than one year.

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

2.15.4. B2B revenue

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

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

From time to time, we also enter into agreements with certain B2B customers pursuant to which they are provided the right to use certain elements of our network. If these agreements are determined to contain a lease that meets the criteria to be considered a finance lease-out, we recognise revenue from the lease component when control of the network element is transferred to the customer.

2.15.5. Other revenue

Other revenue consists of linked sales to the core business discussed above e.g. insurance sales, mobile and accessories. This revenue is recognised on the provision of both goods and services, with revenue recognition on delivery of each separate performance obligation.

2.15.6. Contract assets

Incremental costs to obtain a contract with a customer, such as incremental sales commissions, are generally recognised as assets and amortised over the applicable period benefited, which generally is the contract life. If, however, the amortisation period is less than one year, we expense such costs in the period incurred.

If we transfer goods or services to a customer but do not have an unconditional right to payment, we record a contract asset. Contract assets typically arise from the uniform recognition of introductory promotional discounts over the contract period and accrued revenue for handset sales.

2.15.7. Contract liabilities

We record contract liabilities when we receive payment prior to transferring goods or services to a customer. We primarily recognise contract liabilities for (i) installation and other upfront services and (ii) other services that are invoiced prior to when services are provided.

2. Accounting policies (continued)

2.15. Revenue recognition (continued)

2.15.8. Promotional discounts

For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognised uniformly over the contractual period if the contract has substantive termination penalties. If a contract does not have substantive termination penalties, revenue is recognised only to the extent of the discounted monthly fees charged to the subscriber, if any.

2.15.9. Subscriber advance payments

Payments received in advance for the services we provide are deferred and recognised as revenue when the associated services are provided.

2.15.10. Sales and other VAT

Revenue is recorded net of applicable sales and other VAT.

2.15.11. Contract life / timing of recognition

A large portion of our revenue is derived from customers who are not subject to contracts. Revenue from customers out contract is recognised on a month-to-month basis as the service is consumed. Revenue from customers who are subject to contracts is generally recognised over the term of such contracts, which is typically 12 months for our residential service contracts, one to three years for our mobile service contracts and one to five years for our B2B service contracts.

We are applying the practical expedient to recognise revenue "as-invoiced" for certain fixed and mobile subscription revenues. Where we have a right to invoice at an amount that directly corresponds with performance to date, we recognise revenue at that amount. We have also adopted the practical expedient not to calculate the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for these contracts.

2.16. Share-based compensation

We recognise all share-based payments from Liberty Global and Telefonica to our employees, including grants of employee share-based incentive awards, based on their grant-date fair values and our estimates of forfeitures. We recognise share-based compensation expense as a charge to operations over the vesting period based on the grant-date fair value of outstanding awards, which may differ from the fair value of such awards on any given date. Where borne by the Group, payroll taxes incurred in connection with the vesting or exercise of share-based incentive awards are recorded as a component of share-based compensation expense in our Consolidated Statement of Profit or Loss. The fair value of share-based payments is calculated at the grant date using an adjusted statistical model. We consider historical trends in our calculation of the expected life of options, where applicable. We use the accelerated expense attribution method for our outstanding share awards that contain a performance condition and vest on a graded basis.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

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

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

3.1. Impairment of property, plant and equipment and intangible assets

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

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

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

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

3.2. Costs associated with construction and installation activities

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

The nature and amount of labour and other costs to be capitalised with respect to construction and installation activities involves significant judgment and estimate.

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

3.2. Costs associated with construction and installation activities (continued)

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

3.3. Fair value measurements

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

3.3.1. Recurring valuations:

We perform recurring fair value measurements with respect to our derivative instruments and our fair value method investments, which are carried at fair value. We use cash flow valuation models to determine the fair values of our interest rate and foreign currency derivative instruments. We use quoted market prices when available and, when not available, we use a combination of an income approach (discounted cash flows) and a market approach (market multiples of similar businesses) to determine the fair value of our fair value method investments. For a detailed discussion of the inputs we use to determine the fair value of our derivative instruments, see note 23. See also note 24 for information concerning our fair value method derivative instruments.

Changes in the fair values of our derivative instruments have had, and we believe will continue to have, a significant and volatile impact on our results of operations. During the year ended 31 December 2021, we recognised a net gain of £489.4 million attributable to changes in the fair values of our derivative instruments. As further described in note 22, actual amounts received or paid upon the settlement of our derivative instruments may differ materially from the recorded fair values at 31 December 2021.

3.3.2. Non-recurring valuations

Our non-recurring valuations are primarily associated with (i) the application of acquisition accounting and (ii) impairment assessments, both of which require that we make fair value determinations as at the applicable valuation date. Accounting for the Joint Venture formation has also required a non-recurring valuation. In making these determinations, we are required to make estimates and assumptions that affect the recorded amounts, including, but not limited to, expected future cash flows, market comparables and discount rates, remaining useful lives of non-current assets, replacement or reproduction costs of property, plant and equipment and the amounts to be recovered in future periods from acquired net operating losses and other deferred tax assets. To assist us in making these fair value determinations, we may engage third-party valuation specialists. Our estimates in this area impact, amongst other items, the amount of depreciation and amortisation, impairment charges and income tax expense or benefit that we report. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain. All of our non-current assets are subject to impairment assessments. For additional information, see note 24. For information regarding our non-current assets, see note 12 and 13 to our Consolidated Financial Statements.

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

3.4. Joint arrangements

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

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

Our investment and share of results of joint ventures are accounted for under the equity method where the share of results of joint ventures are shown within single line items in the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss, respectively.

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

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

3.5. Income tax accounting

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

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

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

3.5. Income tax accounting (continued)

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

4. Joint Venture formation

The Company is a 50:50 joint venture formed on 1 June 2021 between Liberty Global plc (through Liberty Global Europe 2 Limited) (**Liberty Global**) and Telefonica SA (through Telefonica O2 Holdings Limited) (**Telefonica**) (the **Shareholders**). On 7 May 2020, Liberty Global and Telefonica, amongst others, entered into a Contribution Agreement (the **Contribution Agreement**) to combine the operations of Virgin Media Inc. (**Virgin Media**) in the United Kingdom (**UK**) with the operations of O2 Holdings Limited and its subsidiaries (**O2**) in the UK (the **Joint Venture**).

The Joint Venture was consummated on 1 June 2021, at which point the Company controlled 100% of the voting interests in both Virgin Media and O2, combining Virgin Media's fibre-rich broadband network with O2's mobile operations.

Prior to 1 June 2021, the Company was incorporated as part of the Liberty Global Group on 30 April 2020 in readiness for the formation of the Joint Venture. After 1 June 2021, as a result of the Joint Venture being consummated, Liberty Global and Telefonica became joint shareholders of the Company.

We have accounted for the Joint Venture in accordance with IFRS 3 - Business Combinations, using the acquisition method of accounting as at 1 June 2021, the Joint Venture formation date, on the basis that for both the Virgin Media and O2 businesses it is the first point at which the Company exercises control of the relevant operations as the acquiror. All transactions prior to this date, including the common control transfer of Virgin Media to the Company in February 2021, were undertaken in preparation for, and contemplation of, the formation of the Joint Venture.

The identifiable net assets of both Virgin Media and O2 were assessed for their respective fair values in accordance with purchase price allocation (**PPA**) accounting and the excess of VMED O2's business enterprise value over the fair value of these identifiable net assets was allocated to goodwill. The following table sets forth selected financial information related to the assets, liabilities and equity of the VMED O2 contributed businesses, as at 1 June 2021:

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

4. Joint Venture formation (continued)

a) Represents the estimated enterprise value as at 1 June 2021 of the Joint Venture. For additional information regarding certain fair value inputs used in the enterprise valuation, see note 24.

b) The amounts represent estimated fair values as at 1 June 2021. For additional information regarding certain fair value inputs used in the enterprise valuation see note 24.

c) Other assets and liabilities primarily consist of net pension assets and derivative assets and liabilities. For additional information regarding certain fair value inputs used in the enterprise valuation see note 24.

The following table summarises the recognised amounts of identifiable assets acquired and liabilities assumed at the date of the Joint Venture formation:

	£ million
Cash and cash equivalents	154.1
Trade and other receivables	1,578.8
Other current assets	1,014.1
Property, plant and equipment	9,889.3
Intangible assets subject to amortisation, net	9,766.9
Other non-curent assets, net	1,258.0
Current portion of debt and finance obligations	(2,417.2)
Other accrued and current liabilities (d)	(4,120.1)
Non-current debt and lease obligations	(15,858.0)
Other non-current liabilities (d)	(1,349.1)
Total fair value of identifiable net assets of VMED O2	(83.2)
Goodwill (e) (f)	20,857.0
Net assets acquired as at 1 June 2021	**20,773.8**

d) See note 29 with regard to contingent liabilities.

e) The goodwill recognized in connection with the Joint Ventures formation is primarily attributable to the revenue synergies from new cross-selling and bundling opportunities and cost synergies as a result of efficiencies expected from being part of an enlarged group, due to the combination of the fixed-line and mobile businesses. For further details including detail on the calculation of the enterprise value and goodwill please see note 24 and 12 respectively.

f) None of the goodwill is tax deductible.

The revenue and net loss of the acquired Virgin Media and O2 businesses for the 1 June 2021 to 31 December 2021 period following the formation of the Joint Venture included in the consolidated statement of comprehensive income are £6,158.2 million and £(206.5) million, respectively.

The pro-forma combined revenue and profit for VMED O2 for the financial year ended 31 December 2021 are £10,353.2 million and £12.3 million, respectively. Pro-forma results assume the joint venture transaction occurred on 1 January 2020 and pushes back purchase price accounting, policy alignment and transaction adjustments to this date. The pro forma financial statements, which have been prepared in accordance with IFRS, do not purport to project the results of operations or financial condition of the Joint Venture for any future period nor do they purport to represent what the actual results of operations or financial condition of the Joint Venture would have been had the joint venture transactions occurred on the dates indicated.

5. Segment reporting

We have one reportable segment, that provides mobile, broadband internet, video and fixed-line telephony services in the UK.

Following the Joint Venture acquisition on 1 June 2021, the Group generated revenue for a seven-month period with the split by major category set out below:

	2021 £ million	**2020 £ million**
Mobile (a)	3,514.0	-
Handset	1,051.7	-
Fixed	2,372.2	-
Consumer fixed (b)	2,009.1	-
Subscription (c)	1,961.1	-
Other	48.0	-
B2B Fixed (d)	363.1	-
Other (e)	272.0	-
	6,158.2	**-**

a) Mobile revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue.

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

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

d) B2B fixed revenue includes revenue from business broadband internet, fixed-line telephony and other services offered to small and medium businesses, large enterprises and the public sector and, on a wholesale basis, to other operators and revenue from long-term leases of portions of our network.

e) Other revenue includes revenue from the Smart Metering Implementation Programme (**SMIP**) and provision of information and communication technology services associated connectivity to O2 business customers.

The total future revenue from the remaining terms of the Group's contract with customers for performance obligations not yet delivered to those customers is estimated as at 31 December 2021 to be £5.4bn. All future revenue is expected to be recognised within three years.

6. Group operating profit

Group operating profit is stated after charging/(crediting):

	2021 £ million	2020 £ million
Depreciation of property, plant and equipment (see note 13)	1,303.4	-
Depreciation of right of use assets (see note 20)	125.0	-
Amortisation of intangible assets (see note 12)	738.4	-
Gain on disposal of property, plant and equipment	(6.3)	-
Cost of inventories recognised within cost of sales	1,178.4	-
Loss on disposal of investment	1.4	-

On 5 March 2021, the Company disposed of its investments in UPC Broadband Ireland Limited, Cullen Broadcasting Limited and Tullamore Beta Limited, making a loss on disposal of investments of £1.4 million.

7. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Group.

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

Fees payable to the Company's auditor and their associates for other services represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the Group's auditor.

	2021 £ million	2020 £ million
Audit services:		
Statutory audit services - audit of the parent Company and Group financial statements	0.2	-
Fees payable to the Company's auditor and their associates for other services:		
Statutory audit services - statutory accounts of the Company's subsidiaries	0.5	-
	0.7	**-**

8. Staff costs and Directors' emoluments

8.1. Staff costs

Included in wages and salaries is a total expense for share-based payments of £23.4 million, all of which arises from transactions accounted for as equity-settled share-based payment transactions.

	2021 £ million	2020 £ million
Wages and salaries	515.8	-
Social security costs	53.4	-
Pension costs - defined contribution scheme	40.7	-
	609.9	**-**

8. Staff costs and Directors' emoluments (continued)

8.1. Staff costs (continued)

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

8.2. Average staff numbers

The average monthly number of employees from the 1 June 2021 to 31 December 2021 was:

	2021 No.	2020 No.
Sales and marketing	5,481	-
Operations	10,832	-
Administration	1,621	-
	17,934	**-**

8.3. Directors' emoluments

	2021 £ 000	2020 £ 000
Directors' remuneration	-	-

	£'000	£'000
Company contributions under defined contribution pension plans	-	-
Highest paid director:		
Remuneration (including awards receivable under long term incentive plans)	-	-
Company contributions under defined contribution pension plans	-	-

	2021 No.	2020 No.
Number of directors accruing benefits under defined contribution pension plans	-	-

The Directors are not paid for their services to VMED O2 by any company within the Group. Instead, they are directly remunerated by the Shareholders. The Board has delegated day-to-day management of VMED O2's business activities to the Executive Management Team, overseen by the Board and various Board Committees, and the Directors' involvement is minimal.

There were no other transactions with Directors during the year.

9. Dividends paid

	2021 £ million	2020 £ million
Dividends paid	2,497.2	-

On 27 May 2021, the Company paid cash dividends of £68.2 million and on 16 December 2021, the Company paid £384.4 million cash dividends. Furthermore, the Company paid £2,497.2 million dividends in specie throughout the year as part of the larger group re-organisation project in preparation for the Joint Venture.

10. Finance costs and income

	2021 £ million	2021 £ million
Finance costs:		
Interest expense	457.7	
Foreign currency transaction losses	315.0	-
Losses on debt extinguishment	0.3	-
Net losses on derivative financial instruments	-	155.3
	773.0	**155.3**
Finance income:		
Interest income	9.4	-
Net realised and unrealised gains on derivative financial instruments	489.4	-
	498.8	**-**

11. Income tax

11.1. Tax on profit before tax

	2021 £ million	2020 £ million
Current tax benefit:		
Current year	17.7	-
Adjustment in respect of previous years	10.4	-
Recognition of previously unrecognised tax benefits	19.0	-
	47.1	-
Deferred tax:		
Origination and reversal of temporary differences	12.9	-
Movement in deferred tax assets due to change in tax rate	(10.7)	-
	2.2	-
Total tax benefit	**49.3**	**-**

11. Income tax (continued)

11.2. Reconciliation of the total tax benefit in the Consolidated Statement of Profit or Loss

Income tax benefit attributable to our loss before income taxes differs from the amount computed using the UK corporate tax rate for the year ending 31 December 2021 as a result of the following factors:

	2021 £ million	2020 £ million
Loss before income tax	261.7	155.3
Loss multiplied by the UK standard rate of corporation tax of 19% (2020 - 19%)	49.7	29.5
Group relief for no consideration	5.9	(29.5)
Fixed asset differences	15.3	-
Movement in deferred tax assets due to change in tax rate	(10.7)	-
Expenses not deductible for tax purposes	(8.9)	-
Foreign taxes	0.6	-
Adjustment in respect of previous years	(3.2)	-
Other	0.6	-
Total tax benefit	**49.3**	**-**

11.3. Reconciliation of the total tax expense

	2021 £ million	2020 £ million
Tax recognised in the Group Income Statement	49.3	-
Tax recognised in equity	(6.8)	-
Total tax benefit	**42.5**	**-**

11.4. Recognised deferred tax

Recognised deferred tax balances as at 31 December 2021 were as follows:

	Deferred tax assets £ million	Deferred tax liabilities £ million
Property plant & equipment	1,549.0	-
Intangible assets	-	(1,757.5)
Tax losses	210.1	-
Pensions	-	(88.8)
Other	160.2	(7.5)
Offset between deferred tax assets and liabilities	(1,846.3)	1,846.3
	73.0	**(7.5)**

We have determined it probable that in future we will generate sufficient pre-tax profits to utilise substantially all of our deferred tax assets.

11. Income tax (continued)

11.4. Recognised deferred tax (continued)

In March 2021, legislation was introduced to increase the UK corporate income tax rate from 19% to 25% from 1 April 2023. This rate change was substantively enacted on 24 May 2021 and enacted on 10 June 2021 (Finance Bill 2021). The effect of the increased tax rate on our deferred tax balances is reflected in the Consolidated Statement of Financial Position as at 31 December 2021.

11.5. Unrecognised deferred tax

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

	2021 £ million	2020 £ million
Capital losses	12,102.8	-
Tax losses	32.1	-
Deductible temporary differences	179.7	-
	12,314.6	**-**

11.6. Movement in deferred tax balances

Movement in deferred tax during the period:

	1 January 2021 £ million	Transferred in 1 June £ million	Recognised in income £ million	Recognised in equity £ million	31 December 2021 £ million
Property, plant and equipment	-	1,610.9	(61.9)	-	1,549.0
Intangible assets	-	(1,841.1)	83.6	-	(1,757.5)
Tax losses	-	211.0	(0.9)	-	210.1
Pensions	-	(48.7)	(32.4)	(7.7)	(88.8)
Other	-	138.0	13.8	0.9	152.7
	-	**70.1**	**2.2**	**(6.8)**	**65.5**

12. Intangible assets

	Goodwill	Customer relationships	Service concession arrangements and licences	Computer software	Intangible assets in progress	Total
	£ million	£ million	£ million	£ million	£ million	£ million
Cost:						
1 January 2021	-	-	-	-	-	-
Balance acquired from Joint Venture	20,857.0	7,713.0	1,461.7	524.5	67.7	30,623.9
Additions	-	-	-	73.2	86.1	159.3
Retirements and disposals	-	-	-	(6.5)	-	(6.5)
WIP transfer into service	-	-	-	63.4	(63.4)	-
31 December 2021	20,857.0	7,713.0	1,461.7	654.6	90.4	30,776.7
Accumulated amortisation:						
1 January 2021	-	-	-	-	-	-
Amortisation	-	(499.9)	(78.3)	(160.2)	-	(738.4)
Retirements and disposals	-	-	-	7.5	-	7.5
31 December 2021	-	(499.9)	(78.3)	(152.7)	-	(730.9)
Net book value:						
31 December 2021	**20,857.0**	**7,213.1**	**1,383.4**	**501.9**	**90.4**	**30,045.8**

Goodwill is not amortised but instead tested for impairment at least annually for our sole CGU, as further discussed in note 3.

We evaluated our CGU's performance to identify potential goodwill impairments. The strategic plan of the CGU has been used to perform the impairment test at 31 December 2021. The process of preparing the CGU strategic plan takes into consideration the current condition of the market, analysing the macroeconomic, competitive, regulatory and technological climate together with the CGU's position in this context and the growth opportunities given the market projections and the CGU's competitive positioning.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets. Value-in-use is calculated based on approved budget and forecasts reflecting the view of our prospects at 31 December 2021, taking into account certain variables such as the earnings before interest, depreciation and amortisation (**EBITDA**) margin, capital expenditure (**Capex**) ratio for non-current assets, expressed as a percentage of revenue, and discount and perpetuity growth rates.

The EBITDA margin and long-term capex ratio used to calculate the terminal values, are based on the business plan approved for the CGU, as well as external estimates of trends in operating indicators, and the outlook for the outlook for our business and market. The EBITDA margin and long-term capex ratios, as defined above, applied to the cash flow projections as at 31 December 2021 were 41.0% and 16.0%, respectively.

The discount rate used by management, applied to measure free cash flow, is the WACC, determined by the weighted average cost of equity and debt according to the finance structure established for our CGU. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 6.8%.

12. Intangible assets (continued)

Cash flow projections to the end of the asset's useful life are estimated using a rate of growth for future years. Terminal value is calculated from the projected cash flows in the period, using the perpetuity growth rate consensus estimates amongst analysts for the business based on the maturity of the industry depending on technology and the degree of development. Each indicator is compared to the forecasted long-term gross domestic product growth and adjusted for any specific characteristics of the business. The perpetuity growth rate applied to the cash flow projections as at 31 December 2021 was 1.0%.

13. Property, plant and equipment

	Plant and machinery £ million	Property, plant and equipment in progress £ million	Land & buildings £ million	Furniture, tools and other items £ million	Total £ million
Cost:					
1 January 2021	-	-	-	-	-
Balance acquired from Joint Venture	7,701.4	349.3	982.9	855.7	9,889.3
Additions	551.7	527.5	72.1	39.3	1,190.6
Retirements and disposals	(47.6)	-	(11.9)	(0.4)	(59.9)
Reclassification and other	120.7	(204.8)	9.4	74.7	-
31 December 2021	8,326.2	672.0	1,052.5	969.3	11,020.0
Depreciation:					
1 January 2021	-	-	-	-	-
Depreciation	(1,035.5)	-	(122.9)	(145.0)	(1,303.4)
Retirements and disposals	36.2	-	4.7	0.4	41.3
31 December 2021	(999.3)	-	(118.2)	(144.6)	(1,262.1)
Net book value:					
31 December 2021	**7,326.9**	**672.0**	**934.3**	**824.7**	**9,757.9**

During the year ended 31 December 2021, we recorded non-cash increases to our property, plant and equipment related to vendor financing arrangements of £361.2 million, which exclude related VAT of £65.5 million, that was also financed by our vendors under these arrangements.

14. Financial assets

	2021 £ million	2020 £ million
Non-current		
Restricted cash	40.8	-
Deferred financing costs	2.7	-
Derivative instruments (see note 23)	398.9	32.0
Long term deposits	2.4	-
Long term notes	60.0	-
	504.8	32.0
Current		
Derivative instruments (see note 23)	95.6	165.8
Restricted cash	0.2	-
Current notes receivable	83.9	-
Amounts owed by related parties	211.9	-
	391.6	165.8

Current amounts owed by related parties represents non-interest-bearing current receivables from certain Liberty Global and Telefonica subsidiaries.

15. Trade receivables and other assets

	2021 £ million	2020 £ million
Non-current		
Trade receivables	76.2	-
Prepayments	10.6	-
Contract assets	116.3	-
Other receivables	54.2	-
	257.3	-
Current		
Trade receivables	1,207.9	-
Unbilled revenue	161.5	-
Prepayments	260.6	-
Contract assets	194.3	-
Other current receivables	251.6	-
	2,075.9	-

The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible trade receivables. We use a number of factors in determining the allowance, including, among other things, credit risk. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

15. Trade receivables and other assets (continued)

The detailed ageing of trade receivables and the related allowance for future expected credit losses as at 31 December 2021 are set forth below:

	Trade receivables, gross £ million	Allowance for future expected credit losses £ million
Not past due	1,218.7	(31.4)
1 - 90 days	75.2	(10.4)
90 - 360 days	28.4	(14.4)
Over 360 days	33.4	(15.4)
Total trade receivables	**1,355.7**	**(71.6)**

The following table shows the development of the allowance for future expected credit losses of trade receivables:

	2021 £ million	2020 £ million
At 1 January	-	-
Charge for the period	101.9	-
Utilised	(30.3)	-
At 31 December	71.6	-

When a trade receivable is determined to be uncollectible, it is written off against the allowance for future expected credit losses. The allowance for future expected credit losses of trade receivables is included in other expenses in our Consolidated Statement of Profit or Loss.

16. Inventory

Our inventory primarily consists of mobile devices and is presented net of provisions for obsolescence. As at 31 December 2021 our inventory was £157.6 million. There is no material difference between the carrying value of inventories and their replacement cost.

17. Trade payables and other liabilities

	2021 £ million	2020 £ million
Non-current		
Contract liabilities	164.4	-
Other non-current liabilities	22.0	-
	186.4	-
Current		
Trade payables	1,312.7	-
Contract liabilities	592.2	-
Accrued expenses	426.4	-
Accrued capital expenditure	415.6	-
Interest payable	189.8	-
VAT	553.9	-
Current tax payable	32.0	-
Other current liabilities	418.9	-
	3,941.5	-

Trade payables are non-interest bearing and generally repayable on terms of up to 60 days. Trade payables, interest payable and amounts owed to Group undertakings are financial liabilities which are excluded from note 17.

18. Financial liabilities

	2021 £ million	2020 £ million
Non-current		
Lease liabilities (see note 20)	743.6	-
Amounts due to related party	86.2	-
Debt (see note 19)	15,395.2	-
Derivative instruments (see note 23)	734.5	353.1
	16,959.5	353.1
Current		
Lease liabilities (see note 20)	183.6	-
Amounts due to related party	0.7	0.1
Debt (see note 19)	2,005.6	-
Derivative instruments (see note 23)	191.5	-
	2,381.4	0.1
	19,340.9	353.2

19. Debt

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

	31 December 2021		Principal amount
	Weighted average interest rate (a)	Unused borrowing capacity (b) £ million	31 December 2021 £ million
VMED O2 Credit Facilities (c)	2.84%	1,378.0	5,954.2
VMED O2 Senior Secured Notes	4.50%	-	7,964.8
VMED O2 Senior Notes	4.52%	-	1,104.0
Vendor financing (d)	4.30%	-	2,104.7
Other	1.00%	-	206.1
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest (e)	3.87%	1,378.0	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 and lease obligations:

	2021 £ million	2020 £ million
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest	17,333.8	-
Deferred financing costs, discounts and premiums, net	67.0	-
Total carrying amount of third-party debt	17,400.8	-
Lease obligations (see note 20)	927.2	-
Total third-party debt and lease obligations	18,328.0	-
Accrued interest	189.8	-
Total debt including interest and lease obligations	18,517.8	-
Current maturities of debt and lease obligations	(2,379.0)	-
Non-current debt and lease obligations	16,138.8	-

(a) Represents the weighted average interest rate in effect at 31 December 2021 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of deferred financing costs, the weighted average interest rate on our aggregate third-party variable-and fixed-rate indebtedness was 4.58% at 31 December 2021. For information regarding our derivative instruments, see note 23.

(b) The VMED O2 Credit Facilities include the Revolving Facility, a multi-currency revolving facility with maximum borrowing capacity equivalent to £1.378 billion, which was undrawn at 31 December 2021. Unused borrowing capacity represents the maximum availability under the VMED O2 Credit Facilities at 31 December 2021 without regard to covenant compliance calculations or other conditions

19. Debt (continued)

(b) precedent to borrowing. At 31 December 2021, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, the full £1.378 billion equivalent of unused borrowing capacity was available to be borrowed and there were no restrictions on our ability to make loans or distributions from this availability to other VMED O2 subsidiaries and ultimately to VMED O2 UK Limited. Upon completion of the relevant 31 December 2021 compliance reporting requirements and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect the full £1.378 billion equivalent of unused borrowing capacity will continue to be available, with no restrictions to loan or distribute. Our above expectations do not consider any actual or potential changes to our borrowing levels, or any amounts loaned or distributed subsequent to 31 December 2021, or the impact of additional amounts that may be available to borrow, loan or distribute under certain defined baskets within the VMED O2 Credit Facilities.

(c) Principal amount includes £17.3 million of borrowings pursuant to excess cash facilities under the VMED O2 Credit Facilities. These borrowings are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.

(d) Represents amounts owed to various creditors pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, plant and equipment additions and operating expenses. These arrangements extend our repayment terms beyond a vendor's original due dates (e.g. extension beyond a vendor's customary payment terms) and as such are classified outside of accounts payable as debt on our Consolidated 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 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 seven-month period ended 31 December 2021, the constructive cash outflow included in cash flows from operating activities and the corresponding constructive cash inflow included in cash flows from financing activities related to these operating expenses was £893.1 million. Repayments of vendor financing obligations are included in repayments and repurchases of third-party debt and lease obligations in our Consolidated Statement of Cash Flows.

(e) As at 31 December 2021, our debt had an estimated fair value of £17.4 billion. The estimated fair values of our debt instruments are generally determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 24.

19.1. General Information

19.1.1. Credit facilities

We have entered into a senior secured credit facility agreement with certain financial and other institutions and senior credit facility agreements with certain non-consolidated special purpose financing entities (as described under VMED O2 Credit Facilities below) (the "**credit facilities**"). Our credit facilities contain certain covenants, the more notable of which are as follows:

19. Debt (continued)

19.1. General Information (continued)

19.1.1. Credit facilities (continued)

- Our credit facilities contain certain consolidated net leverage ratios, as specified in the relevant credit facility, which are required to be complied with (i) on an incurrence basis and/or (ii) in respect of our senior secured credit facilities, when the associated revolving credit facilities have been drawn beyond a specified percentage of the total available revolving credit commitments on a maintenance basis;
- Subject to certain customary and agreed exceptions, our credit facilities contain certain restrictions which, among other things, restrict the ability of certain of our subsidiaries to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over their assets and (iv) make certain restricted payments to their direct and/or indirect parent companies through dividends, loans or other distributions;
- Our credit facilities require that certain of our subsidiaries (i) guarantee the payment of all sums payable under the relevant credit facility and (ii) in respect of our senior secured credit facilities, grant first-ranking security over substantially all of their assets to secure the payment of all sums payable thereunder;
- In addition to certain mandatory prepayment events, the instructing group of lenders under our senior secured credit facilities, under certain circumstances, may cancel the lenders' commitments thereunder and declare the loan(s) thereunder due and payable after the applicable notice period following the occurrence of a change of control (as specified in the senior secured credit facilities);
- In addition to certain mandatory prepayment events, the individual lender under each of our senior credit facilities, under certain circumstances, may cancel its commitments thereunder and declare the loan(s) thereunder due and payable at a price of 101% after the applicable notice period following the occurrence of a change of control (as specified in the relevant senior credit facility);
- Our credit facilities contain certain customary events of default, the occurrence of which, subject to certain exceptions, materiality qualifications and cure rights, would allow the instructing group of lenders to (i) cancel the total commitments, (ii) declare that all or part of the loans be payable on demand and/or (iii) accelerate all outstanding loans and terminate their commitments thereunder;
- Our credit facilities require that we observe certain affirmative and negative undertakings and covenants, which are subject to certain materiality qualifications and other customary and agreed exceptions;
- In addition to customary default provisions, our senior secured credit facilities include cross-default provisions with respect to the other indebtedness of certain of our subsidiaries, subject to agreed minimum thresholds and other customary and agreed exceptions; and
- Our senior credit facilities provide that any failure to pay principal at its stated maturity (after the expiration of any applicable grace period) of, or any acceleration with respect to, other indebtedness of the borrower or certain subsidiaries over agreed minimum thresholds (as specified under the applicable senior credit facility), is an event of default under the respective senior credit facility.

19.1.2. Special purpose financing entities notes

From time to time, we create special purpose financing entities (**SPEs**). These SPEs are created for the primary purpose of facilitating the offering of senior secured notes, which we collectively refer to as "**SPE Notes**".

19. Debt (continued)

19.1. General Information (continued)

19.1.2. Special purpose financing entities notes (continued)

The SPEs use the proceeds from the issuance of the SPE Notes to fund term loan facilities under the senior secured credit facilities, each a "**Funded Facility**" and collectively the "**Funded Facilities**." Each SPE is dependent on payments from the relevant borrowing entity under the applicable Funded Facility in order to service its payment obligations under each respective SPE Note. The SPEs are consolidated by VMED O2. As a result, the amounts outstanding under the Funded Facilities of the SPEs are eliminated in the Consolidated Financial Statements of VMED O2.

Pursuant to the respective indentures for the SPE Notes (the **SPE Indentures**) and the respective accession agreements for the Funded Facilities, the call provisions, maturity dates and applicable interest rates for each Funded Facility are the same as those of the related SPE Notes. Each SPE, as lender under the relevant Funded Facility, is treated the same as the other lenders under the senior secured credit facilities, with benefits, rights and protections similar to those afforded to the other lenders. Through the covenants in the applicable SPE Indentures and the applicable security interests over the relevant SPE's rights under the applicable Funded Facility granted to secure the relevant SPE's obligations under the relevant SPE Notes, the holders of the SPE Notes are provided indirectly with the benefits, rights, protections and covenants granted to the SPE as lender under the applicable Funded Facility. The SPEs are prohibited from incurring any additional indebtedness, subject to certain exceptions under the SPE Indentures.

The SPE Notes are non-callable prior to their respective call date (as specified under the applicable SPE Indenture). If, however, at any time prior to the applicable call date, all or a portion of the loans under the related Funded Facility are voluntarily prepaid (a **SPE Early Redemption Event**), then the SPE will be required to redeem an aggregate principal amount of its respective SPE Notes equal to the aggregate principal amount of the loans prepaid under the relevant Funded Facility. In general, the redemption price payable will equal 100% of the principal amount of the applicable SPE Notes to be redeemed and a "make-whole" premium, which is the present value of all remaining scheduled interest payments to the applicable call date using the discount rate as of the redemption date plus a premium (as specified in the applicable SPE Indenture). Upon the occurrence of a SPE Early Redemption Event on or after the applicable call date, the SPE will redeem an aggregate principal amount of its respective SPE Notes equal to the principal amount prepaid under the related Funded Facility at a redemption price (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the applicable SPE Indenture), if any, to the applicable redemption date.

19.1.3. Senior and senior secured notes

VMED O2 UK Financing II PLC, Virgin Media Finance PLC and Virgin Media Secured Finance PLC, each a wholly owned subsidiary of VMED O2, have issued certain senior and senior secured notes, respectively. In general, our senior and senior secured notes (i) are senior obligations of the issuer of such notes that rank equally with all of the existing and future senior debt of such issuer and are senior to all existing and future subordinated debt of such issuer, (ii) contain, in most instances, certain guarantees from certain of our subsidiaries (as specified in the applicable indenture) and (iii) with respect to our senior secured notes, are secured by certain pledges or liens over substantially all of the assets of certain of our subsidiaries. In addition, the indentures governing our senior and senior secured notes contain certain covenants, the more notable of which are as follows:

- Our notes provide that any failure to pay principal at its stated maturity (after the expiration of any applicable grace period) of, or any acceleration with respect to, other indebtedness of the issuer or certain subsidiaries over agreed minimum thresholds (as specified under the applicable indenture), is an event of default under the respective notes;

19. Debt (continued)

19.1. General Information (continued)

19.1.3. Senior and senior secured notes (continued)

- Subject to certain materiality qualifications and other customary and agreed exceptions, our notes contain (i) certain customary incurrence-based covenants and (ii) certain restrictions that, amongst other things, restrict our ability to (a) incur or guarantee certain financial indebtedness, (b) make certain disposals and acquisitions, (c) create certain security interests over our assets and (d) make certain restricted payments to our direct and/or indirect parent companies through dividends, loans or other distributions;
- If certain of our subsidiaries (as specified in the applicable indenture) sell certain assets, the issuer must, subject to certain materiality qualifications and other customary and agreed exceptions, offer to repurchase the applicable notes at par, or if a change of control (as specified in the applicable indenture) occurs, the issuer must offer to repurchase all of the relevant notes at a redemption price of 101%; and
- Our senior secured notes contain certain early redemption provisions including the ability to, during each 12-month period commencing on the issue date for such notes until the applicable call date (Call Date), redeem up to 10% of the original principal amount of the notes at a redemption price equal to 103% of the principal amount of the notes to be redeemed plus accrued and unpaid interest.

19.2. VMED O2 notes

The details of the outstanding notes of VMED O2 as at 31 December 2021 are summarised in the following table:

	Maturity	Interest Rate	Original issue amount	Borrowing currency	Pound sterling equivalent	Carrying value (a) in millions
VMED O2 Senior Notes:						
2030 5.00% Dollar Senior Notes	15 July 2030	5.00%	$925.0	$925.0	£683.4	£682.2
2030 3.75% Euro Senior Notes	15 July 2030	3.75%	£500.0	€500.0	£420.6	£421.2
					£1,104.0	£1,103.4
VMED O2 Senior Secured Notes:						
2027 5.00% Sterling Senior Secured Notes	15 April 2027	5.00%	£675.0	£675.0	£675.0	£701.5
2029 4.00% Sterling Senior Secured Notes (b)	31 January 2029	4.00%	£600.0	£600.0	£600.0	£596.2
2029 5.50% Dollar Senior Secured Notes	15 May 2029	5.50%	$1,425.0	$1,425.0	£1,052.8	£1,125.2
2029 5.25% Sterling Senior Secured Notes	15 May 2029	5.25%	£340.0	£340.0	£340.0	£359.4
2030 4.25% Sterling Senior Secured Notes	15 January 2030	4.25%	£635.0	£635.0	£635.0	£636.0
2030 4.50% Dollar Senior Secured Notes	15 August 2030	4.50%	$915.0	$915.0	£676.0	£677.3
2030 4.13% Sterling Senior Secured Notes	15 August 2030	4.13%	£480.0	£480.0	£480.0	£478.7
2031 3.25% Euro Senior Secured Notes (b)	31 January 2031	3.25%	€ 950.0	£950.0	£799.2	£806.7
2031 4.25% Dollar Senior Secured Notes (b)	31 January 2031	4.25%	$1,350.0	$1,350.0	£997.4	£972.5
2031 4.75% Dollar Senior Secured Notes (b) & (c)	15 July 2031	4.75%	$1,400.0	$1,400.0	£1,034.4	£1,030.8
2031 4.50% Sterling Senior Secured Notes (b) & (c)	15 July 2031	4.50%	£675.0	£675.0	£675.0	£671.4
					£7,964.8	£8,055.7
Total					**£9,068.8**	**£9,159.1**

19. Debt (continued)

19.2. VMED O2 notes (continued)

a) Amounts are net of deferred financing costs, discounts, premiums and accrued interest, including amounts recorded in connection with the acquisition accounting for VMED O2, where applicable.

b) Respective Senior Secured Notes are SPE Notes that have been issued by VMED O2 Financing I Limited.

c) Respective Senior Secured Notes are VMED O2 Green Bonds (as defined below) that have been issued by VMED O2 Financing I Limited. See the 'Financing transactions' below for further details regarding the VMED O2 Green Bonds.

The VMED O2 Notes are non-callable prior to the applicable Call Dates as presented in the below table. At any time prior to the respective Call Date, VMED O2 may redeem some or all of the applicable notes by paying a "make-whole" premium, which is the present value of all remaining scheduled interest payments to the applicable Call Date using the discount rate (as specified in the applicable indenture) as of the redemption date plus 50 basis points.

VMED O2 Notes	Call Date
2027 5.00% Sterling Senior Secured Notes	15 April 2022
2029 4.00% Sterling Senior Secured Notes	31 January 2024
2029 5.50% Dollar Senior Secured Notes	15 May 2024
2029 5.25% Sterling Senior Secured Notes	15 May 2024
2030 4.25% Sterling Senior Secured Notes	15 October 2024
2030 5.00% Dollar Senior Notes	15 July 2025
2030 3.75% Euro Senior Notes	15 July 2025
2030 4.50% Dollar Senior Secured Notes	15 August 2025
2030 4.13% Sterling Senior Secured Notes	15 August 2025
2031 3.25% Euro Senior Secured Notes	31 January 2026
2031 4.25% Dollar Senior Secured Notes	31 January 2026
2031 4.75% Dollar Senior Secured Notes	15 July 2026
2031 4.50% Sterling Senior Secured Notes	15 July 2026

VMED O2 may redeem some or all of the VMED O2 Senior Notes and the VMED O2 Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the applicable indenture), if any, to the applicable redemption date, as set forth below:

	Redemption price					
	2030 5.00% Dollar Senior Notes	2030 3.75% Euro Senior Notes	2027 5.00% Sterling Senior Secured Notes	2029 4.00% Sterling Senior Secured Notes	2029 5.50% Dollar Senior Secured Notes	2029 5.25% Sterling Senior Secured Notes
12-month period commencing	15-Jul	15-Jul	15-Apr	31-Jan	15-May	15-May
2022	N.A.	N.A.	102.500%	N.A.	N.A.	N.A.
2023	N.A.	N.A.	101.250%	N.A.	N.A.	N.A.
2024	N.A.	N.A.	100.625%	102.000%	102.750%	102.625%
2025	102.500%	101.875%	100.000%	101.000%	101.375%	101.313%
2026	101.250%	100.938%	100.000%	100.000%	100.000%	100.000%
2027	100.625%	100.469%	N.A.	100.000%	100.000%	100.000%
2028	100.000%	100.000%	N.A.	100.000%	100.000%	100.000%
2029 and thereafter	100.000%	100.000%	N.A.	N.A.	N.A.	N.A.

19. Debt (continued)

19.3. VMED O2 credit facilities

Redemption price

	2030 4.25% Sterling Senior Secured Notes	2030 4.50% Dollar Senior Secured Notes	2030 4.13% Sterling Senior Secured Notes	2031 3.25% Euro Senior Secured Notes	2031 4.25% Dollar Senior Secured Notes	2031 4.75% Dollar Senior Secured Notes	2031 4.50% Sterling Senior Secured Notes
12 month period commencing	15-Oct	15-Aug	15-Aug	31-Jan	31-Jan	15-Jul	15-Jul
2024	102.13%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2025	101.06%	102.25%	102.06%	N.A.	N.A.	N.A.	N.A.
2026	100.53%	101.13%	101.03%	101.63%	102.13%	102.38%	102.25%
2027	100.00%	100.56%	100.52%	100.81%	101.06%	101.19%	101.13%
2028	100.00%	100.00%	100.00%	100.41%	100.53%	100.59%	100.56%
2029 and thereafter	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

The VMED O2 Credit Facilities are the senior and senior secured credit facilities of certain subsidiaries of VMED O2. The details of our borrowings under the VMED O2 Credit Facilities as at 31 December 2021 are summarised in the following table:

VMED O2 Credit Facilities	Maturity	Interest rate	Facility amount (in borrowing currency)	Outstanding principal amount	Unused borrowing capacity	Carrying value (a) in millions
Senior Secured Facilities:						
L (b) (f)	15 January 2027	LIBOR +3.25%	£400.0	£400.0	-	£396.2
M (b) (f)	15 November 2027	LIBOR +3.25%	£500.0	£500.0	-	£495.2
N (b)	31 January 2028	LIBOR +2.50%	$3,300.0	£2,456.0	-	£2,428.4
O (c)	31 January 2029	EURIBOR +2.50%	€750.0	£626.3	-	£628.0
P (f)	31 January 2026	LIBOR +2.75%	£376.0	£376.0	-	£374.1
Q (b)	31 January 2029	LIBOR +3.25%	$1,300.0	£967.5	-	£961.0
R (c)	31 January 2029	EURIBOR +3.25%	€750.0	£626.3	-	£632.0
S (g)	31 January 2029	4.00%	£600.0	£600.0	-	£596.2
T (g)	31 January 2031	3.25%	€950.0	£799.2	-	£806.7
U (g)	31 January 2031	4.25%	$1,350.0	£997.4	-	£972.5
V (g)	15 July 2031	4.50%	£675.0	£675.0	-	£671.4
W (g)	15 July 2031	4.75%	$1,400.0	£1,034.4	-	£1,030.8
Revolving Facility (d) (f)	31 January 2026	LIBOR +2.75%	£1,378.0	-	£1,378.0	£0.0
Elimination of Facilities S, T, U, V and W in consolidation (g)				(£4,106.0)	-	(£4,077.6)
Total Senior Secured Facilities				£5,952.1	£1,378.0	£5,914.9
Senior Facilities:						
Financing Facility III (e)	15 July 2028	4.88%	£11.6	£11.6	£0.0	£9.9
Financing Facility IV (e)	15 July 2028	5.00%	£6.2	£6.2	£0.0	£6.2
Total Senior Facilities				£17.8	£0.0	£16.1
Total				**£5,969.9**	**£1,378.0**	**£5,931.0**

a) Amounts are net of deferred financing costs and discounts, where applicable.

b) Facility L, Facility M, Facility N and Facility Q are each subject to a LIBOR floor of 0.00%.

c) Facility O and Facility R are each subject to a EURIBOR floor of 0.00%.

d) The Revolving Facility has a fee on unused commitments of 1.1% per year.

19. Debt (continued)

19.3. VMED O2 credit facilities (continued)

e) Amounts represent borrowings that are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.

f) GBP LIBOR publication has ceased as of 31 December 2021. The interest rate on our pound sterling denominated debt going forward will be the Sterling Overnight Index Average (**SONIA**) plus a credit adjustment spread (if any) plus the relevant margin shown above. SONIA plus the applicable credit adjustment spread is subject to a floor of 0.00% for Facility L and Facility M. Through the Fallback Protocol (as defined in note 22), this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments. For additional information regarding our reference rates, see "Interest Rate Risk" in note 21.

g) The amounts outstanding under Facilities S through to W are eliminated in our Consolidated Financial Statements.

19.4. Financing transactions

Below we provide a summary description of certain financing transactions completed during the period from 1 June 2021 to 31 December 2021. In general, our financing transactions may include non-cash borrowings and repayments. During the period from 1 June 2021 to 31 December 2021, we did not have any non-cash borrowings or repayments.

During the third quarter of 2021, we issued $850.0 million (£628.0 million) principal amount of dollar denominated senior secured notes and £675.0 million principal amount of sterling denominated senior secured notes (together, the **VMED O2 Green Bonds**). The VMED O2 Green Bonds were issued at par, mature on 15 July 2031 and bear interest at 4.75% and 4.50% respectively. The net proceeds from the issuance of the VMED O2 Green Bonds were used to (i) partially redeem $210.0 million (£152.3 million) outstanding principal amount of our existing 2026 Dollar Senior Secured Notes and (ii) repay £1,124.0 million of Facility P under the VMED O2 Credit Facilities.

Subsequently, during the third quarter of 2021, we issued an additional $550.0 million (£406.4 million) principal amount of the 2031 4.750% Dollar Senior Secured Notes at a premium of $4.1 million (£3.0 million). The net proceeds from these additional VMED O2 Green Bonds were used to redeem in full the remaining $540.0 million (£392.3 million) outstanding principal amount of our 2026 Dollar Senior Secured Notes.

In connection with these transactions, we recognised a net loss on debt extinguishment of £0.3 million related to the net effect of (i) the payment of £16.7 million of redemption premiums and (ii) the write-off £16.4 million of the unamortised premiums.

The VMED O2 Green Bonds were issued as "Green Bonds" following the requirements of the International Capital Markets Association's Green Bond Principles 2021 (the **Green Bond Principles**). We are obliged to allocate expenditure on eligible green projects against the net proceeds of the VMED O2 Green Bonds, with eligible green projects being defined in the VMED O2 Green Bonds Framework prepared in accordance with the Green Bond Principles. Further, we are obliged to report at least annually on the status of the allocation until the net proceeds are fully allocated.

Additionally, in August 2021, Facility P under the VMED O2 Credit Facilities was increased by an additional £146.0 million, the full amount of which was borrowed and made available for general corporate purposes. On 16 December 2021, the Revolving Facility was increased, allowing for a maximum borrowing capacity equivalent to £1.378 billion.

19. Debt (continued)

19.5. Maturities of debt

The pound sterling equivalents of the maturities of our debt as at 31 December 2021 are presented below:

	Third-party debt (a) £ million
Year ended 31 December:	
2022	2,005.6
2023	254.8
2024	36.5
2025	18.9
2026	382.3
Thereafter (b)	14,635.7
Total debt maturities (a)	17,333.8
Accured interest	189.8
Deferred financing costs, discounts and premiums, net	67.0
Total debt including interest	17,590.6
Current	2,195.4
Non-current	15,395.2
	17,590.6

a) Third-party amounts include vendor financing obligations of £2,104.7 million, as set forth below (in millions):

Year ended 31 December:	
2022	1,994.2
2023	48.8
2024	36.5
2025	18.9
2026	6.3
Total vendor financing maturities (1)	2,104.7
Current	1,994.2
Non-current	110.5
	2,104.7

1) Virgin Media Vendor Financing Notes III Designated Activity Company and Virgin Media Vendor Financing Notes IV Designated Activity Company (together the **2020 VM Financing Companies**) have issued an aggregate £1,269.4 million equivalent in notes maturing in July 2028. The net proceeds from these notes are used by the 2020 VM Financing Companies to purchase from various third parties certain vendor financed receivables owed by certain of our subsidiaries. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund excess cash facilities under our senior credit facilities. The 2020 VM Financing Companies can request the excess cash facilities be repaid by certain of our subsidiaries as additional vendor financed receivables become available for purchase.

20. Leases

20.1. General

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

20.2. ROU assets

	Land & buildings £ million	Plant and machinery £ million	Total £ million
Cost:			
1 January 2021	-	-	-
Balance acquired from Joint Venture	794.9	175.4	970.3
Additions	48.0	15.9	63.9
Retirements	(13.4)	(15.9)	(29.3)
31 December 2021	829.5	175.4	1,004.9
Accumulated depreciation:			
1 January 2021	-	-	-
Depreciation	(89.0)	(36.0)	(125.0)
Retirements	5.3	3.6	8.9
31 December 2021	(83.7)	(32.4)	(116.1)
Net book value:			
31 December 2021	745.8	143.0	888.8

Our ROU assets are included in property, plant and equipment, net, in our Consolidated Statement of Financial Position. As at 31 December 2021, the weighted average remaining lease term was 7.2 years and the weighted average discount rate was 4.5%. During the period from 1 June 2021 to 31 December 2021, we recorded additions to our ROU assets associated with leases of £63.9 million.

20.3. Lease liabilities

Maturities of our lease liabilities as at 31 December 2021 are presented below. Amounts represent the pound sterling equivalents based on 31 December 2021 exchange rates:

	2021 £ million	2020 £ million
Less than one year	219.1	-
One to five years	534.9	-
More than five years	459.1	-
Total undiscounted lease liabilities	1,213.1	-
Less: present value discount	(285.9)	-
Lease liability included in the statement of financial position	927.2	-
Current	183.6	-
Non-current	743.6	-
	927.2	-

20. Leases (continued)

20.4. Lease expense

A summary of our aggregate lease expense for the year ended 31 December 2021 is set forth below:

	2021 £ million	2020 £ million
Depreciation charge of ROU assets:		
Land and buildings	89.0	-
Plant and machinery	36.0	-
	125.0	-
Interest expense	23.9	-
	148.9	-

20.5. Cash flows from leases

Our total cash outflows from leases recorded during the period were £117.8 million.

20.6. Leases as a lessor

We have entered into a number of finance lease-out arrangements in respect of agreements with B2B customers for use of various network assets. For these arrangements, we have derecognised the asset, recognising revenue arising from the lease component when control of the network asset is transferred to the customer. During the year, we have recognised a net gain and interest income of £53.7 million and £0.8 million, respectively. Lease receivables have been presented within other receivables in note 15. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date:

	£ million
Less than one year	88.7
One to five years	39.5
Total undiscounted lease receivable	128.2
Less: unearned finance income	(2.8)
Net investment in leases	125.4

21. Provisions

	Restructuring (a) £ million	Asset retirement obligations (b) £ million	Other £ million	Total £ million
1 January 2021	-	-	-	-
Balance acquired from Joint Venture	4.3	179.4	21.7	205.4
Additions to property, plant and equipment	-	2.8	-	2.8
Net charges (credits) to our Consolidated Statement of Profit or Loss	41.5	(6.9)	(16.8)	17.8
Cash payments	(23.5)	-	-	(23.5)
31 December 2021	22.3	175.3	4.9	202.5

21. Provisions (continued)

a) Restructuring provisions include the full cost of planned business restructuring programmes entered into during the period and as a result of the Joint Venture transaction. All programmes are expected to complete in 2022.

b) VMED O2 has certain legal obligations relating to the restoration of leased property to its original condition at the end of the lease term. This obligation relates principally to VMED O2's share of obligation for assets held in Cornerstone Telecommunications Infrastructure Limited and to mast sites.

The provision is based on assumptions covering the discount rate, expected lease renewals and the expected cost of restoring the sites. The payment dates of these asset retirement costs are uncertain, but are currently anticipated to be over the next 31 years. The provision recognised represents the best estimate of the expenditure required to settle the present obligation at 31 December 2021. Such cost estimations, expressed at current price levels at the date of the estimate, are discounted at 31 December 2021 using rates in the range of 1.12% to 3.05% per annum. The initial discounted cost amount has been capitalised as part of property, plant and equipment and depreciated over the life of the assets.

22. Financial risk management

22.1. Overview

We have exposure to the following risks that arise from our financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Our exposure to each of these risks, the policies and procedures that we use to manage these risks and our approach to capital management are discussed below.

22.2. Credit risk

Credit risk is the risk that we would experience financial loss if our customers or the counterparties to our financial instruments and cash investments were to default on their obligations to us.

We manage the credit risks associated with our trade receivables by performing credit verifications, following established dunning procedures and engaging collection agencies. We also manage this risk by disconnecting services to customers whose accounts are delinquent. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers and their dispersion across many different countries. For information regarding the ageing of our trade receivables, see note 15.

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

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

22. Financial risk management (continued)

22.2. Credit risk (continued)

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.

22.3. Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting our financial obligations. In addition to cash and cash equivalents, our primary sources of liquidity are cash provided by operations and access to the available borrowing capacity of our various debt facilities. For information regarding our borrowing availability, see note 19.

The ongoing cash needs of VMED O2 include corporate general and administrative expenses and fees associated with the JV Service Agreements (as defined in note 30). From time to time, VMED O2 may also require cash in connection with (i) the repayment of outstanding debt and related-party obligations (including the repurchase or exchange of outstanding debt securities in the open market or privately-negotiated transactions), (ii) the funding of dividends or distributions pursuant to the Joint Venture Shareholders Agreement, (iii) the satisfaction of contingent liabilities or (iv) acquisitions and other investment opportunities.

22. Financial risk management (continued)

22.3. Liquidity risk (continued)

Our most significant financial obligations relate to our debt obligations, as described in note 19. The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result, additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments.

Our sources of liquidity at the parent level include (i) our cash and cash equivalents and (ii) subject to the restrictions noted above, proceeds in the form of distributions or loans from our subsidiaries. For information regarding limitations imposed by our subsidiaries' debt instruments, see note 19. It is the intention of the Shareholders that the Joint Venture, and by extension VMED O2, will be self-funding capable of financing its activities on a stand-alone basis without recourse to either Shareholder.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our current sources of liquidity will be sufficient to fund our currently anticipated working capital needs, capital expenditures and other liquidity requirements during the next 12 months, although no assurance can be given that this will be the case. In this regard, it is not possible to predict how political and economic conditions (including with respect to the COVID-19 pandemic), sovereign debt concerns or any adverse regulatory developments could impact the credit markets we access and, accordingly, our future liquidity and financial position. Our ability to access debt financing on favourable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties which could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavourable impact on our cash flows and liquidity.

We use budgeting and cash flow forecasting tools to ensure that we will have sufficient resources to timely meet our liquidity requirements. We also maintain a liquidity reserve to provide for unanticipated cash outflows.

The following table shows the timing of expected cash payments or receipts based on the contractually agreed upon terms for our financial liabilities as at 31 December 2021:

	2022 £ million	2023 £ million	2024 £ million	2025 £ million	2026 £ million	Thereafter £ million	Total £ million
Debt:							
Principal – Third Party	2,005.6	254.8	36.5	18.9	382.3	14,635.7	17,333.8
Interest (a)	739.1	724.2	735.9	735.7	709.6	1,941.3	5,585.8
Leases (a)	219.1	211.2	144.7	97.4	81.6	459.1	1,213.1
Total	2,963.8	1,190.2	917.1	852.0	1,173.5	17,036.1	24,132.7

a) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as at 31 December 2021. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. Amounts presented for leases include both principal and interest.

22. Financial risk management (continued)

22.4. Market risk

22.4.1. Interest rate risks

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

In general, we enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt. Accordingly, we have entered into various derivative transactions to manage exposure to increases in interest rates. We use interest rate derivative contracts to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount. We also use (i) interest rate cap agreements and swaptions to lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Under our current guidelines, we use various interest rate derivative instruments to mitigate interest rate risk, generally for the full term of the underlying variable-rate debt swaption. In this regard, we use judgment to determine the appropriate composition and maturity dates of our portfolios of interest rate derivative instruments, taking into account the relative costs and benefits of different maturity profiles in light of current and expected future market conditions, liquidity issues and other factors. For additional information concerning the impacts of these interest rate derivative instruments, see note 23.

In July 2017, the UK 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 EU 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.

22. Financial risk management (continued)

22.4. Market risk (continued)

22.4.1. Interest rate risks (continued)

Further, in December 2021, we amended our loan documents such that the reference rate for our sterling denominated loans would be determined based upon SONIA plus a credit adjustment spread once GBP LIBOR was no longer published and, through the Fallback Protocol, this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments.

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

The following table shows the pound sterling total amounts of unreformed contacts and those with appropriate fallback language as at 31 December 2021. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	GBP- LIBOR		USD-LIBOR	
	Total amount of unreformed contracts £ million	**Amount with appropriate fallback clause £ million**	**Total amount of unreformed contracts £ million**	**Amount with appropriate fallback clause £ million**
As at 31 December 2021:				
Financial Liabilities				
Term Loams - GBP Denominated	-	1,266.7	n/a	n/a
Term Loams - USD Denominated	n/a	n/a	3,389.4	-
Vendor financing	-	2,090.2	2.7	-
Interest Rate Derivatives - Receivable (net)	-	6,333.0	5,836.7	-

22.4.2. Weighted average variable interest rate

At 31 December 2021, the outstanding principal amount of our variable-rate indebtedness aggregated £6.7 billion, and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 2.6%, excluding the effects of interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Assuming no change in the amount outstanding, and without giving effect to any interest rate derivative contracts, deferred financing costs, original issue premiums or discounts and commitment fees, a hypothetical 50 basis point (0.50%) increase (decrease) in our weighted average variable interest rate would increase (decrease) our annual consolidated interest expense and cash outflows by £33.5 million. As discussed above and in note 23, 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.

22. Financial risk management (continued)

22.4. Market risk (continued)

22.4.3. 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 US dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2021, substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 23.

In addition to the exposure that results from the mismatch of our borrowings and our functional currency, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our functional currency (non-functional currency risk), such as equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) and certain services provided by the Shareholders. Changes in exchange rates with respect to amounts recorded in our Consolidated Statement 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 23.

22.5. Capital management

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase the Adjusted EBITDA and to achieve adequate returns on our property, plant and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by incurrence-based leverage covenants contained in our various debt instruments. For additional information regarding our debt obligations, see note 19.

23. Derivatives

23.1. 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 (US) dollar ($) and the euro (€). Generally, we do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most of our derivative instruments are recorded in finance costs or finance income in our Consolidated Statement of Profit or Loss.

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

23. Derivatives (continued)

23.1. Derivative instruments (continued)

	2021 £ million	2020 £ million
Included within current assets:		
Interest rate swaps	81.4	-
Cross-currency interest rate swaps	13.7	165.8
Foreign currency forward contract	0.5	-
	95.6	165.8
Included within non-current assets:		
Interest rate swaps	128.5	-
Cross-currency interest rate swaps	270.4	-
Interest rate floors	-	32.0
	398.9	32.0
Included within current liabilities:		
Interest rate swaps	101.2	-
Cross-currency interest rate swaps	87.9	-
Foreign currency forward contract	2.4	-
	191.5	-
Included within non-current liabilities:		
Interest rate swaps	174.1	4.6
Cross-currency interest rate swaps	560.4	348.5
	734.5	353.1

We consider credit risk relating to our and our counterparties' non-performance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in a net loss of £85.8 million during the period. This amount is included in net finance costs in our Consolidated Statement of Profit or Loss. For additional information regarding our fair value measurements, see note 24.

The details of our realised and unrealised gains on derivative instruments, net, for the year are as follows:

	2021 £ millions	2020 £ millions
Cross-currency and interest rate derivative contracts:		
Third party	491.7	155.3
Foreign currency forward and option contracts	(2.3)	-
	489.4	155.3

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our Consolidated Statement of Cash Flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. The following table sets forth the classification of the net cash inflows (outflows) of our derivative instruments for the period:

23. Derivatives (continued)

23.1. Derivative instruments (continued)

	2021 £ millions	2020 £ millions
Operating activities	(21.1)	-
Financing activities	26.9	-
	5.8	-

Counterparty credit risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At 31 December 2021, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £31.5 million.

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

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

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

23. Derivatives (continued)

23.2. Details of our derivative instruments

23.2.1. Cross-currency derivative contracts

We generally match the denomination of our borrowings with the functional currency of the supporting operations or, when it is more cost effective, we provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2021, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity.

The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at 31 December 2021:

Notional amount due from counterparty in millions	Notional amount due to counterparty in millions		Weighted average remaining life in years
$14,624.0	£11,111.5	(a)	5.4
€3,100.0	£2,795.5		7.0
£1,005.5	$1,445.0	(b)	3.1
£394.2	$500.0		3.5
$166.6	€150.0		6.5

a) Includes certain derivative instruments that are "forward-starting," such that the initial exchange occurs at a date subsequent to 31 December 2021. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.

b) These derivative instruments do not involve the exchange of notional amounts at the inception and maturity of the instruments. Accordingly, the only cash flows associated with these derivative instruments are coupon-related payments and receipts.

23.2.2. Interest rate swap contracts

The following table sets forth the total pound sterling equivalents of the notional amounts and the related weighted average remaining contractual lives of our interest rate swap contracts at 31 December 2021:

Pay fixed rate (a)		Receive fixed rate	
Notional amount £ million	Weighted average remaining life in years	Notional amount £ million	Weighted average remaining life in years
13,768.7	4.1	3,530.8	3.5

a) Includes forward-starting derivative instruments.

23. Derivatives (continued)

23.2. Details of our derivative instruments (continued)

23.2.3. Interest rate swap options

From time to time, we enter into interest rate swap options (swaptions), which give us the right, but not the obligation, to enter into certain interest rate swap contracts at set dates in the future. Such contracts typically have a life of no more than three years. At the transaction date, the strike rate of each of these contracts was above the corresponding market rate. The following table sets forth certain information regarding our swaptions at 31 December 2021:

Notional amount £ million	Underlying swap currency	Weighted average option expiration period (a)	Weighted average strike rate (b)
£816.5	£	0.1	2.5%

a) Represents the weighted average period until the date on which we have the option to enter into the interest rate swap contracts. Upon expiration we did not enter into the underlying interest rate swaps.

b) Represents the weighted average interest rate that we would pay if we exercised our option to enter into the interest rate swap contracts.

23.2.4. Basis swaps

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and/or (iii) the borrowing period. We typically enter into these swaps to optimise our interest rate profile based on our current evaluations of yield curves, our risk management policies and other factors. At 31 December 2021, the total pound sterling equivalent of the notional amount due from the counterparty, including forward-starting derivative instruments, was £8,073.2 million and the related weighted average remaining contractual life of our basis swap contracts was 0.5 years.

23.2.5. Interest rate caps and floors

From time to time, we enter into interest rate cap and floor agreements. Purchased interest rate caps lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Purchased interest rate floors protect us from interest rates falling below a certain level, generally to match a floating rate floor on a debt instrument. At 31 December 2021, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1,486.9 million and £9,288.6 million, respectively.

23.2.6. Impact of derivative instruments on borrowing costs

Excluding forward-starting instruments and swaptions, the impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was an increase of 73 basis points to our borrowing costs as at 31 December 2021. GBP LIBOR publication ceased on 31 December 2021. The interest rate on our pound sterling denominated debt going forward will be SONIA plus Credit Adjustment Spread, (subject to a floor of 0.00% for certain facilities), plus the relevant margin. Through the Fallback Protocol (as described in note 22), this will also be the new reference rate for our GBP LIBOR indexed derivative instruments. For additional information regarding our reference rates, see “Interest Rate Risk” in note 22.

23. Derivatives (continued)

23.2. Details of our derivative instruments (continued)

23.2.7. Foreign currency forwards and options

We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As at 31 December 2021, the total of the notional amount of our foreign currency forward and option contracts was £289.5 million.

24. Fair value measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as at 31 December 2021 are unlikely to represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities.

In order to manage our interest rate and foreign currency exchange risk, we have entered into various derivative instruments as further described in note 23. 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 23.

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 Joint Venture transaction. These non-recurring valuations primarily include the enterprise value of our Group in connection with the closing of the Joint Venture transaction, intangible assets subject to amortisation, including customer relationships and mobile spectrum licenses, property, plant and equipment and the implied value of goodwill. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our non-recurring valuations, except for third-party debt, as further described below, use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. Upon formation of the Joint Venture, the assets and liabilities of Virgin Media and O2 have been recorded at their fair value, as further described in note 4.

The following list sets forth the primary non-recurring valuations performed related to certain of our assets and liabilities upon closing of the Joint Venture transaction:

24.1. Enterprise value

The valuation of our Group (our only reporting unit) is based on discounted cash flow and market approach analyses. With the exception of certain inputs of our weighted average cost of capital and discount rate calculations, the inputs used in our discounted cash flow analyses, such as forecasts of future

24. Fair value measurements (continued)

24.1. Enterprise value (continued)

cash flows, are based on our assumptions. The market approach is performed using comparable trading entity enterprise values, EBITDA multiples and transaction multiples from comparable transactions. The discount rate used is the WACC, determined by the average cost of equity and debt according to the finance structure established for our CGU. We used a pre-tax discount rate of 6.9% in connection with the enterprise value of our Group;

24.2. Customer relationships

The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer relationship, contributory asset charges and other factors. The discount rate used is the WACC, determined by the average cost of equity and debt according to the finance structure established for our CGU. We used a pre-tax discount rate of 6.9% in connection with the valuation of our customer relationships;

24.3. Mobile spectrum licences

The valuation of our mobile spectrum licenses in primarily based upon a market approach, which assumes the prices companies would pay for similar assets in market transactions;

24.4. Tangible assets

The valuation of our tangible assets is typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence; and

24.5. Third-party debt

The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy).

24. Fair value measurements (continued)

The fair values of our financial assets and liabilities, together with the carrying amounts shown in our Consolidated Statement of Financial Position are as follows:

	Category under IFRS 9 (a)	Carrying amount £ million	Fair value £ million
Assets carried at fair value:			
Derivative financial instruments	III	494.5	494.5
Assets carried at cost or amortised cost:			
Trade receivables and unbilled revenue	I	1,369.4	1,369.4
Restricted cash	I	41.0	41.0
Other current and non-current financial assets	I	728.8	728.8
Cash and cash equivalents	I	348.9	348.9
Total assets carried at cost or amortised cost		2,982.6	2,982.6
Liabilities carried at fair value:			
Derivative financial instruments	III	926.0	926.0
Liabilities carried at cost or amortised cost:			
Debt obligations	I	17,333.8	17,376.1
Accrued liabilities	I	1,226.7	1,226.7
Accounts payable and other liabilities	I	1,334.2	1,334.2
Lease obligations	I	927.2	927.2
Total liabilities carried at cost or amortised cost		20,821.9	20,864.2

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

On 1 June 2021, the date of the Joint Venture transaction, all financial assets and liabilities were stated at their respective fair values as discussed further above.

25. Investments

Name	Country of incorporation principal place of business	Proportion of ownership interest held as at 31 December 2021
Tesco Mobile Limited	United Kingdom	50%

As part of the Joint Venture transaction on 1 June 2021, we acquired a 50% interest in Tesco Mobile, an MVNO, which is accounted for using the equity method in our Consolidated Financial Statements. The carrying amount of our equity method investment in Tesco Mobile was £8.9 million as at 31 December 2021. We have recognised comprehensive income of £0.1 million during the period related to this investment.

26. Share-based compensation

The Group's share-based compensation expense relates to charges for share-based incentive awards associated with ordinary shares of Liberty Global and Telefonica held by certain employees of our subsidiaries. All the outstanding share-based incentive awards from Liberty Global and Telefonica will vest by the end of 2024. Share-based compensation expense allocated to the Group by Liberty Global and Telefonica is reflected as an increase to consolidated equity, offset by any amounts recharged to us, and is included within other expenses in our Consolidated Statement of Profit or Loss.

A summary of our aggregate share-based compensation expense for the year, which is included in our other expenses, is set forth below:

	2021 **£ million**	**2020** **£ million**
Non-performance incentive awards	23.1	-
Performance-based incentive awards	0.3	-
	23.4	-

27. Employee benefit plans

VMED O2 maintains the following defined benefit and defined contribution plans for its employees:

- The defined benefit schemes of the Telefonica UK Pension Plan;
- The defined benefit scheme of the Unfunded UK Plan;
- The defined benefit scheme of the National Transcommunications Limited Pension Plan (NTL);
- The defined benefit scheme of the NTL 1999 Pension Scheme (NTL 99); and
- The defined contribution schemes of the Telefonica UK Pension Plan & Virgin Media Pension Plan.

As at the 1 June 2021 formation of VMED O2, all of the defined benefit plans are closed to new entrants and further benefit accrual. The defined contribution plan remains open to new entrants and further contributions and the employer contributions are recognised as part of our staffing costs.

A valuation of our defined benefit plans was undertaken as at 31 December 2021 by suitably qualified independent actuaries. Our defined benefit plan assets are currently invested in a diversified range of debt securities, equity securities, hedge funds, insurance contracts and certain other assets, which are aligned to the liability characteristics of the respective plans.

The amounts included in the Consolidated Statement of Financial Position as at 31 December 2021 arising from obligations related to our defined benefit plans are as follows:

	Funded **2021** **£ million**	**Unfunded** **2021** **£ million**
Fair value of plan assets	2,720.1	-
Projected benefit obligation	(2,351.1)	(4.5)
Net defined benefit asset/(obligation)	369.0	(4.5)

Changes in the present value of the projected benefit obligations associated with our various funded and unfunded defined benefit plans during the period are as follows:

27. Employee benefit plans (continued)

	Funded 2021 £ million	Unfunded 2021 £ million
Balance at 1 January 2021	-	-
Balance acquired from JV on 1 June 2021	(2,264.5)	(4.3)
Interest cost	(24.5)	(0.1)
Acturial loss on demographic assumptions	(33.7)	-
Acturial loss on financial assumptions	(51.6)	(0.1)
Acturial loss on expectation adjustments	(14.5)	-
Benefits paid	37.7	-
Balance at 31 December 2021	(2,351.1)	(4.5)

All schemes completed their respective triennial valuations in the current period. Accordingly, all census data included within the triennial valuations was reflected within the calculation of the projected benefit obligations disclosed above.

Changes in the fair value of the plan assets associated with our various funded defined benefit plans during the period are as follows:

	Funded 2021 £ million
Balance at 1 January 2021	-
Balance acquired from JV on 1 June 2021	2,481.8
Interest income	28.2
Employer contributions	118.0
Benefits paid	(37.7)
Administration costs	(1.4)
Return on assets excluding interest income	131.2
Balance at 31 December 2021	2,720.1

We expect to contribute £213.5 million to our defined benefit plans during the year ended 31 December 2022, with these payments being in line with the respective agreed schedule of contributions as a result of the latest actuarial valuations.

27. Employee benefit plans (continued)

Our defined benefit plan assets as at 31 December 2021 comprise the following:

	L1 Listed £ million	L1 Unlisted £ million	L2 Listed £ million	L3 Unlisted £ million	Total £ million
Cash	–	24.0	43.4	–	67.4
Derivatives	74.2	–	837.1	–	911.3
Bonds	–	–	816.8	–	816.8
Equity	42.9	–	153.2	–	196.1
Private debt & equity	–	–	–	545.6	545.6
Insurance policies	–	–	–	181.4	181.4
Property	–	–	–	1.5	1.5
	117.1	24.0	1,850.5	728.5	2,720.1

As at 31 December 2021, the Telefonica UK Pension plan had total plan assets of £2,008.7 million, including £19.1 million, £1,444.1 million, and £545.5 million of level 1, 2 and 3 assets, respectively.

The gain/(loss) recognised in the Consolidated Statement of Comprehensive Income related to our defined benefit plans as at 31 December 2021 are as follows:

	Funded 2021 £ million	Unfunded 2021 £ million
Return on plan assets in excess of interest income	131.2	–
Actuarial loss on demographic assumptions	(33.7)	–
Actuarial loss on financial assumptions	(51.6)	(0.1)
Actuarial loss on expectations adjustments	(14.5)	(0.1)
	31.4	(0.2)

The main assumptions, shown as a range, as adopted under IAS 19 - Employee Benefits for our defined benefit plans (funded and unfunded) as at 31 December 2021 are as follows:

	Telefonica UK & Unfunded Pension Plan	NTL	NTL 99
Life expectancy (male currently aged 40 / 60) in years	87.5 / 89.0	87.5 / 89.0	86.9 / 88.4
Life expectancy (female currently aged 40 / 60) in years	89.5 / 90.9	89.6 / 91.0	89.1 / 90.6
Discount rate	1.8%	1.8%	1.8%
Inflation assumptions			
-RPI	3.2%	3.3%	3.3%
-CPI	2.7%	2.8%	2.8%
	95% / 105% (M/F)	92% / 98% (M/F)	98% / 103% (M/F)
Mortality base table	S3NA	S3PA	S3PA
Mortality future improvements	CMI_2020 projections with long term rate of improvement of 1.25% per annum, 2020 of 0%, and an initial addition of; 0.25%, 0.2% and 0.3% respectively for each of the plans.		

27. Employee benefit plans (continued)

At 31 December 2021, the weighted average duration of the defined benefit obligation of our legacy O2 and VM funded plans was 22.0 and 16.3 years respectively.

A reduction in the discount rate and/or an increase in the inflation rate will result in an increase in the assessed value of liabilities as a higher value is placed on benefits expected to be paid in the future. A rise in the discount rate and/or an increase in the inflation rate will result in the opposite effect of similar magnitude. There is also uncertainty around the future life expectancy of the UK population. The value of current and future pension benefits will depend on how long these pensions are assumed to be in payment.

Any sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. In presenting sensitivity analysis, the change in present value of defined benefit obligations has been calculated using the projected unit credit method as at 31 December 2021, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position. The rate of inflation assumption sensitivity factors in the impact of changes to all assumptions relating to inflation including associated pension increase assumption. The following sensitivity analysis table summarises how a reasonably possible change in particular assumptions would, in isolation, result in an increase to the defined benefit obligation as at 31 December 2021:

	£ million
Decrease discount rate by 0.25%	(124.7)
Increase inflation by 0.25%	(102.2)
Increase life expectancy by 1 year	(103.5)

As at 31 December 2021, we expect to make the following payments to the defined benefit plans:

Year	**Funded £ million**	**Unfunded £ million**
2022	(37.3)	(0.1)
2023	(41.4)	(0.1)
2024	(45.2)	(0.1)
2025	(47.9)	(0.2)
2026	(49.4)	(0.2)
Thereafter	(2,965.0)	(6.0)

Other pension plans

We also operate defined contribution plans. The assets of these defined contributions arrangements are held separately from those of VMED O2 in independently administered funds. The expense, in the Consolidated Statement of Comprehensive Income, relating to the defined contribution plans is equal to the contributions payable with respect to the period presented, which totalled £31.0 million for the year ended 31 December 2021.

28. Capital commitments

In the normal course of business, we have entered into agreements that commit our Group 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 at 31 December 2021. The commitments included in this table do not reflect any liabilities that are included in our 31 December 2021 Consolidated Statement of Financial Position.

	Payments due during:						
	2022	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Purchase commitments	917.4	250.3	131.3	99.9	92.8	167.9	1,659.6
JV Services Agreement	219.3	186.9	187.7	190.6	192.0	80.6	1,057.1
Programming commitments	429.1	232.6	150.4	30.1	30.0	7.5	879.7
Network and connectivity commitments	609.8	49.8	17.8	14.0	5.1	8.8	705.3
Other commitments	115.6	39.4	33.5	28.6	26.4	35.5	279.0
Total	2,291.2	759.0	520.7	363.2	346.3	300.3	4,580.7

- *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.
- *JV service agreements:* 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.
- *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.
- *Network and connectivity commitments:* include (i) service commitments associated with the network extension programme in the UK (the Network Extension) and (ii) commitments associated with our MVNO agreements. The amounts reflected in the above table with respect to certain of our MVNO commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly less than the actual amounts we ultimately pay in these periods. The EE agreement came to an end on 31 December 2021 and all remaining customers will be migrated to Vodafone in early 2022 before moving them to our O2 mobile network later in 2022. Notice has been given to cancel the MVNO agreement with Vodafone.
- *Other commitments:* 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 Joint Venture transaction, commitments with regard to certain of VMED O2's defined benefit plans are being funded by one of the Shareholders, Telefonica.

29. 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 Consolidated Statement of Financial Position as at 31 December 2021. Additional disclosures of the matters required by IAS 37 have not been provided as permitted by IAS 37 para 92 as the Directors believe that further disclosure will be seriously prejudicial to future developments on this matter.

Phones 4u: Legal proceedings have been issued in the High Court against O2 by the Administrators of Phones 4u. O2 has vigorously denied the allegations and filed its amended defence to this claim in October 2021. Trial began in 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 UK. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property, plant and equipment additions. In addition, regulation may also restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

Effective 1 April 2017, the rateable value of our existing network and other assets in the UK increased significantly. This increase affects the amount we pay for network infrastructure charges as the annual amount payable to the UK Government is calculated by applying a percentage multiplier to the rateable value of assets. This change has significantly increased our network infrastructure charges and we expect further but declining increases to these charges through the first quarter of 2022. We continue to believe that these increases are excessive and retain the right of appeal should more favourable agreements be reached with other operators. The rateable value of our network and other assets in the UK remains subject to review by the UK Government. In June 2021, following a call for input in 2020, the UK 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 UK 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 UK 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 UK Government is considering the input provided in determining how to move forward.

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

30. Related party transactions

All related party transactions relate to regular trading activities of the Group and are on an arm's length basis. Our related-party transactions for the period consist of the following:

	£ millions
Charges included in:	
Revenue	148.0
Cost of sales	(0.6)
Other expenses	(182.9)
Share-based compensation expense	(23.4)
Included in operating profit	(58.9)
Interest expense	(40.9)
Included in net earnings/(loss)	(99.8)
Property, plant and equipment additions, net	0.6

- **Revenue:** Amount primarily consists of our charges to the Tesco Mobile joint venture, and, to a lesser extent, insurance and roaming charges to Telefonica.
- **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 Telefonica.
- **Other expenses:** Amount primarily consists of support function staffing, network and technology services provided to us by certain subsidiaries of Liberty Global and Telefonica, as well as brand and licensing fees payable to Telefonica for use of the "O2", "O2 Refresh" and "Priority" brands.
- **Share-based compensation expense:** Amount relates to charges for share-based incentive awards held by certain employees of our subsidiaries associated with ordinary shares of Liberty Global and Telefonica. Share-based compensation expense is included in other expenses in our Consolidated Statement of Profit or Loss.
- **Interest expense:** Amounts represent interest expense on non-current related party debt.

Charges for Joint Venture Service - Framework Services Agreements: Pursuant to framework services agreements (collectively, the **JV Service Agreements**) entered into in connection with the closing of the Joint Venture Transaction, Liberty Global and Telefonica charge VMED O2 UK Limited fees, which the Company passes through, for certain services provided to us by the respective subsidiaries of the Shareholders (collectively, the **JV Services**). The JV Services are provided to us on a transitional or ongoing basis. Pursuant to the terms of the JV Service Agreements, both the ongoing services and transitional services are provided for specified terms from the 1 June 2021 formation of VMED O2 UK Limited. Ongoing services are predominantly for six-year terms, whereas transitional services will be provided for terms up to 24 months, subject to our ability to terminate based on specified notice periods. The JV Services provided by the respective subsidiaries of the Shareholders consist primarily of (i) technology and other services, (ii) capital-related expenditures for assets that we use or otherwise benefit us, (iii) brand name and procurement fees and (iv) certain corporate services. The fees that Liberty Global and Telefonica charge us for the JV Services, as set forth in the table above, include both fixed and usage-based fees.

30. Related party transactions (continued)

The following table provides details of our related-party balances as at 31 December 2021:

	£ millions
Assets:	
Trade receivables	24.0
Other current receivables	211.9
Total related party assets	235.9
Liabilities:	
Lease obligations	104.3
Accounts payable	148.2
Other non-current liabilities	86.9
Total related party liabilities	339.4

- **Trade receivables:** Amount relates primarily to trade receivables arising from our charges to Tesco Mobile.
- **Other current receivables:** Amount represents non-interest-bearing current receivables from certain Liberty Global and Telefonica subsidiaries.
- **Lease obligation:** Amount represents lease obligations to certain Liberty Global subsidiaries.
- **Accounts payable:** Amount represents non-interest-bearing payables related to transactions with certain Liberty Global and Telefonica subsidiaries that are periodically cash settled.
- **Other non-current liabilities:** Amount represents non-interest-bearing accrued capital expenditures and other accrued liabilities related to transactions with certain Liberty Global and Telefónica subsidiaries that are periodically cash settled.

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

	2021 £ million	2020 £ million
Short-term employee benefits	11.0	-
Share-based payments	2.2	-
	13.2	-

Key management personnel comprise the Company Directors and key senior management of the Group and our main subsidiaries, including employees of both Liberty Global and Telefonica, which are remunerated through our Shareholders.

31. Ordinary shares

	2021 £	2020 £
Allotted, called up and fully paid:		
12 (2020 - 1) Ordinary shares of £1 each	12	1

On 26 February 2021, the Company issued 10 shares in exchange for 100 percent of the issued share capital of Virgin Media Inc. for an initial subscription amount of £8,400,500,000.

On 5 March 2021, the Company redesignated the total share capital of the Company, to reflect two separate classes of ordinary shares as follows:

a) a class of ordinary shares (the **Irish Ordinary Shares**), consisting of 5 shares with a nominal value of £1 each and carrying the rights to receive all distributions and assets from UPC Ireland Broadband Limited, Cullen Broadcasting Limited and Tullamore Beta Limited (the **Irish Entities**) and their subsidiary undertakings (together with Irish Entities, the **Irish Entity Group**); and

b) a class of ordinary shares, consisting of 6 shares with a nominal value of £1 each and carrying the rights to receive all distributions and assets from all of the subsidiaries of the Company (including Virgin Media Inc. and its subsidiary undertakings), except the Irish Entity Group.

On 5 March 2021, the Company cancelled its share capital in respect of the Irish Ordinary Shares. The Company carried out a repayment of the capital on those shares to Newco Holdco 6 Limited for an amount of £515,500,000, being equal to the fair market value of the Irish Entities transferred.

On 1 June 2021, the Company issued 6 shares with a nominal value of £1 each in exchange for 100 percent of the issued share capital of O2 Holdings Limited for an initial subscription amount of £7,001,900,0000, being equal to the fair market value of the shares.

32. Reserves

32.1. Ordinary share capital

The balance classified as share capital represents the nominal value on issue of the Company's equity share capital, comprising £12 ordinary shares.

32.2. Additional paid in capital

Additional paid-in capital (**APIC**) includes share premium (£7,001.9 million) and a non-distributable merger reserve (£8,223.1 million) resulting from the Joint Venture formation.

On 5 March 2021, following the cancellation of the Irish Ordinary Shares (see note 31), the Company reduced its share premium account from £7,885,000,000 to £nil.

32.3. Accumulated other comprehensive income

Accumulated other comprehensive income includes the pension reserve and the translation reserve. The translation reserve is used to record cumulative translation differences on the net assets of foreign operations. The cumulative translation differences will be recycled to the Comprehensive Statement of Profit or Loss upon disposal of the foreign operations.

32.4. Retained earnings

This reserve records the Group's retained profit and losses.

33. Principal subsidiary undertakings

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

Direct shareholdings

Name of company	Company number	Holdings	Proportion held	Nature of business
Virgin Media Networks Limited	12175177	Ordinary	100%	Telecoms
VMED O2 UK Holdings Limited	13047827	Ordinary	100%	Holding

Indirect shareholdings

Name of company	Company number		Holdings	Proportion held	Nature of business
BCMV Limited	03074517	₽	Ordinary	100%	Dormant
Birmingham Cable Limited	02244565		A Ordinary	100%	Dormant
Bitbuzz UK Limited	08178308		Ordinary	100%	Telecoms
Cable London Limited	01794264	₽	Ordinary	100%	Dormant
Cable On Demand Limited	02532188	Φ	Ordinary	100%	Dormant
CableTel Herts and Beds Limited	01785533		Ordinary	100%	Dormant
CableTel Northern Ireland Limited	NI029131	Ψ	Ordinary	100%	Dormant
CableTel Surrey and Hampshire Limited	02740651		Ordinary	100%	Dormant
Cellular Radio Limited	01612599	π	Ordinary	100%	Dormant
Cornerstone Telecommunications Infrastructure Limited	08087551	p	Ordinary	50%	Telecoms
Diamond Cable Communications Limited	02965241	Φ	Ordinary	100%	Dormant
Digital Mobile Spectrum Limited	08247385	θ	Ordinary	25%	Other Telecoms Activites
DX Communications Limited	SC133682	β	Ordinary	100%	Dormant
Eurobell (Holdings) Limited	02904215		Ordinary	100%	Dormant
Flextech Limited	02688411		Ordinary	100%	Dormant
General Cable Limited	04925679		Ordinary	100%	Holding
giffgaff Limited	04196996	π	Ordinary	100%	Telecoms
Green Park Services Limited	13219252	Φ	Ordinary	100%	Dormant
Internet Matters Limited	08822801	λ		25%	Web Portal
Matchco Limited	03405630	₽	Ordinary	76%	Dormant
ntl (B) Limited	02735732		Ordinary	100%	Dormant
ntl (BCM Plan) Pension Trustees Limited	04342230		Ordinary	100%	Dormant
ntl (Broadland) Limited	02443741	Φ	Ordinary	100%	Dormant
ntl (South East) Limited	01870928		Ordinary	100%	Dormant
ntl (V)	02719474		Ordinary	100%	Dormant
ntl Business Limited	03076222		Ordinary	100%	Dormant
ntl CableComms Group Limited	03024703		Ordinary	100%	Dormant
NTL CableComms Group LLC	N/A	Ξ	Ordinary	100%	Dormant
ntl CableComms Surrey	02531586	₽	Ordinary	100%	Dormant
ntl Communications Services Limited	03403985		New Ordinary	100%	Dormant
ntl Glasgow	SC075177	µ	B Ordinary	100%	Telecoms
ntl Glasgow Holdings Limited	04170072		Ordinary	100%	Dormant
ntl Kirklees	02495460		Ordinary	100%	Telecoms
ntl Kirklees Holdings Limited	04169826		Ordinary	100%	Dormant
ntl Midlands Limited	02357645		Ordinary	100%	Dormant
ntl Pension Trustees II Limited	11258264		Ordinary	100%	Dormant
ntl Pension Trustees Limited	03771014		Ordinary	100%	Dormant
ntl Rectangle Limited	04329656		Ordinary	100%	Dormant
ntl South Central Limited	02387692		Ordinary	100%	Dormant
ntl Telecom Services Limited	02937788		Ordinary	100%	Dormant
ntl Trustees Limited	02702219		Ordinary	100%	Dormant
O2 Cedar Limited	04678681	π	Ordinary	100%	Non-trading
O2 Communications Limited	04271548	π	Ordinary	100%	Non-trading
O2 Holdings Limited	02604354	π	Ordinary	100%	Holding

33. Principal subsidiary undertakings (continued)

Indirect shareholdings

Name of company	Company number		Holdings	Proportion held	Nature of business
O2 Networks Limited	02604351	π	Ordinary	100%	Holding
O2 Redwood Limited	02383186	π	Ordinary	100%	Dormant
O2 Unify Limited	07999361	π	Ordinary	100%	IT Consultancy
Statiq Limited	08702435	π	Ordinary	100%	Data Processing
Telefonica Cybersecurity Tech UK Limited	12490724	π	Ordinary	100%	Dormant
Telefonica Europe People Services Limited	486438	Ω	Ordinary	100%	Non-trading
Telefonica UK Limited	01743099	π	Ordinary A & B	100%	Telecoms
Telefonica UK Pension Trustee Limited	04267552	π	Ordinary	100%	Corporate Trustee
Telewest Communications (Dundee & Perth) Limited	SC096816	Φ	Ordinary	100%	Dormant
Telewest Communications (Glenrothes) Limited	SC119523	Φ	Ordinary	100%	Dormant
Telewest Communications (Midlands and North West) Limite	02795350	₽	Ordinary	100%	Dormant
Telewest Communications (Scotland) Limited	SC080891	μ	Ordinary	100%	Dormant
Telewest Communications Cable Limited	02883742		Ordinary	100%	Dormant
Telewest Communications Networks Limited	03071086		Ordinary	100%	Dormant
Telewest Limited	03291383		Ordinary	100%	Dormant
Tesco Mobile Limited	04780736	ς	Ordinary	50%	Telecoms
The Mobile Phone Store Limited	02837875	π	Ordinary	100%	Dormant
Theseus No.1 Limited	02994027		Ordinary	100%	Dormant
Theseus No.2 Limited	02994061		Ordinary	100%	Dormant
Virgin Media Bristol LLC	N/A	Ξ	Ordinary	100%	Finance
Virgin Media Business Limited	01785381		Ordinary	100%	Telecoms
Virgin Media Communications Limited	03521915		Ordinary	100%	Dormant
Virgin Media Employee Medical Trust Limited	05993968		Ordinary	100%	Dormant
Virgin Media Finance Holdings Inc.	N/A	Ξ	Ordinary	100%	Holding
Virgin Media Finance PLC	05061787		Ordinary	100%	Finance
Virgin Media Finco 2 Limited	12581419		Ordinary	100%	Finance
Virgin Media Finco Limited	08045612		Ordinary	100%	Finance
Virgin Media Group LLC	N/A	Ξ	Ordinary	100%	Holding
Virgin Media Inc.	N/A	Ξ	Common Stock	100%	Holding
Virgin Media Intermediary Purchaser Limited	13047371		Ordinary	100%	Dormant
Virgin Media Investment Holdings Limited	03173552		Ordinary	100%	Finance
Virgin Media Investments Limited	07108297		Ordinary	100%	Finance
Virgin Media Limited	02591237		Ordinary	100%	Telecoms
Virgin Media Mobile Finance Limited	09058868		Ordinary	100%	Finance
Virgin Media National Networks Limited	05174655		Ordinary	100%	Dormant
Virgin Media Operations Limited	11118162		Ordinary	100%	Holding
Virgin Media Payments Limited	06024812		Ordinary	100%	Collections
Virgin Media PCHC Limited	01733724		A Ordinary	100%	Dormant
Virgin Media Secretaries Limited	02857052		Ordinary	100%	Guarantor
Virgin Media Secured Finance PLC	07108352		Ordinary	100%	Finance
Virgin Media Senior Investments Limited	10362628		Ordinary	100%	Finance
Virgin Media SFA Finance Limited	07176280		Ordinary	100%	Finance
Virgin Media Trade Receivables Intermediary Financing Limite	12552094		Ordinary	100%	Finance
Virgin Media Wholesale Limited	02514287		Ordinary	100%	Telecoms
Virgin Mobile Telecoms Limited	03707664		Ordinary	100%	Telecoms
Virgin WiFi Limited	04414701		Ordinary	100%	Dormant
VM Ireland Group Limited	09430026	Φ	Ordinary	100%	Dormant
VM Transfers (No 4) Limited	02369824		Ordinary	100%	Dormant
VMED O2 Secretaries Limited	04272689	π	Ordinary	100%	Dormant
VMED O2 UK Financing I plc	12800739	δ	Ordinary	100%	Finance

33. Principal subsidiary undertakings (continued)

Indirect shareholdings

Name of company	Company number		Holdings	Proportion held	Nature of business
VMED O2 UK Financing II plc	12804417	δ	Ordinary	100%	Holding
VMED O2 UK Holdco 1 Limited	12800546	δ	Ordinary	100%	Holding
VMED O2 UK Holdco 3 Limited	12807077	δ	Ordinary	100%	Holding
VMED O2 UK Holdco 4 Limited	12809596	δ	Ordinary	100%	Holding and Finance
Weve Limited	08178832	π	Telefonica A	100%	Advertising
Yorkshire Cable Communications Limited	02490136		Ordinary	100%	Dormant

All companies are registered at 500 Brook Drive, Reading, RG2 6UU, unless otherwise noted below:

Ψ Unit 3, Blackstaff Road, Kennedy Way Industrial Estate, Belfast, BT11 9AP

Ξ 1550 Wewatta Street, Suite 1000, Denver, CO 80202

Σ c/o Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808

Ω South Point, Herbert House, Harmony Row, Grand Canal Dock, Dublin 2

μ 1 South Gyle Crescent Lane, Edinburgh, EH12 9EG

β The Ca'D'Ore, 45 Gordon Street, Glasgow, G1 3PE

δ Griffin House, 161 Hammersmith Road, London W6 8BS

θ 24 - 25 The Shard, 32 London Bridge Street, London SE1 9SG

λ One London Wall, 6th Floor, London EC2Y 5EB

π 260 Bath Road, Slough, Berkshire, SL1 4DX

ρ Hive 2, 1530 Arlington Business Park, Theale, Berkshire, RG7 4SA

ς Shire Park, Welwyn Garden City, Hertfordshire, AL7 1GA

₽ 1 More London Place, London, SE1 2AF

Φ Dissolved subsequent to the year end

34. Subsequent events

Financing transactions

In January 2022, CTIL entered into a £500.0 million term loan facility. The facility was issued at 99.25%, maturing on 31 December 2026, with interest charged at a rate of SONIA plus 2.00%, subject to a SONIA floor of 0.0%. The net proceeds from the facility were used to redeem the outstanding amount of CTIL's shareholder loans of £460.0 million, which were due to be repaid 8 January 2022. As discussed further in note 3, specifically within principles of consolidation, we consolidate our portion of CTIL as a joint operation, and as such 50% of the outstanding borrowings under the new term loan facility will be consolidated into our statement of financial position.

In January 2022, we performed two drawdowns of the Revolving Facility, aggregating £400.0 million, to meet working capital requirements, which was subsequently repaid in full in March 2022.

On 30 June 2022, the Company paid a £250.0 million cash dividend to its Shareholders.

In August 2022, we entered into a £1,474.5 million sustainability-linked term loan facility comprised of £1,124.0 million of new commitments and £350.5 million of commitments rolled from an existing facility. The loan will mature five years from first drawdown and bear interest at a rate of SONIA + 3.25% (subject to adjustment based on the achievement or otherwise of certain Environmental, Social and Governance (ESG) metrics). The proceeds from the loan are expected to primarily be used for general corporate purposes.

34. Subseqent events (continued)

Shareholders' announcement of fibre joint venture

On 29 July 2022, Liberty Global and Telefónica announced an agreement with investment firm InfraVia Capital Partners to form a new fibre joint venture (**Fibre Joint Venture**) to build a wholesale "fibre to the home" network in the UK, subject to regulatory approval. The Fibre Joint Venture will initially roll out fibre to 5 million greenfield premises not currently served by VMED O2's network by 2026, with the opportunity to expand to an additional approximately 2 million greenfield premises. VMED O2 will commit to being an anchor tenant of the new network, extending its total fibre footprint to up to 23 million premises, as well as providing its well established network expansion expertise, systems and relationships to the Fibre Joint Venture, including construction, IT, technology and corporate services.

Company Statement of Financial Position

As at 31 December 2021

	Notes	2021 £ million	2020 £ million
Non-current assets			
Investments in subsidiaries	7	20,559.8	0.1
		20,559.8	0.1
Current assets			
Debtors: amounts falling due after more than one year	8	137.2	32.0
Debtors: amounts falling due within one year	8	215.2	165.8
Cash and cash equivalents		300.6	-
		653.0	197.8
Total assets		**21,212.8**	**197.9**
Current liabilities			
Creditors: amounts falling due within one year	9	(249.8)	(0.1)
		(249.8)	(0.1)
Non-current liabilities			
Creditors: amounts falling due after more than one year	10	(8,859.0)	(353.1)
		(8,859.0)	(353.1)
Total liabilities		**(9,108.8)**	**(353.2)**
Net assets		**12,104.0**	**(155.3)**
Capital and reserves			
Ordinary shares	12	-	-
Share premium	13	7,001.9	-
Retained earnings/(Accumulated losses)	13	5,102.1	(155.3)
Total shareholders' funds/(deficit)		**12,104.0**	**(155.3)**

The notes on pages 135 to 144 form part of the financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 September 2022.

C H R Bracken
Director

Company Registration Number: 12580944

Company Statement of Changes in Equity

For the year ended 31 December 2021.

		Ordinary shares £ million	Share premium £ million	Retained earnings £ million	Total owners' equity £ million
At 1 January 2021		–	–	(155.3)	(155.3)
Shares issued	12	–	15,402.4	–	15,402.4
Share cancellation	12	–	(515.5)	–	(515.5)
Capital reduction	13	–	(7,885.0)	7,885.0	–
Dividend	6	–	–	(2,497.2)	(2,497.2)
Loss for the year	–	–	–	(130.4)	(130.4)
At 31 December 2021		–	**7,001.9**	**5,102.1**	**12,104.0**

For the period ended 31 December 2020

	Ordinary shares £ million	Share premium £ million	Accumulated losses £ million	Total owners' equity £ million
At 30 April 2020	–	–	–	–
Shares issued	–	–	–	–
Loss for the period	–	–	(155.3)	(155.3)
At 31 December 2020	–	–	**(155.3)**	**(155.3)**

The notes on pages 135 to 144 form part of these financial statements.

Notes to Company Financial Statements

For the year ended 31 December 2021

1. Company information

VMED O2 UK Limited (the **Company**) is a private Company incorporated, domiciled and registered in the UK. The registered number is 12580944 and the registered address is Griffin House, 161 Hammersmith Road, London, United Kingdom, W6 8BS.

2. Accounting policies

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

2.1. Basis of accounting

These financial statements were prepared on a going concern basis and under the historical cost basis in accordance with the Companies Act 2006 and the Financial Reporting Standard 101 Reduced Disclosure Framework (**FRS 101**).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

- a cash flow statement and related notes;
- disclosures in respect of related party transactions with fellow Group undertakings;
- disclosures in respect of capital management;
- the effects of new but not yet effective International Accounting Standards;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

No Profit or Loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

2.2. Going concern

The financial statements have been approved on the basis that the Company remains a going concern. The following paragraphs summarise the basis on which the Directors have reached their conclusion.

After making suitable enquiries and obtaining the necessary assurances that sufficient resources will be made available to meet any liabilities as they fall due, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

It is VMED O2's practice for operational and financial management to be undertaken at a group level rather than for individual entities that are wholly owned by the Group. Treasury operations and cash management for all VMED O2 UK Limited wholly owned subsidiaries are managed on a group basis. As part of normal business practice, regular cash flow forecasts for both short- and long-term commitments are undertaken at group level.

Forecasts and projections, which take into account reasonably possible downsides in trading performance, prepared for the Group as a whole, indicate that cash on hand, together with cash from operations and revolving credit facilities, is expected to be sufficient for the Group's and hence the Company's cash requirements through to at least 12 months from the approval of these financial statements. The Group has indicated its intention to continue to make such funds available to the company as needed.

2. Accounting policies (continued)

2.2. Going concern (continued)

Taking into account these forecasts and projections and after making enquiries, the Directors have a reasonable expectation the Company has adequate support and resources to continue in operational existence for the foreseeable future. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

2.3. Investment in subsidiaries

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

2.4. Debtors

Debtors are initially measured at fair value and subsequently reported at amortised cost, net of an allowance for impairment of trade receivables.

The Company uses a forward-looking impairment model which uses a lifetime expected loss allowance which is estimated based upon our assessment of anticipated loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions, and specific customer credit risk. The allowance is maintained until either payment is received or the likelihood of collection is considered to be remote.

2.5. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

2.6. Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Creditors are presented as amounts falling due within one year unless payment is not due within 12 months after the reporting period.

2.7. Non-derivative financial instruments

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

2. Accounting policies (continued)

2.7. Non-derivative financial instruments (continued)

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

The Company initially recognizes loans and receivables on the date they are originated. All other financial assets (including assets designated as fair value through the Statement of Profit or Loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

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

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

2.8. Derivative financial instruments

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

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value at each Balance Sheet date.

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

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

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

Derivatives that are not part of an effective hedging relationship, as set out in IFRS 9 Financial Instruments (**IFRS 9**), must be classified as held for trading and measured at fair value through Profit or Loss.

2. Accounting policies (continued)

2.9. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the Balance Sheet date. The resulting exchange differences are taken to the Profit or Loss account.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, management has made estimates and judgements that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and assumptions

3.1. Carrying value of investments

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

3.2. Recoverability of intercompany receivables

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

3.3. Fair value measurement of financial instruments

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

Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 11).

4. Profit attributable to members of the Company

The Company's loss for the year ended 31 December 2021 was £130.4 million.

5. Auditor's and directors' remuneration

Fees paid to KPMG LLP for non-audit services to the Company itself are not disclosed in the individual accounts of VMED O2 UK Limited, because the Consolidated Financial Statements are prepared which disclose such fees on a consolidated basis.

The directors received no remuneration for qualifying services as directors of this Company. All Directors' remuneration is paid and disclosed in the Consolidated Financial Statements.

6. Dividends paid

	2021 £ million	2020 £ million
Dividends paid	2,497.2	-

On 27 May 2021, the Company paid a cash dividend of £68.2 million and on 16 December 2021, a cash dividend of £385.4 million. Furthermore, on 5 March 2021 the Company paid a £734.9 million dividend in specie and on 28 May 2021 a £1,308.7 million dividend in specie as part of the larger group re-organisation project in preparation for the Joint Venture.

7. Investments in subsidiaries

	£ million
Cost	
At 1 January 2021	0.1
Additions	41,119.4
Disposals	(20,559.7)
At 31 December 2021	**20,559.8**
Net book value	
At 31 December 2021	**20,559.8**
At 31 December 2020	0.1

The investments in which the Company holds at least 20% of the nominal value of any class of share capital, all of which are unlisted, are shown in note 32 of the Consolidated Financial Statements.

On 26 February 2021, the Company acquired Virgin Media Inc. and its subsidiaries from Liberty Global Europe 2 Limited for a consideration of £12,715.0 million.

On 1 June 2021, the Company subscribed two additional shares in VMED O2 UK Holdco 1 Limited for consideration of £906.2 million. Additionally, on the same date, the Company subscribed two additional shares for £6,938.5 million in VMED O2 UK Holdco 1 Limited in consideration for the transfer from the Company to VMED O2 UK Holdco 1 Limited of the beneficial interest in 100% of the shares in O2 Holdings Limited.

On 16 September 2021, the Company disposed of 100% of the ordinary share capital of Virgin Media Inc. for £12,715.0 million, the ordinary share capital of VMED O2 UK Holdco 1 Limited for £7,844.7 million and VMED O2 UK Financing I Plc for £50,000 in exchange for two additional shares in VMED O2 Holdings Limited with a consideration of £20,559.7 million.

In the opinion of the Directors the aggregate value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the Financial Statements.

8. Debtors

	2021 £ million	2020 £ million
Due after one year		
Amounts owed by Group undertakings	137.2	-
Derivative financial assets (see note 10)	-	32.0
	137.2	32.0

	2021 £ million	2020 £ million
Due within one year		
Amounts owed by related parties	212.5	-
Amounts owed by Group undertakings	2.7	-
Derivative financial assets (see note 10)	-	165.8
	215.2	165.8

The analysis of amounts owed by Group undertakings is:	2021 £ million	2020 £ million
Loans advanced to Group undertakings	72.2	-
Other amounts owed by Group undertakings	67.7	-
	139.9	-

Loans advanced to Group undertakings falling due after more than one year represent a note receivable from Virgin Media Mobile Finance Limited, which had a carrying value of £72.2 million (2020 - £nil) at the Balance Sheet date and which bears interest of 3.93% and matures in 2025.

Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

9. Creditors: amounts falling due within one year

	2021 £ million	2020 £ million
Amounts owed to Group undertakings	226.4	0.1
Amounts owed to related parties	23.4	-
	249.8	0.1

The analysis of amounts owed by Group undertakings is:	2021 £ million	2020 £ million
Other amounts owed to Group undertakings	226.4	0.1
	226.4	0.1

Other amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

10. Creditors: amounts falling due after more than one year

	2021 £ million	2020 £ million
Amounts owed to Group undertakings	8,796.3	-
Amounts owed to related parties	62.7	-
Derivative financial liabilities (see note 10)	-	353.1
	8,859.0	353.1

The analysis of amounts owed by Group undertakings is:	2021 £ million	2020 £ million
Loans advanced by Group undertakings	8,525.6	-
Other amounts owed to Group undertakings	270.7	-
	8,796.3	-

Amounts owed to Group undertakings falling due after more than one year represent:

a) A note payable owed to Virgin Media Inc. which had a carrying value of $15,200,000 as at 31 December 2021, which bears interest at 7.875% and matures on 15 April 2023.

b) A note payable owed to Virgin Media Finco 2 Limited which had a carrying value of £5,203,354,000 as at 31 December 2021, which bears interest at 4.725% (subject to adjustment) and matures on 16 July 2023.

c) A note payable owed to VMED O2 UK Holdco 4 Limited which had a carrying value of £3,072,816,000 as at 31 December 2021, which bears interest at 4.725% (subject to adjustment) and matures on 17 May 2030.

d) A note payable owed to VMED O2 UK Holdings Limited which had a carrying value of £7,905,000 as at 31 December 2021, which bears interest at 4.21% and matures on 9 March 2028.

Other amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

11. Financial instruments

	2021 £ million	2020 £ million
Financial assets		
Financial assets measured at fair value through Profit or Loss	-	197.8
Financial assets that are debt instruments measured at amortised cost	352.5	-
	352.5	197.8
Financial liabilities		
Financial liabilities measured at fair value through Profit or Loss	-	(353.1)
Financial liabilities measured at amortised cost	(9,108.8)	(0.1)
	(9,108.8)	(353.2)

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

	2021 £ million	2020 £ million
Currents assets (see note 7)		
Derivative not designated as hedges	-	165.8
	-	165.8
Non-currents assets (see note 7)		
Derivative not designated as hedges	-	32.0
	-	32.0
Non-currents liabilities (see note 9)		
Derivative not designated as hedges	-	(353.1)
	-	(353.1)
Aggregate net fair value of derivative financial instruments	**-**	**(155.3)**

12. Share capital

	2021 £	2020 £
Allotted, called up and fully paid:		
12 (2020 - 1) Ordinary shares of £1 each	12	1

On 26 February 2021, the Company issued 10 shares in exchange for 100 percent of the issued share capital of Virgin Media Inc. for an initial subscription amount of £8,400.5 million.

On 5 March 2021, the Company redesignated the total share capital of the Company, to reflect two separate classes of ordinary shares as follows:

c) a class of ordinary shares (the **Irish Ordinary Shares**), consisting of 5 shares with a nominal value of £1 each and carrying the rights to receive all distributions and assets from UPC Ireland Broadband Limited, Cullen Broadcasting Limited and Tullamore Beta Limited (the **Irish Entities**) and their subsidiary undertakings (together with Irish Entities, the **Irish Entity Group**); and

d) a class of ordinary shares, consisting of 6 shares with a nominal value of £1 each and carrying the rights to receive all distributions and assets from all of the subsidiaries of the Company (including Virgin Media Inc. and its subsidiary undertakings), except the Irish Entity Group.

On 5 March 2021, the Company cancelled its share capital in respect of the Irish Ordinary Shares. The Company carried out a repayment of the capital on those shares to Newco Holdco 6 Limited for an amount of £515.5 million, being equal to the fair market value of the Irish Entities transferred.

On 1 June 2021, the Company issued 6 shares with a nominal value of £1 each in exchange for 100 percent of the issued share capital of O2 Holdings Limited for an initial subscription amount of £7,001.9 million being equal to the fair market value of the shares.

13. Reserves

13.1. Ordinary shares

The balance classified as share capital represents the nominal value on issue of the Company's share capital, comprising £12 ordinary shares.

13.2. Share premium account

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

On 5 March 2021, following the cancellation of the Irish Ordinary Shares (see note 12), the Company reduced the share premium account in respect of the Irish Entities from £7,885.0 million to £nil.

13.3. Retained earnings

Includes all current retained profits.

14. Guarantees

Fellow Group undertakings are party to a senior secured credit facility with a syndicate of banks. As at 31 December 2021, this comprised term facilities that amounted to £5,916.0 million and revolving credit facilities of £1,387.0 million, which were undrawn as at 31 December 2021. Borrowings under the facilities are secured against the assets of certain members of the Group.

In addition, a fellow Group undertaking has issued senior secured notes which, subject to certain exceptions, share the same guarantees and security which have been granted in favour of the senior secured credit facility. The amount outstanding under the senior secured notes as at 31 December 2021 amounted to £8,066.0 million. Borrowings under the notes are secured against the assets of certain members of the Group.

Furthermore, a fellow Group undertaking has issued senior notes for which certain fellow Group undertakings, have guaranteed the notes on a senior subordinated basis. The amount outstanding under the senior notes as at 31 December 2021 amounted to approximately £1,103.0 million.

15. Principal subsidiary undertakings

For information on the Company's direct and indirect subsidiaries, please see note 33 in the Group Financial Statements.

16. Parent undertaking and controlling party

The Company's ultimate shareholders are Liberty Global plc and Telefonica SA, with each holding 50% of the issued share capital.