VMED O2 UK Holdings Limited
Annual Bond Report and Consolidated Financial Statements
31 December 2022

2022 Highlights

Financial Highlights

Revenue

£10,360.0 million +0.1%

FY 2022	£10,360.0 million
Pro Forma FY 2021	£10,353.2 million

Transaction Adjusted Revenue[1]

£10,381.9 million 0.0%

FY 2022	£10,381.9 million
Pro Forma FY 2021	£10,383.3 million

Adjusted EBITDA[1]

£3,931.6 million +5.2%

FY 2022	£3,931.6 million
Pro Forma FY 2021	£3,738.2 million

Transaction Adjusted EBITDA[1]

£3,905.4 million +6.3%

FY 2022	£3,905.4 million
Pro Forma FY 2021	£3,673.0 million

Property and Equipment (P&E) additions

£2,061.3 million +4.3%

FY 2022	£2,061.3 million
Pro Forma FY 2021	£1,977.2 million

Adjusted Free Cash Flow (FCF)[1,2]

£666.0 million

FY 2022	£666.0 million[3]

Net Senior Debt to Annualised Adjusted EBITDA[1]

3.27x +0.06x

FY 2022	3.27x
FY 2021	3.21x

Net Total Debt to Annualised Adjusted EBITDA[1]

3.57x +0.05x

FY 2022	3.57x
FY 2021	3.52x

"I am delighted with our strong performance where we have delivered towards the high-end of our 2022 guidance against what is a challenging macroeconomic backdrop."

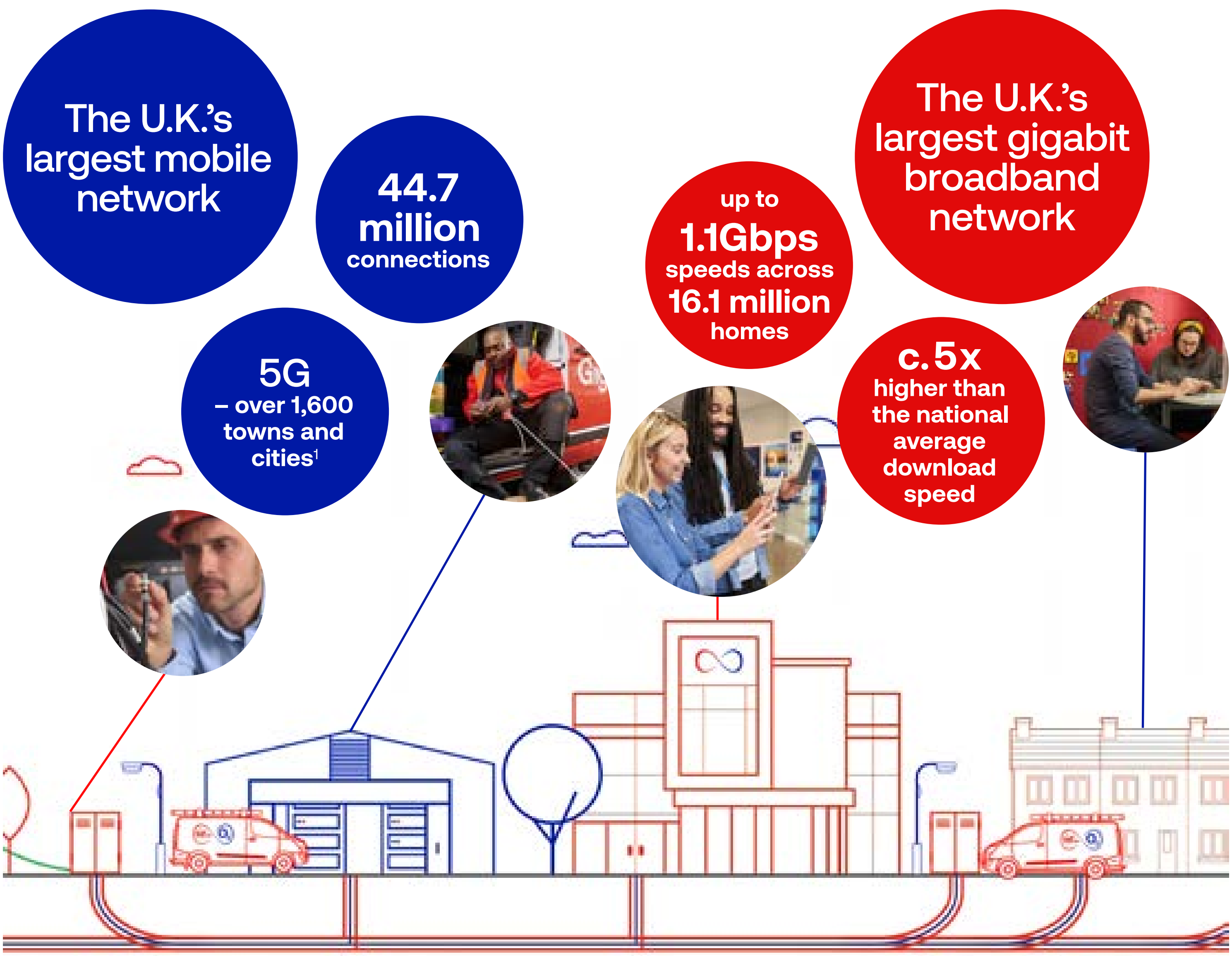
Lutz Schüler
CEO of Virgin Media O2

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.
2. Free Cash Flow was not calculated on a Pro-Forma basis leading to no comparator for full-year 2021

2022 HIGHLIGHTS CONTINUED

We have continued to develop well against our strategy as we deliver long-term commercial momentum. We have combined our **customer-first** mentality and **converged** offering to deliver an experience customers need with **innovative** products and services across both networks as we **upgrade the U.K.** We will keep building on these strong foundations in 2023.

Operational Highlights



1. Each with over 50% outdoor population coverage.

Forward-looking Statements

Certain statements in this Annual Report constitute forward-looking statements.

Certain statements in this Annual Bond Report (**Annual Report**) constitute forward-looking statements. To the extent that statements in this Annual Report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under Financial Review may contain forward-looking statements, including statements regarding VMED O2 UK Holdings Limited (**VMED O2**'s or **Virgin Media O2**'s) business, product, foreign currency and finance strategies in future periods, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of VMED O2's markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in VMED O2's revenue, costs or growth rates, liquidity, credit risks, foreign currency risks, target leverage levels, VMED O2's future projected contractual commitments and cash flows and other information and statements that are not historical fact.

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

- Economic and business conditions and industry trends in the U.K.;
- The competitive environment in the broadband internet, cable television and telecommunications industries in the U.K., including competitor responses to our products and services;
- Fluctuations in currency exchange rates and interest rates;
- Instability in global financial markets, including sovereign debt issues in the European Union (E.U.), currency instability and related fiscal reforms;
- Consumer disposable income and spending levels, including the availability and amount of individual consumer debt, as a result of, among other things, inflationary pressures;
- Changes in consumer television viewing and broadband internet usage preferences and habits;
- Consumer acceptance of our existing service offerings, including our mobile, broadband internet, video, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- Our ability to manage rapid technological changes, including our ability to adequately manage our legacy technologies and transformation and the rate at which our current technology becomes obsolete;
- Our ability to maintain or increase the number of subscriptions to our mobile, broadband internet, video and fixed-line telephony service offerings and our average revenue per household;
- Our ability to provide satisfactory customer service, including support for new and evolving products and services;
- Our ability to maintain or increase prices to our subscribers or to pass through increased costs to our subscribers, including with respect to our significant property, plant and equipment additions, as a result of, among other things, inflationary pressures;
- The impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital and on customer spending;
- Our ability to comply with, government regulations and legislation in the U.K. and adverse outcomes from regulatory proceedings;
- The impact of government intervention which impairs our competitive position. This including any intervention that would open our broadband distribution networks to competitors as well as any changes in our accreditations or licences;
- Our ability to maintain and further develop our direct and indirect distribution channels;
- Our lack of insurance of the underground portion of our fixed-line network and various pavement-based electronics associated with our fixed-line network;
- The effect of perceived health risks associated with electromagnetic radiation from base statement and associated equipment;
- Changes in U.K. laws, monetary policies and government regulations or other risks relating to our ability to set prices, enter new markets or control our costs;
- Any failure to comply with anti-corruption laws and regulations and economic sanctions programmes;
- The effect on our business of strikes or collective action by certain of our employees that are represented by trade unions;
- Any conflict of interests between our direct or indirect parent companies and our debt holders' interests;
- Our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- Our ability to successfully acquire, form or dispose of businesses and, if acquired, to integrate, realise anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to acquire;
- Changes in laws or treaties relating to taxation, or the interpretation thereof, in the U.K. and U.S.;
- Our exposure to additional tax liability and negative or unexpected tax consequences as a result of adverse changes in our financial outlook and entity structure;
- Changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- The ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- The activities of device manufacturers and our ability to secure adequate and timely supply of handsets that experience high demand;
- The availability of, and our ability to acquire on acceptable terms, attractive programming for our video services and the costs associated with such programming;
- Uncertainties inherent in the development and integration of new business lines and business strategies;
- Our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with the Network Extension, the deployment of our 5G network and the planned programme to upgrade our existing fixed-line network to Fibre-To-The-Premises (**FTTP**) and through the new fibre joint venture nexfibre to build a wholesale Fibre-To-The-Home (**FTTH**) network in the U.K;
- The availability of capital for the acquisition and development of telecommunications networks and services;
- Problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire (including in relation to the Joint Venture), including the failure to realise our financial and strategic goals with respect to strategic transactions;
- The leakage of sensitive customer data or any failure to comply with applicable data protection laws, regulations and rules;
- A failure in our network and information systems, whether caused by a natural failure or a security breach, and unauthorised access to our networks;
- The outcome of any pending or possible litigation;
- The loss of key employees and the availability of qualified personnel;
- Adverse changes in public perception of the 'Virgin' brand, which we and others license from Virgin Enterprises Limited, and of the 'O2' brand, which we license from O2 Worldwide Limited, and any resulting impacts on the goodwill of customers toward us;
- Events that are outside of our control, such as political unrest in international markets, terrorist attacks, armed conflicts, malicious human acts, natural disasters, epidemics, pandemics (such as COVID-19) and other similar events, including the ongoing invasion of Ukraine by Russia;
- The risk of default by counterparties to our cash investments, derivative and other financial instruments and undrawn debt facilities;
- Changes in laws and government regulations that may impact our ability to finance expenditures as 'Eligible Green Projects' under the International Capital Markets Association's (**ICMA**'s) Green Bond Principles, satisfy 'green' reporting requirements or undertakings and impact the suitability of the 2031 Senior Secured Notes issued under ICMA's Green Bond Principles as a 'green' asset to investors;
- Adverse impacts on our reputation from our sustainability programme being viewed as inadequate by customers, regulators in addition to government authorities; and
- An increase in our operational costs due to the impact of our sustainability commitments, and regulatory and government action on climate change.

Contents

Find out more:

Strategic Report

CEO Statement

This is our first full-year as Virgin Media O2 and I am proud of how we have progressed as we deliver sustained commercial momentum.

Lutz Schüler
CEO of Virgin Media O2

2022 has been a year of continued strategic, financial and operational progress and we have delivered at pace against a challenging macroeconomic backdrop while maintaining focus on our three growth waves: investment in our networks; advancement of our integration plans and progression in the initial stages of our digital transformation. This resulted in our reaching the high-end of our 2022 guidance with Transaction Adjusted EBITDA[1] (before Costs to Capture (**CTC**)) in the mid-single-digit range increasing by 6.3% to £3,905.4 million (FY 2021: £3,673.0 million) and improved trends in transaction adjusted revenues compared to 2021.

Commercial momentum

Our unwavering focus on our customers has positioned us well in a competitive environment and we have delivered customer growth in 2022 against a challenging macroeconomic backdrop. This would not have been possible without our approach towards innovation, a more detailed understanding of the customers' needs and our ability to maximise our offering based on speed, scale and convergence.

We started the year by being the only major mobile network not to reintroduce E.U. roaming fees, and in August launched our new Switch Up proposition which gives O2 customers more freedom to flex their plan and swap their phone at any point. On the fixed side we boosted the speeds of millions of our customers, and launched our new Internet Protocol (**IP**)-based TV service, TV Stream from Virgin Media. We also hit a major milestone with 1.3 million customers taking our converged Volt products in just one year since they launched – an incredible achievement which highlights our growing convergence credentials.

Delivering against our strategic priorities

We have continued to invest heavily, with property and equipment (**P&E**) additions totalling £2.1 billion in 2022 (FY 2021: £2.0 billion), in our networks and services in order to bring connectivity to new areas, lay foundations for the future and put the customer at the heart of what we do. Whilst usage of our connectivity has kept growing, there is more to come and we understand that both speed and quality of service remain vital factors in overall experience.

From a network evolution perspective, our reach is now 16.1 million homes (FY 2021: 15.6 million) and our position as the U.K.'s largest gigabit provider has been maintained. Through the year, we expanded our fixed fibre footprint as we connected 518,800 new homes, which included 24,100 transferred to nexfibre, a joint venture formed in December between our shareholders[2] and InfraVia Capital Partners (**InfraVia**). Not only will we provide construction and corporate services to this new entity but, as an anchor tenant the additional network will extend our fibre reach to around 80% of the country and, together with our existing network, present a sizeable and attractive wholesale opportunity for other providers in future. The outcome of our combined full-fibre footprint will total 23 million homes, an increase of up to 7 million. Additionally, we ramped up our fibre upgrade deployment and started live trials of new XGS-PON fibre technology in customer homes. This is all part of our plans to upgrade all our fixed network to fibre in 2028. In our mobile network, we now have 5G connectivity in more than 1,600 towns and cities, and are on track to hit 50% population coverage in 2023. On top of that we boosted our 4G capacity, which still makes up the bulk of mobile traffic, in 725,000 postcodes.

From a synergies perspective, we exceeded our 30% of £540 million run-rate target which included completing the migration of all Virgin Mobile traffic onto our O2 network. We will now migrate Virgin Mobile customers to O2 which will initiate in March 2023 and complete by the end of the year. Additionally, total synergies will continue to increase in 2023 and we are targeting over 50% of £540 million run-rate at the end of the year supported by further Mobile backhaul integration utilising our own fixed network.

In digitalisation, we are investing in upgrading and streamlining end-to-end digital capabilities to enhance the customer-first approach and data-driven performance management in order to provide them with the best value for the products and services we provide.

1. The Alternative Performance Measures (APMs), including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.
2. As defined in note 1 to the Consolidated Financial Statements

CEO STATEMENT CONTINUED

Better Connections Plan – Sustainability through our lens

In May we launched our Better Connections Plan and set bold and ambitious goals across three elements: zero-carbon future, a circular economy and connected communities. Our targets are stretching and I am delighted with the milestones we have achieved to date.

One significant accomplishment was our receipt of the Carbon Trust certification for action towards net zero emissions becoming one of only three U.K. businesses and the first Telecoms provider to reach this milestone. The Carbon Trust's Route to Net Zero Standard is a robust and challenging certification to help companies manage and reduce carbon emissions and share progress. In October, in partnership with environmental charity Hubbub, we launched Time after Time – a new e-waste eco fund that will award grants of between £10,000 and £75,000 for creative U.K. projects that reduce e-waste, encourage recycling of electronic goods and support devices being used over and over again.

In addition, the increased cost-of-living has affected many households, including our own employees and we have stepped up to support. In October, we introduced a one-off targeted allowance of £1,400 for our people earning under £35,000 paid between October 2022 and July 2023. This was combined with our decision to reduce the cost of our Essential Broadband social tariff to £12.50, introduce a new, faster tier and expand the eligibility criteria of these services.

With digital inclusion being an area close to our hearts we doubled down on our support of the National Databank, which provides free mobile data, texts and calls to those who need it most, and is a platform we pioneered with digital inclusion charity, Good Things Foundation. We have committed more than 61 million GB of free O2 data by the end of 2025, through our stores and a network of 1,000 participating community partners nationwide we issued 35,000 vouchers (each 20GB), over 60,000 SIMs, and connected over 7,500 people in 2022.

2023 Guidance

Looking ahead, we expect to deliver growth in Transaction Adjusted Revenue[1] and mid-single-digit Transaction Adjusted EBITDA[1] (before CTC) growth, with the first quarter impacted by phasing. Additionally, we predict opex and capex CTC of approximately £150 million and P&E additions of around £2.0 billion. The cash distribution to shareholders is anticipated to be £1.8 to £2.0 billion including cash from recapitalisations to maintain leverage at the upper-end of the 4-5x range.

We have firm foundations in place, a clear strategy and a team that are focused on building long-term commercial momentum and I am confident we will deliver our 2023 guidance.

Lutz Schüler
CEO of Virgin Media O2

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

How We Create Value

We are a converged champion and the U.K. challenger with our customers at the heart of what we do.

Our resources

Capital investment where we invested £2.1 billion of P&E additions in 2022 and will invest a further £2.0 billion in 2023

We will continue to invest in evolving our networks so we can reach more customers, enhancing our offering through innovative propositions and maximise the potential of our merged business.

The largest gigabit fixed network with average download speeds up to 1.1Gbps to 16.1 million homes

The scale and focus of our fixed network provide us continued speed leadership, increased network control, cost efficiency, reliability and improving customer experience underpinning our brand value as we invest for the future.

The largest mobile operator in the U.K. serving 44.7 million connections with our 5G network covering over 1,600 towns and cities

Our scale and data insights enable us to offer high-value products and benefits including the ability to offer excellent value for money and improve our products and services through a greater understanding of customers' needs.

17,100 diverse, experienced and knowledgeable people encompassing a customer-first mentality

Virgin Media O2 brings together Virgin Media's experience in delivering fibre-optic broadband, mobile and TV and O2's expertise in mobile. Our combined culture embeds a customer-first approach.

A portfolio of brands and partnerships providing the foundations on which to develop

Our ability to meet customer demand through a combination of our Virgin Media, O2, Virgin Mobile and giffgaff brands and partnerships across content, value added services and distribution.

Shareholders with global scale and experience of value creation

Liberty Global and Telefónica provide Virgin Media O2 with support in enabling expansion through access to a large pool of financial investments; expertise in technology capabilities; mergers and acquisitions; market intelligence; supply-chain and distribution.

Spectrum assets enabling high quality customer experience

Owning spectrum and mobile infrastructure assets provides us with control over improvements in network capacity, performance and reliability, cost effective delivery and national network provisioning to wholesale customers.

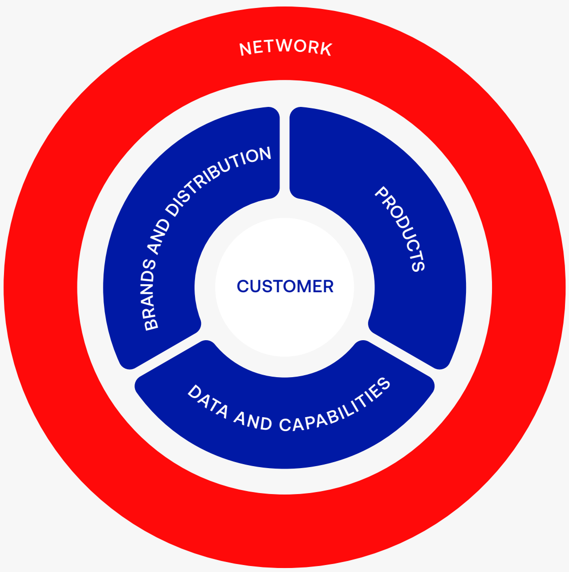
Management team with extensive experience in leading telecom companies at scale

Executives with a proven track-record in delivering both business and corporate strategy at scale including motivating large organisations; innovative product development; implementing an adaptable target operating model; effective resource allocation and maintaining a robust balance sheet to support growth. All of which will deliver an increased value to the Virgin Media O2 brand.

HOW WE CREATE VALUE CONTINUED

What we do

We have a customer-first approach where we sell market leading innovative products and services through focussed brands, supported by strong data insight and capabilities.



Customer
Delivering a high-value customer experience for our consumer and business customers

Brands and distribution
Leverage and distribute our brand portfolio of Virgin Media, O2, giffgaff and Virgin Mobile, across direct and indirect channels including retail, online and voice channels

Products
Develop flexible and innovative products across mobile, broadband and pay-TV

Data and capabilities
Leverage efficient digital architecture for digitalisation of customer journeys

Network
Maintain, upgrade and utilise our network infrastructure

Our value creation for our key stakeholders

Customers

- 45% Fixed-Mobile Convergence rate
- 1.3 million Volt customers
- 44.7 million mobile connections
- 5.8 million fixed-line customers

People

- Organisational structure that is scaled and focused on the customer
- Investing in skills for the future through award winning apprenticeship and graduate schemes

Suppliers

- Leveraging the scale of Virgin Media O2 and our shareholders purchasing power
- Collaboration on environmental, social and governance activities

Investors

- TA Revenue[1] £10,381.9 million
  TA EBITDA[1] £3,905.4 million
- Adjusted FCF[1] £666.0 million

Communities

- Equip 2 million with digital skills by 2025
- Enable customers to avoid 20 million tonnes of CO_2 by 2025
- Connect 1 million digitally excluded people by 2025

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

Our Markets and Regulatory Backdrop

Our sector is constantly evolving, and by staying informed on crucial trends, we can seize opportunities and address potential challenges.

Growth in Fixed-Mobile Convergence and household relationships

Growing demand for bundled household connectivity and services puts us in a strong position as the U.K. converged champion and household supplier of choice, providing mobile, broadband and pay-TV with high value customer experience and innovative propositions.

Telecoms sector is resilient to macroeconomic pressures

Increasing demand for mobile data and fast and reliable broadband, with these products increasingly seen as essential services in light of a macroeconomic backdrop of high inflation and low growth.

FTTH and 5G

FTTH and 5G technologies will enable us to offer customers faster and more reliable broadband and mobile services across a larger footprint. Next gen connectivity also opens up new revenue streams such as advanced Internet of Things (**IoT**), telemedicine and remote working solutions.

Opportunities for new entrants in the fixed wholesale market

Higher demand by operators for high-speed broadband coverage, coupled with nextfibre's network expansion and our fibre upgrade, places us in a position to become a major wholesale supplier and benefit from new partnerships and higher network utilisation.

Connectivity, digital transformation and new applications

Increasing reliance on technology for communication and collaboration, improved efficiency and the rise of remote work, mean businesses require dependable, high-speed networks to support their business operations. We are at the centre of the industry to serve this growing demand.

OUR MARKETS & REGULATION CONTINUED

Given our scale and the market we operate in, much of our business activity is subject to regulation. To ensure compliance, we maintain close relationships with various U.K. regulatory bodies, notably Ofcom with whom we have covered vital matters affecting both the U.K. Telecoms sector and Virgin Media O2.

Ensuring the customer is at the centre of the industry, whilst supporting competition and innovation

Support for Gigabit speed and fibre investment and supply

There is a significant need for regulatory conditions to support greater fibre network investment and supply in order to:

- Encourage competition: help new wholesale operators enter the market and increase competition, leading to better services and greater value for money.
- Boost economy: Fibre investment creates jobs, attracts businesses and stimulates economic growth, which can benefit the whole country.
- Improve connectivity: Fibre networks offer faster, more reliable and more scalable connectivity, which is crucial for supporting digital transformation and the growth of the U.K.'s digital economy.
- Reduces the digital divide: Government support can ensure that fibre networks are rolled out to areas that are currently underserved, helping to reduce the digital divide and increase access to high-speed internet.
- Supports innovation: Fibre networks provide the high-speed, low-latency connections required for emerging technologies like 5G, Artificial Intelligence (AI), and the Internet of Things, helping the U.K. stay at the forefront of innovation.

Support for 5G investment and deployment

Ofcom and The Department for Digital, Culture, Media and Sport (**DCMS**) eye greater investment in mobile connectivity, including 5G, supporting our rollout and customer benefits including:

- Improve connectivity: 5G investment can lead to faster, more reliable and more widely available mobile connectivity, which can improve people's daily lives and support the growth of the U.K.'s digital economy.
- Innovation: 5G provides the high-speed, low-latency connections required for emerging technologies like the Internet of Things, autonomous vehicles and smart cities, helping the U.K. stay at the forefront of innovation.
- Improves public services: 5G can enable the delivery of innovative public services, such as telemedicine, smart transport and e-government services, making them more accessible and efficient.

Consumer fairness and affordability

Growing public and regulatory interest in affordability and vulnerability. Promoting fairness and affordability can help to bridge the digital divide, ensuring that all citizens have access to the essential communications services they need in order to participate fully in society.

We introduced social broadband tariffs in 2021 and 2022 to support with the challenges consumers are facing during the rising cost-of-living.

Our Group Strategy

We are the largest mobile operator in the U.K. serving 44.7 million connections and our 5G network covers over 1,600 towns and cities across the U.K. In addition, we operate the largest gigabit fixed network providing download speeds which average up to 1.1Gbps to 16.1 million homes.

Across these networks we provide innovative and flexible services such as Refresh and Switch Up, WiFi Guarantee and our flagship converged offering, Volt, where we have now reached 1.3 million customers.

The scale of our network, breadth and flexibility of offering combined with our customer understanding underpins our customer-first mentality and through our 17,100 people and shareholder insight, we have the experience and expertise to maximise value.

Our growth waves

01 Integration

Delivering synergies of £540 million with an Net Present Value (NPV) of £6.2 billion in 2026.

Core synergy areas of revenue, Mobile Virtual Network Operator (**MVNO**) migration, backhaul, efficiencies and Fixed-Mobile Convergence.

Synergies milestone accomplished: Exceeded target of 30% of annualised run-rate £540 million synergies and we are on track to achieve over 50% by the end of 2023.

02 Digital Transformation

Drive improvements in customer experience in the short and long-term.

A digital first approach, with our customers at its heart.

Excellent customer understanding, improved interactions and greater engagement. Leveraging data and analytics from our strong customer relationships to provide the best products and services.

Digitalising operations, such as transactions and back office systems for efficiency, organisation effectiveness and to deliver best-in-class customer experience.

03 Network Evolution

Expanding our footprint and upgrading our capabilities by providing high-quality connectivity that meets the customer's needs.

Through our Fibre Upgrade project we are upgrading our existing network to full-fibre to future-proof our long-term converged offering.

Expanding our 5G mobile network which increases coverage and improves reliability and speed.

Providing construction and corporate services to and wholesaling from fibre JV, nexfibre, enabling us to access up to a further 7 million homes and expanding our fibre footprint to 23 million homes serviceable.

OUR GROUP STRATEGY CONTINUED

Acting with a Customer-First and team-orientated mentality

BRAVE.
Bold, creative, accountable and innovative – stepping up and speaking out when it counts and taking risks with a true challenger spirit.

REAL.
Honest, authentic, respectful and open – doing what we say we will and putting ourselves in our customers' shoes.

TOGETHER.
Supportive, empathetic, agile and inclusive – celebrating our differences and recognising each other's achievements.

Delivering our Better Connections Plan

Zero carbon future.
We have an ambitious commitment to achieve net-zero carbon across operations, products and supply chain by the end of 2040. While enabling customers to avoid 20 tonnes of CO_2 and support large-scale decarbonisation by 2025.

Circularity.
Zero waste future: achieve zero waste operations and products by 2025. Enable 10 million circular solutions and actions to help customers tackle e-waste by 2025.

Communities.
Connect one million digitally excluded people across the U.K. by 2025. Engaging in a digital-first society to empower 2 million people with digital skills and the tools to help them by 2025.

Supported by Shareholders with global capabilities

Liberty Global is a world leader in converged broadband, video and mobile communications services. It delivers next-generation products through advanced fibre and 5G networks that currently provides over 86 million connections across Europe and the United Kingdom.

Telefónica is one of the largest telecommunications service providers in the world. The company offers fixed and mobile connectivity as well as a wide range of digital services for residential and business customers. With more than 383 million customers, Telefónica operates in Europe and Latin America. Telefónica ia a 100% listed company and its shares are traded on the Spanish Stock Market and on those in New York and Lima.

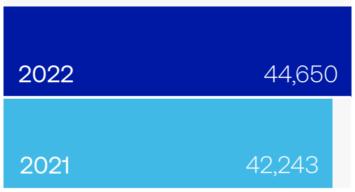
Key Performance Indicators

We measure our progress through a number of operational, financial and non-financial Key Performance Indicators (KPIs).

OPERATIONAL

Total Mobile Connections (thousands)

5.7% ▲



Definition
The number of active 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 tablet would be counted as two mobile subscribers. Customers who do not pay a recurring monthly fee are excluded from our mobile telephony subscriber counts after periods of inactivity of 90 days. Total number of mobile connections includes Consumer, SMB, Enterprise, IoT (comprising Machine-to-machine and Smart Metering Implementation Programme (**SMIP**)) and Mobile Wholesale Connections.

Development in 2022
Total mobile connections increased 5.7% to 44.7 million (FY 2021: 42.2 million) driven by an increase in mobile contract, IoT and Wholesale connections. This was partially offset by a decrease in prepaid connections.

Fixed-Line Customer Relationships (thousands)

0.5% ▲

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

Development in 2022
Fixed-line customer relationships increased 0.5% to 5.8 million (FY 2021: 5.8 million). In the first quarter 2022, decreased marketing activity led to lower customer acquisitions. This was more than offset by positive momentum gained in net additions during the second half of the year following growth in the footprint of the fixed network.

O2 Monthly Contract Churn (%)

10bps ▲

Definition
The rate at which contract subscribers relinquish their subscriptions. This is calculated by dividing the proportion of postpaid contract mobile connections who have terminated their contract (Consumer, Small-Medium Business (**SMB**), Enterprise and Mobile Broadband) for the period by the average base.

Development in 2022
O2's monthly contract churn increased 10 basis points (**bps**) to 0.9% (FY 2021: 0.8%) despite a small increase linked to customers closing accounts but not porting to other networks. Our continued customer-first decisions, such as not reintroducing E.U. roaming charges in 2022, have led to O2's churn remaining stable and low.

KEY PERFORMANCE INDICATORS CONTINUED

FINANCIAL

Transaction Adjusted Revenue[1] (£ millions)

0% –

2022	10,381.9
2021	10,383.3

Definition
Revenue which has been normalised for certain adjustments which have been made to more accurately represent the performance of the underlying operations. These adjustments reflect the fair value measurement required, in connection with the completion of the joint venture, where the opening balance sheet of the combined business was reported at its estimated fair value.

Development in 2022
Total Transaction Adjusted Revenue was flat at £10,381.9 million (FY 2021: £10,383.3 million) with increased Mobile service revenue offset by a decline in Fixed and Mobile handset revenues.

Revenue (£ millions)

0.1% ▲

2022	10,360.0
2021	10,353.2

Definition
We derive our revenue from residential and Business-to-Business (**B2B**) communications services, including mobile, broadband internet, video and fixed-line telephony services. Where multiple products and services are provided in a proposition, 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.

Development in 2022
Total Revenue increased by 0.1% to £10,360.0 million (FY 2021: £10,353.2 million) with increased Mobile service revenue offset by a decline in Fixed-line and Mobile handset revenues.

Transaction Adjusted EBITDA[1] (£ millions)

6.3% ▲

2022	3,905.4
2021	3,673.0

Definition
Adjusted EBITDA which has been normalised for certain adjustments which have been made to more accurately represent the performance of the underlying operations. These adjustments reflect the fair value measurement required, in connection with the completion of the joint venture, where the opening balance sheet of the combined business was reported at its estimated fair value.

Development in 2022
Transaction Adjusted EBITDA increased by 6.3% to £3,905.4 million (FY 2021: £3,673.0 million), with key drivers of growth being the realisation of synergies, cost efficiencies and a one-off release of £30.0 million in the third quarter, following the resolution of a legal matter for which there is no impact on cash. This was partially offset by increased energy costs.

Adjusted EBITDA[1] (£ millions)

5.2% ▲

2022	3,931.6
2021	3,738.2

Definition
Adjusted EBITDA is the primary measure used by our chief operating decision maker to evaluate operating performance and is also a key factor that is used by our internal decision makers to (i) determine how to allocate resources and (ii) evaluate the effectiveness of our management for purposes of annual and other incentive compensation plans. For further detail see financial notes.

Development in 2022
Adjusted EBITDA increased 5.2% to £3,931.6 million (FY 2021: £3,738.2 million), with key drivers of growth being the realisation of synergies, cost efficiencies and a one-off release of £30.0 million in the third quarter, following the resolution of a legal matter for which there is no impact on cash. This was partially offset by increased energy costs.

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

KEY PERFORMANCE INDICATORS CONTINUED

FINANCIAL CONTINUED

Adjusted Free Cash Flow[1,2] (FCF) (£ millions)

N/A –

2022	666.0

Definition
Net cash provided by our operating activities, plus expenses financed by an intermediary, less (i) capital expenditures, as reported in our consolidated statements of cash flows, (ii) principal payments on amounts financed by vendors and intermediaries and (iii) principal payments on certain finance leases. We believe that our presentation of FCF, provides useful information to our investors because this measure can be used to gauge our ability to service debt and fund new investment opportunities.

Development in 2022
FCF was £666.0 million for the year ended 31 December 2022.

P&E Additions (£ millions)

4.3% ▲

2022	2,061.3
2021	1,977.2

Definition
Includes capital expenditures on an accrual basis, amounts financed under vendor financing or lease arrangements and other non-cash additions, but excludes CTC capex costs.

Development in 2022
P&E additions increased 4.3% to £2,061.3 million (FY 2021: £1,977.2), with drivers of the increase including increased fixed network rollout, the start of rollout of our Fibre Upgrade programme after completing a trial in the first quarter and further investment in 5G.

Net Total Debt to Annualised Adjusted EBITDA[1] (times)

0.05x ▲

2022	3.57
2021	3.52

Definition
The ratio of net total debt (defined as net senior covenant debt and swapped unsecured debt) to last two quarters annualised EBITDA after prescribed adjustments.

Development in 2022
Net Total Debt to Annualised pro forma adjusted EBITDA increased from 3.52x to 3.57x from 31 December 2021 to 31 December 2022. This was below the covenant level of 5.00x.

Net Senior Debt to Annualised Adjusted EBITDA[1] (times)

0.06x ▲

2022	3.27
2021	3.21

Definition
The ratio of net senior debt (defined as net senior covenant debt) to last two quarters annualised EBITDA after prescribed adjustments.

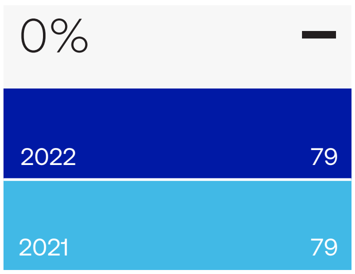
Development in 2022
Net Total Debt to Annualised pro forma adjusted EBITDA increased from 3.21x to 3.27x from 31 December 2021 to 31 December 2022. This was below the covenant level of 4.00x.

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.
2. Pro forma was not calculated for FCF, as such no comparator has been shown for FY 2021 period.

KEY PERFORMANCE INDICATORS CONTINUED

NON-FINANCIAL

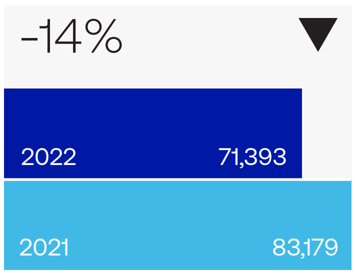
Employee Engagement



Definition
Our primary metric of employee engagement is sustainable engagement collected by anonymous employee surveys. Sustainable engagement focusing on three key areas; (i) Engagement: people are engaged – they are proud to work here, go the extra mile, and believe in the organisational goals and objectives (ii) Enablement: the organisation provides the support employees need to do their work (iii) Energy: the organisation creates a healthy work environment – one that supports employees physical, social, and emotional wellbeing. Employee Engagement is measured on a scale of 0 - 100.

Development in 2022
Employee Engagement remained unchanged at 79 in FY 2022 (FY 2021: 79). The survey highlighted several key strengths – 86% of respondents feel proud to be associated with the company, 87% that their performance is improved by conversations with their line managers and 84% that they get a personal sense of accomplishment from their work.

Direct Emissions – Scope 1 and 2 Carbon Dioxide emissions tonnes (tCO_2e)



Definition
Metric tons of (Carbon Dioxide emissions) CO_2e. Direct emissions (Scope 1) from fuel consumption and leakage of refrigerant gases in our operations, as well as indirect emissions from secondary energy sources (Scope 2).

Development in 2022
We remain on a science-based target pathway and on course for our 2025 target to reduce operational (Scopes 1 and 2) emissions by 60%, with a 29% reduction in 2022 against our 2020 baseline.

See further on definition and development in 2022 in the Streamlined Energy and Carbon Report on page 49.

Number of people benefiting from programmes in Digital skills[1] (millions)

Definition
The calculation is based on the number of people accessing digital skills and training via the Internet Matters website, registrations on Learn My Way and Carer's U.K. resources which include new users of Digital Resource Centre (DRC), new users of the Jointly app for carers.

Development in 2022
To help disadvantaged people across the U.K. (including those on low incomes, global majority communities, low-skilled workers, and older people) get online and gain vital digital skills, we have pledged £2 million to Good Things Foundation as part of a new three-year partnership.

See further as part of the Better Connections Plan on page 41.

Gender Pay Gap[2] (%)

Definition
Mean hourly pay gap between male and female employees as at 5th April 2022.

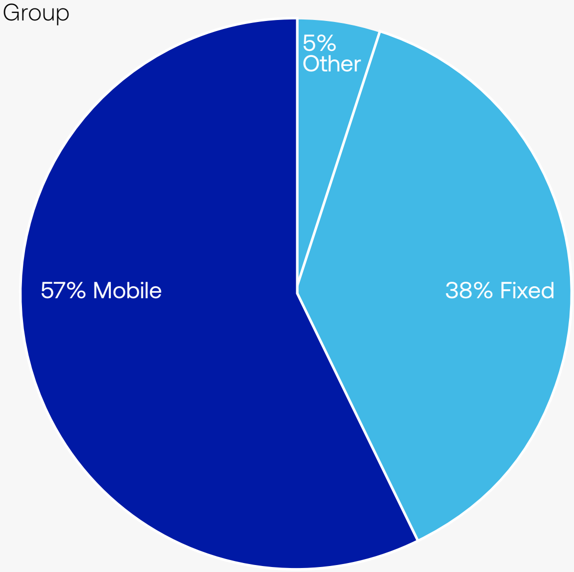
Development in 2022
We have a narrow pay gap of 2% in favour of men. Our ambition is to increase gender representation as part of our All In Diversity, Equity and Inclusion strategy, see further on page 45.

1. Excludes 2021 comparator because the combined ESG strategy was launched in 2022.
2. Excludes 2021 comparator as joint venture had not completed at time of reporting.

Divisional Overview

MOBILE

Mobile revenue as a percentage of total Group Transaction Adjusted Revenue[1]



	Year ended 31 December 2022 actual	2021 pro forma	Increase (decrease) %
Mobile KPI's			
Reported Revenue (£ million)	**5,913.7**	**5,812.1**	**1.7**
Transaction Adjusted Revenue[1] (£ million)	**5,913.7**	**5,812.1**	**1.7**
Handset (£ million)	1,614.6	1,629.0	(0.9)
Retail Connections	**33,831,400**	**32,276,800**	**4.8**
Mobile	24,055,900	24,057,100	–
Contract	16,087,600	15,938,000	0.9
Prepaid	7,968,300	8,119,100	(1.9)
IoT	9,775,500	8,219,700	18.9
Wholesale Connections	**10,818,600**	**9,966,600**	**8.5**
Total Mobile Connections	**44,650,000**	**42,243,400**	**5.7**
Retail new additions	**1,554,600**	**1,940,200**	**(19.9)**
Mobile net additions (losses)	(9,300)	211,100	(104.4)
Contract net additions	141,500	343,800	(58.8)
Prepaid net losses	(150,800)	(132,700)	13.6
IoT net additions	1,563,900	1,729,100	(9.6)
Wholesale net additions	**852,000**	**755,800**	**12.7**
Total Mobile net additions	**2,406,600**	**2,696,000**	**(10.7)**
O2 monthly contract churn	**0.9%**	**0.8%**	**+10bps**

Financials in £ million to one decimal place, volumes reported to the nearest hundred

1 The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

DIVISIONAL OVERVIEW CONTINUED

Through our brands O2, Virgin Mobile and giffgaff we provide a wide range of mobile telecommunications and value-added services. As well as voice, messaging, and data services we provide customers with handsets and hardware (such as wearables), stand-alone mobile devices and accessories and a number of value-added products and services including a digital loyalty programme.

Services are acquired by consumers and SoHo (Small or Home Office) customers through online, voice, and retail (including franchise). They purchase a SIM card, or an embedded eSIM, either with or without a handset through Prepaid (also termed 'Pay As You Go') and Contract (also termed 'Pay Monthly') models providing access to the O2 network. Prepaid customers have the option to purchase a handset upfront and in-full. Contract customers have access to the 'Custom Plan' proposition (**O2 Refresh**) enabling them to spread the cost of their handset over different terms, flex their data up and down or upgrade. Virgin Mobile customers can access 'Freestyle' contracts, which provide customers with the flexibility to purchase a handset independently of an airtime contract. As announced in January 2023, Virgin Mobile customers are being transferred onto the O2 network in 2023.

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

Our customer-first approach is designed to maintain and increase our large, loyal customer base and to drive value for our stakeholders with our key products summarised below:

Summary of products and services:

a. **Priority**: Priority is one of the U.K.'s largest digital loyalty and engagement 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 U.K., including The O2, O2 Academy venues based in twenty-one locations across the U.K., England Rugby matches at Twickenham and over 600 venues nationwide. We have saved customers approximately £20 million from offers in 2022 and more than £200 million since the platform launched. Our Virgin Mobile customers will start to have access to these services through 2023 as they are migrated to the O2 brand.
b. **O2 WiFi**: O2 WiFi provides access to free WiFi at over 16,500 locations across the U.K. as of December 2022. It is offered free to end users regardless of their network. It had approximately 11.8 million unique users as at December 2022. O2 WiFi supports the connectivity needs of 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.
c. **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 higher definition, 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.
d. **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 Contract customers or taken from their mobile credit for Prepaid customers. Customers now have the option to spread the cost of non-cellular hardware over £100 over a maximum of 36 months. This includes high end audio, game consoles, tablet accessories and more.
e. **O2 Extras**: O2 Extras gives our customers the ability to access services from some of the leading brands in the market, such as Disney, Amazon and McAfee today to enjoy (for a free period) as part of their tariff.

Performance

a) Operational

At 31 December 2022, we had 44.7 million mobile subscribers comprising of retail contract and prepaid connections, internet of things connections, and wholesale connections. This was an increase of 2.4 million on the prior year with increases in mobile contract, IoT and Wholesale connections, partially offset by a decrease in prepaid connections.

Contract net additions of 141,500 were supported by stronger trading in the second half of the year, particularly the fourth quarter with the key periods of Black Friday and Christmas. O2's monthly contract churn rate remained low but increased to 0.9% (FY 2021: 0.8%) as we saw an increase in customers closing accounts but not porting to other networks, thought to be linked to customers closing non-essential accounts.

b) Revenue

Against a challenging macroeconomic backdrop, intensified by the war in Ukraine, we delivered a good performance driven by our choice to enhance our proposition offering as we invested and focussed on the customer. During the year we launched two standout customer centric propositions enabling differentiation in the market. In March we announced that we would be the only major mobile operator to not introduce E.U. roaming fees, and, in August, our launch of 'Switch Up' allows customers to switch to a brand-new phone at any point during their contract with no extra charges when taking a plus plan tariff or adding a bolt on. We had a stronger than expected trading period through the fourth quarter, particularly during Black Friday.

DIVISIONAL OVERVIEW CONTINUED

i) Handset Revenue

Handset revenue includes amounts received from residential and B2B customers for the sale of mobile handsets. Handset revenues declined by 0.9% to £1,614.6 million (FY 2021: £1,629.0 million).

There was a decline in handset transactions in 2022 driven by a decline in handset volume after the first quarter, linked to household optimisation due to increased inflationary pressures, which meant customers held onto their handsets for longer.

ii) Service Revenue

Service revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, interconnect revenue. Service revenues increased by 2.8% in the year to £4,299.1 million (FY 2021: £4,183.1 million).

Following the execution of price rise (see further in Strategic and Operational Development), effective in April, the second quarter saw an increase in service revenues. Outbound Roaming revenue started to increase as activity was slowly regaining within the leisure and tourism industry, however whilst usage levels were above pre-pandemic levels, this was driven by non-revenue generating countries.

The summer period saw the benefit of Roaming revenues increasing further due to the seasonal impact of customers going on holiday and spending more time outdoors, requiring additional data. Black Friday trading supported fourth quarter revenue growth, particularly strong positioning in Affiliates across both Handset and SIM only.

Strategic and Operational Development

We regularly review how we operate our retail estate to ensure we can continue to deliver the great service our customers expect in a competitive environment. In 2022 we carried out a review of our retail estate considering several factors and commercial drivers that have informed the decision to take our retail strategy in a new direction. In September we took a decision to end our Franchise relationships, bringing many stores into company ownership. We are investing in a refurbishment programme to enhance customer experience in these stores and offering new recruitment opportunities, for impacted employees. We remain committed to working with, and supporting, franchise owners and franchise employees through the closure programme as it gets underway. O2's total number of stores was 384 at the end of 2022.

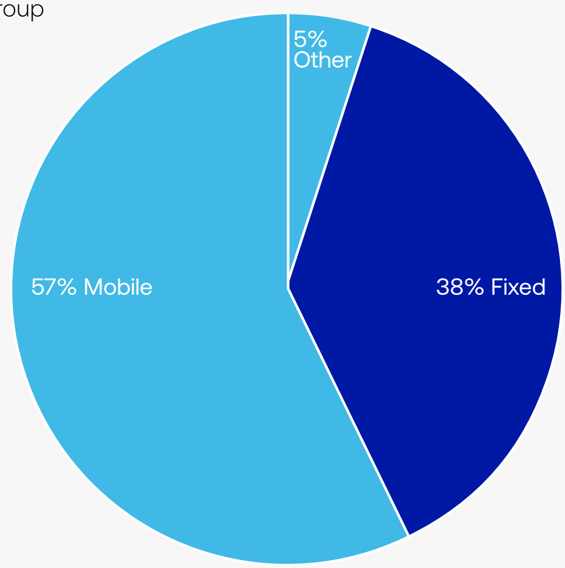
In April each year, as stated clearly within terms and conditions, customers' Airtime Plan will be increased by January's Retail Price Index (**RPI**) rate of inflation, announced in February, plus 3.9% if the contract started from 25th March 2021. For contracts that began prior to that date the increase will be RPI rate only. In 2022, the January RPI rate was 7.8%, meaning an increase in Airtime Plan of 11.7% for customers, compared to 17.3% in 2023. As Virgin Mobile and O2 applies price increases to only the airtime in the vast majority of contracts, the average effective increase to a customer's total bill in 2023 (including handset) was approximately 10.0%. These price increases come amid increased business costs including rising energy prices, plus the capacity and infrastructure investment required to support the growing demand on our network which has almost doubled in the last three years.

In January 2023, we announced that in February 2023, we would be sending communications to the first cohort of Virgin Mobile customers to inform them that their current service contracts would be transferred to the O2 network. Hardware contracts will remain with Virgin Media until the end of the contract term. As part of this migration, millions of customers will move to a new similar O2 plan with no increase in cost, but with many receiving added value such as increased data and benefits including access to Priority from O2 and continued inclusive E.U. roaming. Customers are given a right to cancel within 30 days of receiving the communication. This represents a key pillar in Virgin Media O2's integration, with the first stage of this plan completed at the end of 2022 when the entire Virgin Mobile base transferred over to using the O2 network – so all data, voice and text traffic is already using the company's connectivity. This stage marks the moment when customer plans start moving over to O2 for the first time.

DIVISIONAL OVERVIEW CONTINUED

FIXED

Fixed revenue as a percentage of total Group Transaction Adjusted Revenue[1]



	Year ended 31 December 2022 actual Total	Year ended 31 December 2021 pro forma Total	Increase (decrease) %
Fixed KPI's			
Reported Revenue (£ million)	**3,953.6**	**4,086.2**	**(3.2)%**
Transaction Adjusted Revenue[1] (£ million)	**3,970.7**	**4,110.3**	**(3.4)%**
Fixed-Line Customer Relationships	**5,795,500**	**5,768,300**	**0.5%**
Broadband Connections	5,653,800	5,596,800	1.0%
Fixed-Line Customer Relationship net additions	**27,200**	**141,600**	**(80.8)%**
Broadband Customer Relationship net additions	57,000	176,700	(67.7)%
Fixed Mobile Convergence	45%	45%	–%

Financials in £ million to one decimal place, volumes reported to the nearest hundred

We provide a choice of packages and tariffs within each of our fixed-line and fixed-mobile converged product categories. This includes Broadband Internet, Fixed-Line Telephony and Television alongside converged packages with Contract Mobile Telephony. Customers are charged a recurring rental fee for the package with additional out-of-bundle, transactional and one-off charges. Services are acquired by consumers through online, voice, retail and field sales channels.

Our converged offering enables customers to benefit from one supplier for all of their telecommunication and video entertainment needs. Fast and reliable broadband is of crucial importance to our customers, as they spend more time streaming video and other bandwidth-heavy services on multiple devices. Customers across our fixed footprint are able to access gigabit download speeds, with an average speed across our broadband base of 301Mbps, which is approximately 5 times higher than the national average. Our entertainment propositions, accessed through a set-top-box, offer customers a seamless and personal entertainment experience bringing together the top TV channels and streaming apps as well as the ability to watch content on the go with the Virgin Media TV Go app.

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

DIVISIONAL OVERVIEW CONTINUED

Volt is our fixed-mobile converged proposition with customers benefiting from the best of both brands with faster broadband speeds, double mobile data, WiFi pods to boost connectivity, discounts on connected devices and roaming with O2 Travel. Volt is available to both new and existing customers when they combine a Virgin Media broadband package with an eligible Contract mobile plan from O2.

Performance

a) Operational

At 31 December 2022, we had 5.8 million fixed-line customers, with fixed-line customer net additions of 27,200 over the year supported by continued demand for fast and high-quality connectivity.

Fixed-Mobile convergence (**FMC**) penetration stood at 45%, which represents the number of customers who subscribe to both a broadband internet service and contract mobile service, divided by the number of customers who subscribe to our broadband internet service. FMC was unchanged compared to prior year, the primary activity was customers migrating from earlier FMC bundles such as Oomph to our lead proposition Volt.

b) Revenue

Total Fixed revenues decreased by 3.2% to £3,593.6 million (FY 2021: £4,086.2 million) following a decline in both subscription and other revenue.

i) Consumer fixed – subscription

Consumer fixed subscription revenue includes revenue from subscribers who purchase bundled services at a discounted rate and is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our fixed-line and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period. Additionally, we include revenue from certain SoHo subscribers who 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 subscription revenues decreased by 1.2% to £3,329.7 million (FY 2021: £3,369.9 million) with growth in fixed-line customers offset by changes in customer mix and retention impact following increasingly challenging macroeconomic backdrop and some optimisation of consumer spending. This was partially offset by an average fixed price rise of approximately 6.5%, effective from 1 March 2022.

ii) Consumer fixed – other

Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment. Other revenue decreased by 11.8% to £69.0 million (FY 2021: £78.2 million) primarily driven by a reduction in cancellation fees after a removal of early disconnect fees for off-network movers.

iii) B2B fixed

B2B fixed rental comprises of revenues from business customers for fixed line services.

B2B fixed revenue decreased by 13.0% to £554.9 million (FY 2021: £638.1 million) primarily driven by a high level of installation revenue for high-capacity data services within Wholesale in the prior year, which in turn reduced the size of the annuity base.

For further detail on B2B fixed see the Divisional Overview – Business-to-Business, page 25.

Strategic and Operational Development

Since the merger in 2021 we have focused on continuing our commercial momentum, driving convergence, digitalising our business, and unlocking the benefits of our fixed network.

a) Commercial Momentum

In April 2022 we launched a new, flexible entertainment service TV Stream from Virgin Media that gives customers an affordable way to access their favourite entertainment with no long-term contract or ongoing charges for the basic package and benefiting from 10% credit on any subscriptions that they add via their Virgin Media bill.

Fast and reliable broadband is of crucial importance to our customers and in September 2022 we launched the U.K.'s fastest WiFi Guarantee promising minimum download speeds of 20Mbps in every room or £100 back, so customers can work, play and stream safe in the knowledge their connectivity needs are covered. In addition we gave millions of customers a broadband speed boost at no extra cost in November, increasing both download and upload speeds, offering customers more value from their broadband services.

2022 has seen an increasingly challenging macroeconomic context, through which we have continued to provide high quality services while supporting our customers. We were one of the first providers to launch a social tariff to support customers facing financial difficulty. In October 2022, we reduced the price of our social tariff and in November 2022, launched a faster 50Mbps service and we have since taken further steps to expand the eligibility criteria of these services to make signing up easier.

In the first quarter of 2022, we informed some customers of price increases which averaged approximately 6.5%, effective from 1 March 2022, giving customers the right to cancel for 30 days. Some cohorts are excluded from price rises, including vulnerable customers on Essential Broadband and Talk Protected tariffs. In the first quarter 2023 we have announced price rises which averaged approximately 13.8%, in addition to an updated set of terms and conditions where RPI +3.9% will now be effective for 2024.

b) Driving Convergence

We aim to increase penetration of FMC through acquisition of new customers, cross-sell of new products into respective fixed and mobile bases and enrolment of existing customers.

During the year we reached 1.3 million Volt customers, just a year after launch, with customers benefitting from faster broadband speeds, double mobile data, WiFi pods to boost connectivity, discounts on connected devices and roaming with O2 Travel. In October 2022 we launched a series of new Volt offers exclusively for small businesses, providing more speed, more data and more

DIVISIONAL OVERVIEW CONTINUED

value with any customer taking a Voom broadband service from Virgin Media Business and an eligible O2 Small Business mobile tariff able to choose from free O2 4G back-up for their Voom Fibre broadband or a boost to the next Voom speed tier – and as O2 customers, they also have the option to double their mobile data for free or receive a free 4G mobile hotspot at no extra cost.

Additionally, we continue to deliver integration benefits from combining our operations across marketing, service, supply chain and SoHo to benefit from scale, efficiencies and sharing best practice.

c) Digitalising our Business

Throughout the year the macroeconomic backdrop has been challenging and we have used this time proactively to understand our customers needs. As part of this we have broadened and increased the flexibility of our product offering. This has been done through our data and digitalisation, underpinning our development and customer-value approach.

We have continued to gain digital market share in acquisition through a focus on digital journey improvements and traffic efficiency. We also moved to a new technology platform for in-life cross sell and upsell, enabling improved customer journeys and wider targeting to drive conversion.

DIVISIONAL OVERVIEW CONTINUED

BUSINESS-TO-BUSINESS

In B2B we remain committed to showcasing the role that connectivity can play in helping U.K. businesses grow and thrive, both now and in the future. We provide products and services to Large Enterprise, Public Sector and Small and Medium Business customers as well as Wholesale and Mobile Virtual Network Operator (MVNO) partners. Through our converged offering we provide flexibility and choice with connectivity solutions across our award-winning Fixed and Mobile networks, as well as integrated Voice, Mobility, Security, and Cloud solutions. Additionally, we leverage our expertise and understanding of the customer through our data assets to create customer-first solutions through 5G Private Networks, and IoT connectivity, empowering customers to solve real-time business challenges and harness innovation. In 2022 Business Mobile revenue is reported in the Mobile division, B2B Fixed revenue within the Fixed division and other products including SMIP and Information and Communication Technology (ICT) revenues within Other.

Strategic and Operational Development

In 2022, we have progressed in delivering our integration creating value for customers as we leverage our Fixed and Mobile networks. At the beginning of the year we launched our joint business brand, Virgin Media O2 Business, to bring a single, cohesive voice to the market and introduced several propositions under the joint brand. In March we launched Success Agreements across Fixed and Mobile solutions, offering bespoke agreements built on tangible customer outcomes. In May, we launched our Get More fund, enabling customers to claim a fund to spend on technology when they combine their Fixed and Mobile connectivity through us.

Throughout the year we introduced new, innovative and upgraded solutions. We rolled out 1.0Gbps Business Broadband, offering small businesses the fastest broadband across our entire U.K. network, and upgraded our converged offering, Volt, adding 4G mobile broadband support ensuring customers are always connected. Adding to our wider multi-vendor Software-Defined Wide Area Network (SD-WAN) solutions, we launched Smart Internet Access to keep customers connected with faster, more secure and co-managed internet access. For our Wholesale customers, we launched a new core network for National High-Capacity Services, enabling simpler, faster delivery of high-bandwidth, ultra-low-latency connectivity.

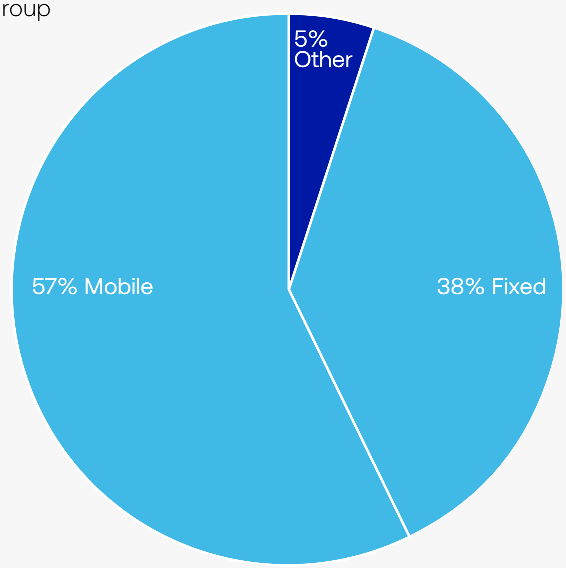
Throughout the year, our scale and broad product offering as a merged business has supported our ability to acquire new customers and enable increased cross-portfolio sales within our customer base. We have deployed innovative solutions such as body-worn video services for a major police force and saw particular success in bringing Mobile services to our Fixed customer base in the Public Sector. Additionally, we have been ahead of the market with our deployment of 5G Private Networks which continues to be a key growth area. In January, we launched the first multi-site private network for British Sugar, and in July we switched on the U.K.'s first 5G-connected hospital with South London and Maudsley NHS Foundation Trust.

We are proud to have been recognised by our industry and partners for keeping our customers at the heart of what we do as we have integrated as one business, winning two awards at the Customer Experience Awards, and being named Cisco's U.K. & Ireland Customer Experience Partner of the Year. We were also delighted to see our converged business brand awarded 'Best Use of Content Marketing' and 'Best Use of Customer Insight' at the B2B Marketing Awards, and to see continued industry confidence in our solutions, winning 'Best Mobile Network for Business' at the Mobile Industry Awards and being recognised as a Leader in three categories for our Managed WAN Services at the ISG Provider Lens™ Awards.

DIVISIONAL OVERVIEW CONTINUED

OTHER REVENUE

Other revenue as a percentage of total Group Transaction Adjusted Revenue[1]



Performance

a) Revenue

Other revenues include revenue from SMIP, the provision of ICT services, and associated connectivity to business customers and other services such as mobile insurance. From December 2022 this also includes revenues related to construction and corporate services provided to nexfibre (for more information on nexfibre see the network section in Divisional Overview on page 27).

Other revenues increased by 8.3% to £492.7 million (FY 2021: £454.9 million) driven by increases in insurance, ICT, SMIP and services provided to nexfibre.

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

DIVISIONAL OVERVIEW CONTINUED

NETWORKS

	Year ended 31 December		
	2022 actual Total	**2021 pro forma Total**	**Increase (decrease) %**
Networks KPI's			
Homes Passed	**16,144,600**	15,649,000	3.2%
Additional Homes Passed	**518,800**	339,100	53.0%
Own Network	**494,700**	339,100	45.9%
Transferred to nexfibre	**24,100**	0	
Total Mobile Connections	**44,650,000**	42,243,400	5.7%
5G Towns and Cities	**over 1,600**	over 300	

We have combined 'the U.K.'s favourite mobile network operator', O2, with 44.7 million mobile connections with a fixed line network, Virgin Media, that offers the U.K.'s fastest widely-available speeds to 16.1 million homes. This provides customers with a fixed gigabit-ready service across broadband, digital TV, B2B services and home phone as well as a mobile network providing 2G, 3G, 4G and 5G services to consumers, MVNO partners (including Tesco Mobile, Sky Mobile and giffgaff), businesses and public sector organisations. Our 5G network now covers over 1,600 towns and cities across the U.K. and we are set to deliver 5G services to 50% of the population with outdoor coverage in 2023.

Fixed Network

Our fixed network is entirely Gigabit-capable and we deliver broadband internet and video services to the end customer over a mix of technologies with this evolving over time. In the Hybrid-Fibre-Coax (**HFC**) zones, there are considerable spectrum and associated bandwidth capabilities using Data Over Cable Service Interface Specification (**DOCSIS**) 3.0 and DOCSIS 3.1. We currently offer download speed tiers of 1.1Gbps for consumers, and 1.0Gbps for Business customers and we have conducted trials to investigate higher downstream speeds of 2.2Gbps in several regions.

Our fixed network is underpinned not just by a deep-fibre footprint, but also a set of 500 technical site buildings that perform different roles in the network architecture, and can be variously termed Hubsites, Headends, Core Points of Presence (**POP**s), and data centres. This building footprint gives us an advantage for the future in the expectation that networks evolve towards low-latency regional interconnection and edge compute points, and to support emerging Virtualised Mobile RAN architectures that have tight latency constraints.

For fixed-line telephony services, historically we have used a twisted copper pair access network. However, more recently we have delivered IP voice services to the customer as a specialised service over DOCSIS technology. TV services are in the main provided using traditional Digital Video Broadcasting – Cable (**DVB-C**) technology, however in 2022 we launched a next generation IP-delivered TV service, TV Stream from Virgin Media, using a compact IP Set Top Box, wholly delivered from within our IP network. As a result of the extensive use of fibre in our access network, we are also able to provide high-speed data network services to business customers delivering nationwide connectivity when complementing with off network B2B access solutions.

As part of the expansion of our network through Project Lightning, we have built to millions of homes using FTTH technology called Radio Frequency over Glass (**RFOG**). Today this sub-footprint leverages DOCSIS 3.0 and DOCSIS 3.1 to deliver the same set of services as HFC zones using the same in-home equipment.

In 2022, we rolled out 518,800 homes as part of our growth wave to expand and upgrade our network. This includes 24,100 homes that were subsequently transferred to the new fibre joint venture, nexfibre, which was announced by Telefónica, Liberty Global and InfraVia in July 2022, with the transaction completing in December 2022. Virgin Media O2 is the anchor tenant of this joint venture and will provide build services to nexfibre. The deployment of full fibre to upgrade our existing network gained traction in 2022 as we remain on track to complete our entire network upgrade by 2028. The total fibre footprint will cover up to 23 million or around 80% of the U.K.

In 2022 we have trialled and commenced builds of both greenfield (via Project Lightning) and brownfield (via our announced Fibre Upgrade project) deployments using XGS-PON technology. This symmetric 10-Gigabit Passive Optical Network (**PON**) is our strategic architecture, and these initial footprints are expected to be placed live into service during 2023. The passive fibre aspects of these deployments will be reusable for further technologies beyond XGS-PON in the decades to come. The Fibre Upgrade project commenced in 2022 and aims to overlay all coaxial HFC and RFOG areas with a parallel XGS-PON FTTH capability by 2028.

In 2023 we plan to capitalise further on the upgrade to fibre of our existing fixed network and the rollout of additional coverage for nexfibre in addition to the further optimisation of our existing fixed network infrastructure to support our mobile network nationwide through our backhaul network (the transport link between the mobile sites and our core network).

DIVISIONAL OVERVIEW CONTINUED

Mobile Network

At the end of the year, our network consisted of approximately 20,000 macro mobile sites (including approximately 15,000 under the network sharing partnership with Vodafone). This includes 2G, 3G, 4G and 5G base stations (connecting handsets to our mobile network using available spectrum), backhaul, 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).

As at the end of December 2022, we had 99.6% population coverage (outdoor) and 99% population coverage (indoor) on our 4G network, as well as 82% 4G geographic (landmass) coverage.

Utilising our low band and high band spectrum purchased in the 2021 Ofcom 5G Spectrum Auction, our 5G rollout saw us reach 42.7% of the population with outdoor coverage in 2022. This puts us well placed to reach our target of 50% 5G population coverage in 2023.

We ended 2022 with 5G coverage in over 1,600 towns and cities (covering over 50% of the outdoor population in each).

a) Network development and spectrum management

In addition to our 5G rollout, we have also continued to focus on network reliability and providing a consistent 4G connectivity experience for our customers. To keep pace with our customers' demands, we have added additional 4G capacity to over 725,000 separate U.K. postcodes during 2022. We have done this through spectrum refarming (re-using our 2G and 3G spectrum on our 4G network) as well as adding new additional spectrum. (see Licences and Frequencies section).

We continued to deploy small cells to increase capacity, particularly in busy urban areas where there is not enough room for full scale mast sites. We now have over 1,400 Small Cells in London and have begun rolling them out to other major U.K. cities in 2022.

The industry is obliged (along with the other major MNOs in the U.K.) to deliver high-quality 4G geographic coverage to at least 90% of the U.K. landmass by January 2027, supporting the objectives of the Shared Rural Network (**SRN**). As part of the partial not-sports (**PNS**) element of the SRN, each operator has a target to provide 88% 4G landmass coverage across the U.K. by June 2024. During 2022, we made progress against this target, extending our landmass coverage to 81.9%.

In 2022, we provided temporary coverage and capacity to 70 special events including large music festivals, sporting festivals and events of national importance such as ensuring service for those paying their respects to Her late Majesty Queen Elizabeth II.

At the end of 2022 we secured additional shareholder investment to accelerate our network rollout to support a growing customer base on our network.

b) The future of connectivity

We have brought our customers new ways to connect through Low Power Wide-Area Network (**WAN**) solutions. Having been the first operator in the U.K. to rollout Long Term Evolution for Machines (**LTE-M**) in 2019, we now have 74% of our 4G sites enabled with the technology. In 2022, we added Narrowband Internet of Things (**NB-IoT**) to our portfolio. We aim to have deployed both these technologies completely across our Network by the end of 2024. We continue to collaborate with DCMS and other industry bodies and technical experts to carry out a number of 5G tests and trials. For example, our partnerships with the Smart Mobility Living Lab (**SMLL**) which investigates the future role of communication in intelligent transport systems.

Our trials are focussed on identifying innovative ways of using connectivity and use cases that will bring real societal and customer benefits. For example, in 2022, we were part of 5G Festival; the world's first live, hybrid musical and we worked with DCMS and others to test the power of 5G broadcast technology (**5G Vista**) to bring new and exciting ways to enable an audience to engage with a live sporting event.

We are working with our customers to develop Private Networks, including the first 5G-connected hospital in London, with South London and Maudsley NHS Foundation Trust. This ground-breaking 5G Private Network provided clinicians with the opportunity to trial 5G-connected devices, IoT technology, Augmented Reality headsets and Artificial Intelligence in support of their work.

c) New ways of operating

We are challenging historic business models by performing Open Radio Active Networks (**Open RAN**) trials which allow us to understand the benefits, opportunities and challenges around developing a more agile and diverse vendor supply chain in Radio Access Networks.

We led a Joint Operators Technical Specification (**JOT**s) forum around Neutral Hosting[1]. We envisage neutral hosts being the agents which can deliver infrastructure sharing on behalf of multiple operators. Specifically, a Neutral Host In-Building solution would be beneficial in places where provision of coverage and capacity has traditionally been difficult, e.g. along railway lines.

Additionally, we signed a deal with BAI Communications (**BAI**) to provide 4G across the London Underground which will be installed over the next two years.

d) Our converged network enabling more efficient tomorrow's services

We are evolving our fixed and mobile networks to create a smarter, faster and more efficient converged network that will ultimately change the way society functions. Our continuing investments now are ensuring our networks are fit for the future: Reliable, Efficient, Innovative, Sustainable and Scalable. We are challenging historic business models to imagine a more efficient future; bringing connectivity to customers in new and innovative ways.

1. Neutral Hosting - Where network infrastructure is owned and maintained by a third party that rents or leases its infrastructure to network operators

DIVISIONAL OVERVIEW CONTINUED

Our Core network transformation is key to our Mobile and Fixed networks coming together. It will move customers away from the older equipment onto a new converged Core - consolidating our networks to create efficiencies and reducing costs. We are not only significantly evolving existing parts of our Core network, we are also adding new applications and functions that did not exist before which will ultimately become the foundation of future services. While these important upgrades are being introduced, we are also remaining focused on the basics so that we continue to deliver great service and minimise any disruption for our customers.

As part of our convergence strategy for our fixed and mobile technology, in 2022 we re-focused our Operations Support Systems (OSS) transformation strategy on automation and continual improvements in both customer experience and efficiency for both our fixed and mobile networks. We started our evolution to an XGS-PON network engaging in trials through the year. The benefit of which will allow the network to be managed through automation built in by design from installation.

Through the year we have continued to benefit from the synergies of the merger, one of which is our ability to provide a faster and improved mobile data experience to customers by boosting backhaul pipes, by a multiple of 10 times, through use of our fixed networks. We are also trialling the installation of small cells on posts next to fixed network cabinets to improve mobile coverage.

e) Awards

In 2022 we continued to win awards for our Mobile Network customer experience as we won twice at the uSwitch awards for 'Best Network for Roaming' and 'Most Popular Network' as well as Best Network for business at the Mobile Industry Awards and 'Best Network for Reliability in London'.

f) Network Sharing Arrangement with Vodafone

We have a long-standing network sharing with Vodafone arrangement under which they share their collective mobile sites to form a single, national grid across the whole of the U.K. and 5G active equipment, such as radio antennae, on joint network sites in certain parts of the U.K.

The active RAN share component involves sharing of our 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: we are responsible for managing the active component of the shared network in the Eastern half of the U.K., Northern Ireland, most of Scotland and North London, and Vodafone is responsible for managing the active component of the shared network in the Western half of the U.K. (including Wales) and South London.

g) Licences and frequencies

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

Summary of Virgin Media O2's spectrum holding:

Frequency Band Megahertz (MHz)	Spectrum Amount Held (MHz)
700 Frequency Division Duplex	20
800 Frequency Division Duplex	20
900 Frequency Division Duplex	34.8
1800 Frequency Division Duplex	11.6
2100 Frequency Division Duplex	20
2300 Time Division Duplex	40
2600 Time Division Duplex	20
3600 Time Division Duplex	80

Financial Review

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

- **Results of Operations**. This section provides an analysis of our actual or pro forma results of operations, as applicable, for the years ended 31 December 2022 and 2021.
- **Liquidity and Capital Resources**. This section provides an analysis of our corporate and subsidiary liquidity and our consolidated statements of cash flows.
- **Quantitative and Qualitative Disclosures about Market Risk**. This section provides discussion and analysis of the foreign currency, interest rate and other market risks that our Company faces.

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

Unless otherwise indicated, convenience translations into pound sterling are calculated as of 31 December 2022.

Results of Operations

The discussion presented in this section provides an analysis of our revenue and operating costs (excluding depreciation and amortisation, and share-based compensation expense) for the years ended 31 December 2022, and 2021 on a pro forma basis which represents the impact if the JV Transaction had occurred on 1 January 2020. As further described in note 1 to our consolidated financial statements, the VMED O2 Joint Venture was formed on 1 June 2021. Our results are set forth below:

Revenue reconciliation

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

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

	Year ended 31 December								
	2022 actual in millions			2021 pro forma (unaudited) in millions			Increase / (decrease) in millions		
	Transaction Adjusted Revenue(g)	Adjustment	Revenue	Transaction Adjusted Revenue(g)	Adjustment	Revenue	Transaction Adjusted Revenue(g)	Adjustment	Revenue
Mobile(a)	**£ 5,913.7**	**£ –**	**£ 5,913.7**	£ 5,812.1	£ –	£ 5,812.1	£ 101.6	£ –	£ 101.6
Handset(a)	**1,614.6**	**–**	**1,614.6**	1,629.0	–	1,629.0	(14.4)	–	(14.4)
Fixed	**3,970.7**	**17.1**	**3,953.6**	4,110.3	24.1	4,086.2	(139.6)	(7.0)	(132.6)
Consumer fixed(b)	**3,403.0**	**4.3**	**3,398.7**	3,455.5	7.4	3,448.1	(52.5)	(3.1)	(49.4)
Subscription(c)	**3,334.0**	**4.3**	**3,329.7**	3,377.3	7.4	3,369.9	(43.3)	(3.1)	(40.2)
Other(d)	**69.0**	**–**	**69.0**	78.2	–	78.2	(9.2)	–	(9.2)
B2B fixed(e)	**567.7**	**12.8**	**554.9**	654.8	16.7	638.1	(87.1)	(3.9)	(83.2)
Other(f)	**497.5**	**4.8**	**492.7**	460.9	6.0	454.9	36.6	(1.2)	37.8
Total	**£ 10,381.9**	**£ 21.9**	**£ 10,360.0**	£ 10,383.3	£ 30.1	£ 10,353.2	£ (1.4)	£ (8.2)	£ 6.8

Table shows the transaction adjusted revenue, less the transaction adjustment giving actual revenue. Current year figures are actual data. Prior year data are Pro forma figures. For further explanation on the revenue streams, please see note 5 to our consolidated financial statements.

(a) Mobile revenue includes amounts received from residential and B2B customers for ongoing services and, amongst other items, revenue from sales of mobile handsets and interconnect revenue. Mobile revenue increased £101.6 million or 1.7% during the year ended 31 December 2022, as compared to the corresponding pro forma period in 2021. This increase is primarily due to price increases in April 2022, partially offset by a reduction in lower margin handset sales.
(b) Consumer fixed revenue includes subscription and other revenue for ongoing services and the recognition of deferred installation revenue over the associated contract period. Consumer fixed revenue decreased £49.4 million or 1.4% during the year ended 31 December 2022, as compared to the corresponding pro forma period in 2021, primarily due to the decrease in subscription revenue of £40.2 million. The impact on subscription revenues of higher customer volumes and the March 2022 price rise was more than offset by the reduction in ARPU reflecting changes in the customer mix.
(c) Consumer fixed subscription revenue includes revenue from subscribers who purchase bundled services at a discounted rate and is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our fixed-line and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period. Additionally, we include revenue from certain SoHo subscribers who 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.
(d) Consumer fixed other revenue includes, amongst other items, channel carriage fees, late fees and revenue from the sale of equipment.
(e) B2B fixed revenue includes (i) revenue from business broadband internet, video and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network. B2B fixed revenue decreased £83.2 million or 13.0% during the year ended 31 December 2022, as compared to the corresponding pro forma period in 2021. This decrease is primarily driven by (a) lower data revenue, including decreases in installation revenue from high-capacity data services, (b) lower revenue associated with long-term leases of our network and (c) lower revenue from voice services and equipment sales.

FINANCIAL REVIEW CONTINUED

(f) Other revenue includes revenue from SMIP, the provision of ICT services, associated connectivity to O2 business customers, and other services, including corporate services provided to nexfibre. Other revenue increased £37.8 million or 8.3% during the year ended 31 December 2022, when compared to the corresponding pro forma period in 2021. The increase was mainly driven by growth in mobile insurance revenues driven by the rate of claims.

(g) The APMs, including 'Transaction Adjusted Revenue', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in Note 32 of the Notes to the Consolidated Financial Statement.

Profit reconciliation

Most of our revenue is subject to VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our Adjusted EBITDA and Adjusted EBITDA margin (Adjusted EBITDA divided by revenue) to the extent of any such tax increases. As we use the term, 'Adjusted EBITDA' is defined as profit (loss) from continuing operations before net income tax (expense) benefit, other non-operating income or expenses, share of results of investments accounted for by the equity method, net finance income (costs), depreciation and amortisation, share-based compensation, impairment, restructuring and other operating items and CTC operating expenses. Share-based compensation for the purposes of calculating Adjusted EBITDA also includes awards granted to VMED O2 employees that are settled with Liberty Global or Telefónica shares. CTC generally include incremental, third-party operating costs that are directly associated with integration activities, restructuring activities and certain other costs associated with aligning our business processes to derive synergies.

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

	Year ended 31 December		Increase (decrease)	
	2022	2021		
	actual in millions	pro forma in millions	in millions	%
Revenue	**£ 10,360.0**	£ 10,353.2	£ 6.8	0.1
Cost of sales	**3,425.8**	3,608.6	(182.8)	(5.1)
Personnel expenses	**690.4**	759.1	(68.7)	(9.1)
Other expenses	**2,386.8**	2,306.5	80.3	3.5
Costs to Capture included in the above	**(74.6)**	(59.2)	15.4	26.0
Adjusted EBITDA[1]	**3,931.6**	3,738.2	193.4	5.2
Transaction Adjustments	**(26.2)**	(65.2)	(39.0)	(59.8)
Transaction Adjusted EBITDA[1]	**3,905.4**	3,673.0	232.4	6.3
Transaction Adjusted EBITDA[1]	**3,905.4**	3,673.0	232.4	6.3
Transaction Adjustments	**26.2**	65.2	39.0	59.8
Adjusted EBITDA[1]	**3,931.6**	3,738.2	193.4	5.2
Costs to Capture	**74.6**	59.2	15.4	26.0
Depreciation and amortisation	**3,553.9**	3,507.5	46.4	1.3
Share-based compensation expense	**43.6**	41.3	2.3	5.6
Restructuring and other operating	**62.6**	46.8	15.8	33.8
Operating income	**196.9**	83.4	113.5	136.1
Finance income	**4,589.9**	700.3	3,889.6	555.4
Finance costs	**(4,023.1)**	(1,005.4)	3,017.7	300.1
Share of results of equity method investments	**0.7**	0.2	0.5	250.0
Other (expense) income, net	**(3.6)**	1.9	(5.5)	(289.5)
Income tax (expense) benefit	**(7.2)**	231.9	(239.1)	(103.1)
Net profit	**£ 753.6**	£ 12.3	£ 741.3	6,026.8

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

FINANCIAL REVIEW CONTINUED

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

Our cost of sales decreased £182.8 million or 5.1% during the year ended 31 December 2022, as compared to the corresponding pro forma period in 2021, primarily due to:

- A decrease in mobile, data, and voice interconnect and access costs of £136.3 million or 20.9%, primarily due to lower MVNO costs;
- A decrease in programming costs of £37.6 million or 4.0%, primarily due to changes in customer product mix; and
- A decrease in mobile handset and other device costs of £13.9 million or 0.8%, primarily due to lower sales volumes.

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

Our personnel expenses decreased £68.7 million or 9.1% during the year ended 31 December 2022, as compared to the corresponding pro forma period in 2021, primarily due to (i) a decrease related to certain charges for legacy incentive compensation programs included in the 2021, (ii) a decrease in salary and payroll costs driven by lower headcount and (iii) lower costs due to higher capitalisable activities, relating to employees working on network expansion.

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

Our other expenses (exclusive of share-based compensation expense and depreciation and amortisation) increased £80.3 million or 3.5% during the year ended 31 December 2022, as compared to the corresponding pro forma period in 2021, primarily due to the net effect of:

- An increase in business service costs of £112.9 million or 22.1%, primarily driven by increased energy costs and higher variable service charges;
- An increase in network and information technology-related costs of £88.2 million or 22.5%, primarily driven by an increase in spend on outsourced managed and support services, and increased spend on licenses and software costs;
- An increase in bad debt expense of £23.3 million or 76.6%, primarily due to an increase in the bad debt provision write-offs relating to airtime in the current year;
- An increase in customer services costs of £18.9 million or 5.9%, primarily caused by an increase in outsourcing costs most notably within sales and retentions;
- A decrease in third-party selling costs of £94.0 million or 21.0%, primarily due to changes in our mobile sales distribution mix, as a result of the expiration of previous third-party selling arrangements;
- A decrease in marketing costs of £51.2 million or 13.5%, primarily due to an increase in the level of vendor funding which is netted against our external marketing costs; and
- A decrease in provision expenses due to a one-off release of £30 million following the resolution of a legal matter in the third quarter of 2022.

Adjusted EBITDA[1]
Adjusted EBITDA is defined as profit (loss) before income taxes, other income (expense), net, depreciation and amortisation, share-based compensation, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items.

Adjusted EBITDA increased 5.2% to £3,931.6 million (FY 2021: £3,738.2 million) during the year ended 31 December 2022, with key drivers of growth being the realisation of synergies, cost efficiencies and a one-off release of £30 million in the third quarter, following the resolution of a legal matter for which there was no impact on cash. This was partially offset by increased energy costs.

Operating income
Operating income increased by £113.5 million or 136.1% to £196.9 million (FY 2021: £83.4 million) during the year ended 31 December 2022. The increase in Adjusted EBITDA was partially offset by an increase in depreciation and amortisation due to increased additions.

Finance income and costs
Finance income increased by £3,889.6 million or 555.4% to £4,589.9 million (FY 2021: £700.3 million) during the year ended 31 December 2022. Finance costs increased by £3,017.7 million or 300.1% to £4,023.1 million (FY 2021: £1,005.4 million) during the year ended 31 December 2022. The increase in finance income and cost to the corresponding pro forma period in 2021, was primarily due to the macro-economic environment, with significant movements in both interest and foreign exchange rates seen during the current year.

Net profit
Net profit increased by £741.3 million or 6,026.8% to £753.6 million (FY 2021: £12.3 million) during the year ended 31 December 2022. This was driven by the stated increase in operating income as well as an increase in the net of finance income and finance costs.

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

FINANCIAL REVIEW CONTINUED

Liquidity and Capital Resources

a) Sources and Uses of Cash

i) Cash and cash equivalents

At 31 December 2022, we had cash and cash equivalents of £46.0 million, all of which was held by our subsidiaries. The terms of the instruments governing the indebtedness of certain of these subsidiaries may restrict our ability to access the liquidity of these subsidiaries. In addition, our ability to access the liquidity of our subsidiaries may be limited by tax, legal considerations and other factors.

ii) Liquidity of VMED O2

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

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

iii) Liquidity of our subsidiaries

In addition to cash and cash equivalents, the primary sources of liquidity of our operating subsidiaries are cash provided by operations and any borrowing availability under the VMED O2 Credit Facilities. For details of the borrowing availability of the VMED O2 Credit Facilities, see note 14 to our consolidated financial statements.

The liquidity of our operating subsidiaries generally is used to fund (i) property, plant and equipment additions, (ii) debt service requirements and (iii) other liquidity requirements that may arise from time to time, as well as to settle certain obligations that are not included in our 31 December 2022 consolidated statement of financial position. In this regard, we have significant commitments related to (a) purchases of customer premises and other equipment and services, (b) network and connectivity commitments and (c) programming contract and other items. These obligations are expected to represent a significant liquidity requirement of our Company, the majority of which is due over the next 12 to 24 months. For additional information regarding our commitments, see note 28 to our consolidated financial statements.

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

b) Capitalisation

At 31 December 2022, the outstanding principal amount of our consolidated debt, together with of our lease obligations, aggregated £20.5 billion, including £3.0 billion that is classified as current in our consolidated statement of financial position, £3.0 billion due before 2028 and £14.5 billion that is not due until 2028 or thereafter. For additional information regarding our debt and lease maturities, see notes 14 and 15, respectively, to our consolidated financial statements.

As further discussed under Quantitative and Qualitative Disclosures about Market Risk below and in notes 17 and 18 to our consolidated financial statements, we use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in our credit agreements and indentures is dependent primarily on our ability to maintain or increase our Adjusted EBITDA[1] and to achieve adequate returns on our property, plant and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by incurrence-based leverage covenants contained in our various debt instruments. In this regard, if our Adjusted EBITDA1 were to decline, our ability to obtain additional debt could be limited. We do not anticipate any non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at 31 December 2022, we believe that we have sufficient resources to repay or refinance the current portion of our debt and lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our maturing debt grows in later years, we anticipate we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete these refinancing transactions or otherwise extend our debt maturities.

All of our consolidated debt and lease obligations at 31 December 2022 have been borrowed or incurred by our subsidiaries or our joint operation, Cornerstone Telecommunications Infrastructure Limited (**CTIL**). For additional information concerning our debt and lease obligations, see notes 14 and 15, respectively, to our consolidated financial statements.

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

FINANCIAL REVIEW CONTINUED

Consolidated Statement of Cash Flows

Summary

Our consolidated statement of cash flows for year ended 31 December 2022 is set forth below (in millions):

£m	Year ended 31 December 2022 in millions
Net cash provided by operating activities	£ 3,363.6
Net cash used by investing activities	(3,561.1)
Net cash provided by financing activities	192.5
Effect of exchange rate changes on cash and cash equivalents	3.1
Net decrease in cash and cash equivalents and restricted cash[1]	**£ (1.9)**

Operating Activities

The net cash provided by our operating activities for the year ended 31 December 2022 is primarily attributable to our Adjusted EBITDA[2] and related working capital items. See the Consolidated Statement of Cash Flows on page 101 for further information.

Investing Activities.

The net cash used by our investing activities for the year ended 31 December 2022 is primarily attributable to capital expenditures and net advances to related parties. See the Consolidated Statement of Cash Flows on page 101 for further information.

Financing Activities

The net cash used by our financing activities during the year ended 31 December 2022 is primarily attributable to the net effect of (i) cash used of £125.5 million related to net repayments of third-party debt and lease obligations, (ii) cash received of £381.2 million related to derivative instruments and (iii) cash used of £49.3 million related to repayments of related-party debt. See the Consolidated Statement of Cash Flows on page 101 for further information.

The capital expenditures we report in our consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or lease arrangements. Instead, these amounts are reflected as non-cash additions to our property, plant and equipment when the underlying assets are delivered and as repayments of debt when the principal is repaid. In this discussion, we refer to (i) our capital expenditures as reported in our consolidated statements of cash flows, which exclude amounts financed under capital-related vendor financing or lease arrangements, and (ii) our total property, plant and equipment and intangible asset additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or lease arrangements. For further details regarding our property, plant and equipment and intangible asset additions, see note 10 to our consolidated financial statements. A reconciliation of our consolidated property, plant and equipment and intangible asset additions to our consolidated capital expenditures, as reported in our consolidated statement of cash flows for year ended 31 December 2022 is set forth below (in millions):

£m	Year ended 31 December 2022 in millions
Property, plant and equipment and intangible asset additions	£ 2,408.0
Assets acquired under capital-related vendor financing arrangements	(759.9)
Assets acquired under leases	(100.6)
Changes in current liabilities related to capital expenditures, net	(25.3)
Capital expenditures, net[1]	**£ 1,522.2**

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

1. Pro forma data is not produced for this data, therefore no prior year comparator has been used in this table.
2. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

FINANCIAL REVIEW CONTINUED

Consolidated Financial Information – Senior Secured Notes

We present the following consolidated financial information as of and for the year ended 31 December 2022 as required by the applicable underlying indentures. For consolidated financial information as of 31 December 2021, see our 2021 annual report for VMED O2 UK Holdings Limited.

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

- £675.0 million principal amount of 2027 VMED O2 Sterling Senior Secured Notes;
- $1,425.0 million (£1,177.8 million) principal amount of 2029 VMED O2 Dollar Senior Secured Notes;
- £340.0 million principal amount of 2029 VMED O2 Sterling Senior Secured Notes;
- $915.0 million (£756.3 million) principal amount of 2030 VMED O2 Dollar Senior Secured Notes;
- £480.0 million principal amount of 2030 VMED O2 4.125% Sterling Senior Secured Notes; and
- £635.0 million principal amount of 2030 VMED O2 4.25% Sterling Senior Secured Notes.

Our senior secured notes issued by Virgin Media Secured Finance outstanding as of 31 December 2022, rank pari passu with and, subject to certain exceptions, share in the same guarantees and security which have been granted in favour of our VMED O2 Credit Facilities. Our senior secured notes are guaranteed on a senior basis by:

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

Statement of financial position

	31 December 2022					
	VMED O2 UK Holdings Limited in millions	Virgin Media Secured Finance in millions	Guarantors in millions	Non-Guarantors in millions	Eliminations in millions	Total in millions
Non-current assets	£ 8.5	£ 3,919.3	£ 39,844.3	£ 1,455.5	£ (1,368.6)	£ 43,859.0
Current assets	–	190.8	3,474.5	86.8	(820.9)	2,931.2
Total assets	**£ 8.5**	**£ 4,110.1**	**£ 43,318.8**	**£ 1,542.3**	**£ (2,189.5)**	**£ 46,790.2**
Owner's equity	£ 8.5	£ (125.6)	£ 25,842.2	£ (4,331.5)	£ –	£ 21,393.6
Liabilities:						
Non-current liabilities	–	4,178.2	10,540.2	4,966.5	(1,368.6)	18,316.3
Current liabilities	–	57.5	6,936.4	907.3	–	7,080.3
Total liabilities	**–**	**4,235.7**	**17,476.6**	**5,873.8**	**(2,189.5)**	**25,396.6**
Total owner's equity and liabilities	**£ 8.5**	**£ 4,110.1**	**£ 43,318.8**	**£ 1,542.3**	**£ (2,189.5)**	**£ 46,790.2**

Statement of profit or loss

	31 December 2022					
£m	VMED O2 UK Holdings Limited in millions	Virgin Media Secured Finance in millions	Guarantors in millions	Non-Guarantors in millions	Eliminations in millions	Total in millions
Revenue	£ –	£ –	£ 9,932.2	£ 726.9	£ (299.1)	£ 10,360.0
Net profit (loss)	£ 0.3	£ (31.7)	£ 1,048.2	£ (263.2)	£ –	£ 753.6
Comprehensive income (loss)	**£ 0.3**	**£ (31.7)**	**£ 908.5**	**£ (263.2)**	**£ –**	**£ 613.9**

FINANCIAL REVIEW CONTINUED

Quantitative and Qualitative Disclosures about Market Risk

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

Cash

We invest our cash in highly liquid instruments that meet high credit quality standards. At 31 December 2022, £37.0 million or 80.4%, £7.9 million or 17.2% and £1.1 million or 2.4% of our consolidated cash balances were denominated in pounds sterling, U.S. dollars and euros, respectively.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risk with respect to our consolidated debt in situations where our debt is denominated in U.S. dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2022 substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 18 to our consolidated financial statements.

Currently, the U.K. is facing various macro-economic pressures, including financial and political challenges, that have impacted the broader U.K. economy, valuation of the local currency, interest rates and inflationary pressures. In addition to the exposure that results from the mismatch of our borrowings and our functional currency, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our functional currency (non-functional currency risk), such as equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) and certain services provided by our Shareholders. Changes in exchange rates with respect to amounts recorded in our consolidated statements of financial position related to these items will result in unrealised (based upon period-end exchange rates) or realised foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our functional currency, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. Generally, we will consider hedging non-functional currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts and the payments or receipts are not otherwise hedged. In this regard, we have entered into foreign currency forward and option contracts to hedge certain of these risks. For additional information concerning our foreign currency forward and option contracts, see note 18 to our consolidated financial statements.

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

Spot rates	31 December 2022	31 December 2021
Euro	**1.1296**	1.1887
U.S. dollar	**1.2099**	1.3535

Average rates	Year ended 31 December 2022	Period from 1 June 2021 to 31 December 2021
Euro	**1.1733**	1.1727
U.S. dollar	**1.2190**	1.3689

Inflation Risk

We are subject to inflationary pressures with respect to labour, programming and other costs. While we attempt to increase our revenue through price increases to customers to offset increases in costs, there is no assurance that we will be able to do so. Therefore, costs could rise faster than associated revenue, thereby resulting in a negative impact on our operating results, cash flows and liquidity.

The economic environment in the U.K. is a function of government, economic, fiscal and monetary policies and various other factors beyond our control that could lead to inflation. We are unable to predict the extent that price levels might be impacted in future periods by the current state of the economy in the U.K.

FINANCIAL REVIEW CONTINUED

Interest Rate Risk

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

In general, we enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt. Accordingly, we have entered into various derivative transactions to manage exposure to increases in interest rates. We use interest rate derivative contracts to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount. We also use interest rate cap agreements and swaptions to lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Under our current guidelines, we use various interest rate derivative instruments to mitigate interest rate risk, generally for the full term of the underlying variable-rate debt. In this regard, we use judgement 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 18 to our consolidated financial statements.

For additional information concerning the phasing out of LIBOR, see The phasing out of LIBOR will result in a new reference rate being applied to our LIBOR indexed, which may not be the same as the new reference rate applied to our LIBOR-indexed derivative instruments, and will have to be adjusted for, within the Risk Factors section below.

Weighted Average Variable Interest Rate.

At 31 December 2022, the outstanding principal amount of our variable-rate indebtedness aggregated £7.3 billion and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 6.3%, 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 £36.5 million. As discussed above and in note 18 to our consolidated financial statements, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

Counterparty Credit Risk

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

At 31 December 2022, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £1,456.6 million, (ii) aggregate undrawn debt facilities of £2,118.0 million and (iii) cash and cash equivalents and restricted cash of £87.4 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 the event of 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.

FINANCIAL REVIEW CONTINUED

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 compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty.

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

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

Sensitivity Information
Information concerning the sensitivity of the fair value of certain of our more significant derivative instruments to changes in market conditions is set forth below. The potential changes in fair value set forth below do not include any amounts associated with the remeasurement of the derivative asset or liability into the applicable functional currency. For additional information, see notes 18 and 19 to our consolidated financial statements.

Cross-currency and Interest Rate Derivative Contracts
Holding all other factors constant at 31 December 2022:

(i) an instantaneous increase/(decrease) of 10% in the value of the pound sterling relative to the U.S. dollar would have decreased/(increased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £919.0 million;

(ii) an instantaneous increase/(decrease) of 10% in the value of the pound sterling relative to the euro would have decreased/(increased) the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £298.0 million; and

(iii) an instantaneous increase/(decrease) in the relevant base rate of 50 basis points (0.50%) would have (decreased)/increased the aggregate fair value of our cross-currency and interest rate derivative contracts by approximately £163.0 million.

Projected Cash Flows Associated with Derivative Instruments
The following table provides information regarding the projected cash flows associated with our derivative instruments. The pound sterling equivalents presented below are based on interest rate projections and exchange rates as of 31 December 2022. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts required in future periods. For additional information regarding our derivative instruments, see notes 17 and 18 to our consolidated financial statements.

	Year ended 31 December						
£m	**2023 in millions**	**2024 in millions**	**2025 in millions**	**2026 in millions**	**2027 in millions**	**Thereafter in millions**	**Total in millions**
Projected derivative cash payments (receipts), net:							
Interest-related(a)	£ 92.0	£ 227.6	£ 125.7	£ 173.0	£ 187.2	£ 82.1	£ 887.6
Principal-related(b)	0.2	–	30.2	–	71.4	341.7	443.5
Other(c)	1.9	–	–	–	–	–	1.9
Total	£ 94.1	£ 227.6	£ 155.9	£ 173.0	£ 258.6	£ 423.8	£ 1,333.0

(a) Includes (i) the cash flows of our interest rate cap, floor, swaption and swap contracts and (ii) the interest-related cash flows of our cross-currency and interest rate swap contracts.
(b) Includes the principal-related cash flows of our cross-currency swap contracts.
(c) Includes amounts related to our foreign currency forward contracts.

Sustainability

Following the creation of Virgin Media O2 in June 2021, we reached a significant milestone in May 2022 as we launched our first combined sustainability strategy, the Better Connections Plan.

Informed by a materiality assessment, it focuses our activity on the environmental, social and governance (**ESG**) issues that matter most to our business, ensuring we are both meeting our responsibilities and acting in the areas where we believe we can make the greatest difference. Taking into account the material issues of our shareholders and our previous businesses – Virgin Media and O2 – we also conducted a review of relevant Telecoms sector issues and mapped our issues against the UN Sustainable Development Goals (**SDG**s).

Governance structure

In 2022, we refreshed the membership of the governance body that oversees our sustainability activity – including the development and delivery of our strategy, setting and monitoring of targets, and sustainability reporting and communications. The Sustainability and Responsible Business (**SRB**) Committee is chaired by the Chief Communications and Corporate Affairs Officer and examines ESG risks, which are managed through our company's over-arching risk management framework.

The SRB Committee is supported by three Steering Committees, reflecting the Better Connections Plan's key strategic priorities: Environment; Social Impact; and Diversity, Equity and Inclusion. Each Steering Committee is sponsored by a member of the Executive Management Team:

Environment Steering Committee	**Jeanie York** – Chief Technology Officer
Social Impact Steering Committee	**Rob Evans** – Managing Director, Fixed Network Expansion
Diversity, Equity and Inclusion Steering Committee	**Jo Bertram** – Managing Director, Business and Wholesale

In 2023, we plan to streamline our approach by empowering these Steering Committees to oversee our sustainability activities and to disband the SRB Committee. The outputs from the committees will be communicated to the Virgin Media O2 Audit Committee and Virgin Media O2 Executive Management Team.

Integrating ESG with Risk Management

The importance of environmental, social and governance issues means that they are a function of our principal risks and uncertainties. The current environmental risk is taken into account in 'ESG' with health and safety included within our 'people' principal risk and our supply chain risk included within 'supply chain'. Our interaction with society in general is not assessed to be a principal risk.

An additional part of our disclosure is our Taskforce on Climate-Related Financial Disclosures (**TCFD**) statement on page 51, which provides further information on how we identify and manage our main physical and transition climate risks.

Our policies and procedures

All of our activities are united by principles of responsible business. Since bringing together our operations, we have harmonised our policies across the business to ensure that our employees, partners and suppliers uphold the highest levels of integrity and ethical conduct.

Code of Conduct

As a responsible business we are committed to conducting our operations with integrity and fairness. Our Code of Conduct sets out our commitment to doing the right thing and maintaining the highest ethical and legal standards.

Our Anti-Bribery and Corruption (**ABC**) Policy establishes our approach in complying with the requirements of the U.K. Bribery Act, and the US Foreign Corrupt Practices Act. The Policy also provides guidance on what constitutes a bribe and prohibits the giving or receiving of any excessive or improper gifts and hospitality. Our Executive Management Team has a zero-tolerance approach to bribery or corruption.

SUSTAINABILITY CONTINUED

Anti-Bribery and Corruption framework

At Virgin Media O2 we operate a risk-based ABC Framework which is aligned to the Ministry of Justice's Six Principles for the prevention of bribery by commercial organisations. The key areas are:

Ministry of Justice Principle	Key update
Top Level Commitment	Our Executive Management have a 'zero tolerance' to bribery and corruption. In support of this commitment a. Our Executive Management and Senior Leadership Team members complete an Annual Directors Governance Statement to confirm their understanding and compliance with the requirements of the Code of Conduct and ABC Policy Our Audit Committee assists the Executive Management Team in fulfilling their duties in regards to ABC risk management and policy compliance.
Risk Assessment	We assess the nature and extent of our exposure to potential internal and external risks of bribery. A key priority during 2022 has been the completion of an extensive independent ABC risk assessment in support of our regulatory obligations and our commitment to integrity and fairness. The Executive Management Team were actively engaged and provided assurance of the key internal and external bribery risks in relation to the customers, markets and activities of our newly integrated business.
Proportionate Procedures	We deploy a range of bribery prevention procedures in mitigation of the risks identified within the risk assessment. These include a. The launch of a new third party operated digital 'Speak-up' platform allowing individuals to raise concerns or breaches of the Code of Conduct in a confidential manner via an online portal or by telephone b. A Gifts and Hospitality pre-approval, guidance and reporting tool including restrictions in relation to public sector officials or activity during commercial negotiations c. Charitable Donations and Conflicts of Interest declaration and approval processes
Due Diligence	We undertake risk-based procedures to identify and mitigate the risks of organisations who perform services on our behalf. Our third-party controls include Anti-Bribery and Corruption terms and conditions within our commercial agreements and due diligence screening for new and existing suppliers.
Communications and Training	We seek to ensure that our Code of Conduct and Anti-Bribery Policy and procedures are embedded and understood throughout the whole team. Our communications and training approach include a. Our Compliance Training completion (which includes a mandatory Code of Conduct module) for all employees was 98.3% as at 31st December b. Internal Code of Conduct employee communications program including videos, intranet posts, group wide colleague emails and Anti-Bribery and Corruption briefings and webinars for higher risk teams
Compliance Monitoring	We regularly monitor and review our ABC procedures to ensure they remain effective in mitigating the identified and any emerging bribery or corruption risks. During 2022 we have implemented an enhanced Compliance function structure which included establishing a new specialist Ethics and Training Team responsible for the day-to-day management of our ABC monitoring program. Our Compliance program provides assurance over the key requirements of our ABC control framework including supplier due diligence, conflicts of management and charitable donations review and approval and gifts and hospitality screening.

SUSTAINABILITY CONTINUED

Health and Safety

Keeping everyone safe and well is a vitally important part of the way we work. We are committed to provide and maintain, so far as is reasonably practicable, a safe and healthy working environment, compliant with legislation, and safe systems of work to ensure the health, safety and well-being of all our employees, contract partners, visitors, customers and members of the public. It includes those who work on or visit our premises or who may be affected by our products, activities or services.

As part of our team, continual improvement of health and safety performance and promotion of health and safety measures is seen as a mutual objective for management and employees, with every person within Virgin Media O2 empowered to work safely and stop unsafe acts or conditions where they see them.

Our three safety behaviours; (i) Take Care, (ii) Think it, say it and (iii) Do the right thing enable every person in our organisation to work towards our vision to ensure Everyone Home Safe and Well.

Better Connections Plan underpinning our Group Strategy

Our 2025 strategy is centred around three elements – Zero carbon future, A circular economy, Connected communities – underpinned by a better way to do business. It centres our ambitions on cutting carbon faster; tackling the growing problem of e-waste; reducing data poverty and digital exclusion; and making sure we grow the business in an ethical, inclusive way.

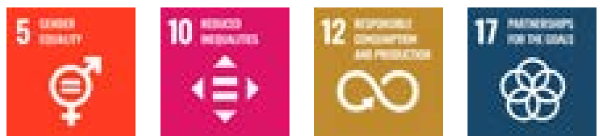
To ensure we better understand the needs of the next generation when it comes to social and environmental issues, we established a Youth Advisory Council in 2022 (**the Council**), composed of Generation Z (16-24 year olds) activists.

We also support the United Nation's Sustainable Development Goals (**SDG**s) and want to play our part in tackling the global challenges of climate change, waste and inequality. Our strategy contributes to a number of goals that tackle issues including climate action, responsible consumption and production, reducing inequalities, and gender equality.

The following table describes the main elements of our 2025 strategy, why they matter to our key stakeholders, how we are going to deliver them and the representative UN SDGs that they align with.

What	Zero carbon future	A circular economy	Connected communities
Why	We are in the midst of a climate and ecological emergency. We believe that technology can play a crucial role in facilitating the shift to a zero carbon future.	We will embed principles of circularity into everything we do and champion the reduction of e-waste – the fastest-growing waste stream in the world.	We have a responsibility to help tackle the inequalities brought about by the deepening digital divide, and are determined to ensure that our services are accessible to all.
How	We are committed to achieving net zero carbon emissions across our entire value chain by the end of 2040. We are empowering customers to prevent 20 million tonnes of CO_2 from entering the Earth's atmosphere and we will support large-scale decarbonisation by the end of 2025.	We are committed to achieving zero waste operations and products by the end of 2025. We will help consumers to carry out 10 million circular actions to tackle e-waste by the end of 2025.	We are committing to help eradicate data poverty by connecting 1 million digitally excluded people across the U.K. by the end of 2025. We are working to equip 2 million people with skills and tools to help them feel more connected to our digital society by the end of 2025.
Related SDGs			

SUSTAINABILITY CONTINUED

	Underpinned by a Better business
Why	We want to make sure that our business operates in a fair, ethical way and that we become a leading, inclusive employer and a great place to work.
How	We are working to achieve gender parity and improve representation from underrepresented ethnic backgrounds to 15% across our wider leadership team, and to 25% across our entire business by 2027. We are supporting 1 million people through our 'Take 5' day employee volunteering programme by 2025. We are making sure all our major purchases commit contractually to defined sustainability requirements and aligned carbon-reduction goals.
Related SDGs	

Development against our strategy in 2022

A zero carbon future

During the year, we consolidated Virgin Media and O2's carbon footprints and published our new net zero target – aligned with the Science-Based Target initiative's (**SBTi**) Net-Zero Standard. We were also one of ten companies to become a Pathfinder for The Carbon Trust's new 'Route to Net Zero' standard and have achieved the 'Advancing' certification level.

Our net zero pathway places a clear emphasis on implementing energy efficiency solutions and continuing to invest in renewable energy – we source 100% of renewable energy at sites where we control the bill.

As a result of our carbon footprint consolidation process and ongoing efforts to ensure accuracy with our emissions reporting, in 2022 we changed the way we estimate non-renewable electricity consumption for masts operating on third party sites and convert the consumption to emissions.

This change ensures we fully align with the Greenhouse Gas Protocol Corporate Reporting guidelines and affects our historical emissions reporting, with the revised methodology showing an 18% reduction in emissions in 2021 since 2020, instead of the previously-reported 29%.

Despite the measurement changes, we were able to deliver an 18% reduction in 2021 and 29% reduction in 2022 against our baseline year 2020, ensuring we remain on our science-based target pathway. Key highlights include:

1. Introducing the first 76 electric vehicles (**EV**s) to our van fleet on our roadmap to transition 100% of the fleet to EVs by 2030. Global supply chain issues remain a challenge for our electric vehicle rollout, delaying the full delivery of vehicles ordered.
2. Whilst we saw fugitive emissions (i.e. leaks and other irregular releases) increase by 19% year on year, predominantly due to fire suppression systems discharges where inert gas is not used, they remain 30% below the 2020 baseline. In response, we are increasing our investment in replacing the gases with inert alternatives to drive emissions down in line with our net zero ambitions.
3. Continuing to decarbonise masts operating on third party sites where we do not control the bill. To drive faster decarbonisation for this part of the network, we have for the first time begun to purchase unbundled Renewable Energy Guarantees of Origin certificates (**REGO**s) to cover a proportion of non-renewable electricity consumed. The certificates provide evidence that electricity has been generated from renewable sources. For 2022 we have purchased 53,000 MWh of unbundled REGOs, covering 35% of non-renewable consumption.

Alongside our efforts to reduce our own carbon footprint, we believe our technology and services can provide solutions that will help other industries decarbonise faster, delivering environmental benefits at scale and helping the U.K. to transition to net zero faster.

SUSTAINABILITY CONTINUED

We also use our communication platforms and purchasing power to raise awareness of the climate crisis and encourage others to reduce their carbon footprint:

a. In 2022, we ran a campaign – Just One Thing – encouraging customers to take action on environmental issues, however big or small.
b. We have continued to engage Generation Z, organising an industry workshop with peers from Conscious Advertising Network, Responsible Media Forum, ITV, BBC, Live Nation and WWF to discuss climate issues.
c. In partnership with the British Chambers of Commerce, we are helping small and medium-sized enterprises (**SME**s) to reduce their own emissions through a Net Zero Hub.
d. In accordance with our Supply Chain Sustainability policies, our major suppliers are required to have carbon-reduction plans and science-based targets in place.

In 2022, we kept our employees informed about the environmental and social issues our world is facing, and how our Better Connections Plan is helping to work towards solutions. We ran climate immersion sessions with our Executive Management Team, SRB committee and wider Corporate Affairs team, and we marked the UN Global Climate Conference COP27 with a series of virtual events for all of our employees.

A circular economy

Initiatives like Eco Rating (an environmental ratings system for devices), Like New (refurbished phones), O2 Recycle and Virgin Media's 'take-back scheme' all help customers reduce their carbon impact and give devices a longer life – supporting our ambition to champion the reduction of e-waste and promote a circular economy. Over ten million routers and set-top boxes have been refurbished and reused since 2014, and 3.5 million devices have been returned through O2 Recycle since 2009. During 2022, our customers took 2.4 million circular actions in total, including the aforementioned O2 Recycle. We have also made progress towards our zero waste targets in 2022, by recycling 4,252 metric tonnes of waste from a total of 5,053 metric tonnes produced.

In October, in partnership with environmental charity Hubbub, we launched Time after Time – a new e-waste eco fund that will award grants of between £10,000 and £75,000 for creative U.K. projects that reduce e-waste, encourage recycling of electronic goods, or support devices being used over and over again.

We have taken action to minimise the plastics and packaging required to make and sell our products and services. Our own-brand mobile accessories contain no single use plastic packaging, and our O2 SIM cards are made from recycled plastic.

We are also embracing sustainable design principles, ensuring that every new customer product takes environmental impact into account at the product development stage, like our new product scorecard that requires all new Virgin Media routers to be more efficient than the previous version.

We take our environmental impacts seriously. To ensure we have best practice governance, management systems, controls, targets and resources in place, we manage our primary environmental impacts through our ISO14001 certified Environmental Management System.

Connecting communities

To make progress on our Better Connections Plan's targets by making a difference in the communities where we operate, our work in 2022 focused on reducing data poverty, improving digital literacy, and supporting unpaid carers through our partnership with Carers UK.

a) Connecting the disconnected

The National Databank – an initiative we set up with digital inclusion charity Good Things Foundation – is the cornerstone of our drive to bring data poverty and digital exclusion to an end. In 2022, we:

i. increased our National Databank donation to 61 million GB of free data up until the end of 2025;
ii. successfully invited the involvement of Vodafone and Three in the National Databank scheme;
iii. launched a Christmas campaign to raise awareness of data poverty, which gave away 1 million GB of extra data through O2 Christmas SIM Cards.

During the year, we achieved the milestone of re-homing over 10,000 smartphones and £1 million of free O2 mobile data through our Community Calling scheme, run in partnership with Hubbub. The project distributes smartphones donated by members of the public, businesses and Virgin Media O2 to those in need, giving a second life to old devices and preventing them from ending up in landfill as e-waste. We have now re-homed over 13,000 devices through Community Calling following its launch in May 2020. We also announced plans to donate 2,500 smartphones to support asylum seekers and survivors of domestic abuse through charities Migrant Help and Women's Aid and increased our Migrant Help commitment by a further 5,000 devices to support migrants impacted by the war in Ukraine and other humanitarian crises.

Additionally, we launched the Tech Lending Community fund – a £400,000 fund that has been shared by five charities who have received more than 1,000 tablets and data to distribute to beneficiaries living in temporary accommodation including women seeking refuge from domestic violence, refugees, asylum seekers and people at risk of homelessness.

We have continued to expand the Shared Rural Network in 2022, which is intended to improve rural mobile coverage, and we plan to connect 10 community hubs a year with free broadband to keep communities connected across the U.K.

Overall, we connected over 18,500 people in 2022 with free and more affordable connectivity and free devices through our programmes including the National Databank, Community Calling, Essential Broadband, and Tech Lending Community.

SUSTAINABILITY CONTINUED

b) Building digital skills and confidence

In 2022, research with the Centre for Economics and Business Research (**CEBR**) highlighted the societal and economic costs of a digital skills gap, at risk due to pandemic-accelerated digital transformation. With strong and established relationships in the Public Sector, across both Central and Local Government, we have an opportunity to drive meaningful change. After a successful pilot with Greater Manchester Combined Authority (**GMCA**), we announced in October that we will be rolling out nationwide trials of our Connect More programme to help address digital exclusion. Working in partnership with local authorities to identify citizens facing digital exclusion, and delivered by our employees, the programme offers training to help build the digital skills, confidence, and motivation to get online. Through Connect More, employees in the B2B division totalling more than 2,000 employees can use their five paid volunteering days to volunteer their time.

To help one million disadvantaged people across the U.K. (including those on low incomes, global majority communities, low-skilled workers, and older people) get online and gain vital digital skills, we have pledged £2 million to Good Things Foundation as part of a new three-year partnership.

One of the initiatives the funds will support is Learn My Way, a free online learning course for people that need support with digital skills and literacy. Created by Good Things Foundation and used by community groups and charities around the U.K., we are helping to update it and make it available to more people – with a new version planned to launch in 2023.

During ‘Get Online Week’ in October 2022, a number of our employees volunteered to deliver hundreds of free digital skills training sessions to local authorities and the public sector through the Connect More programme in a bid to tackle digital exclusion.

Our services also seek to protect children, young people and vulnerable customers. We continued to build the digital confidence of parents and guardians during 2022 to help keep their children safe online through a partnership with Internet Matters, which supported 1.4 million parents and guardians seeking advice during the year. We implement age verification processes that restrict access, where possible, to 18-rated content.

Through these initiatives, we supported over 1.5 million people in 2022 with access to digital skills training and greater online confidence.

c) Making life better for the nation’s carers

In 2022, our work with Carers UK focused on using our digital resources and expertise to help improve the lives of unpaid carers, like the Jointly app (an app created by carers for carers). We also supported the digital transformation of Carers UK and championed the charity’s annual campaign to raise awareness of the challenges unpaid carers face and make their valuable contribution more visible. As part of our journey towards being a best practice employer of unpaid carers, we launched our new carers leave policy for our people, giving them 5 days of leave a year to help with their caring responsibilities.

We supported a new charity initiative, Concerts for Carers, which provides NHS staff and paid Care workers access to free tickets to live events all across the U.K. as a means of promoting their mental health and wellbeing. We provided 36,000 tickets to Concerts for Carers in 2022.

SUSTAINABILITY CONTINUED

A better way to do business

Our employees

During the year, our people strategy focused on business integration to foster a more diverse, equitable and inclusive organisation that is committed to the wellbeing, development and retention of our people, in addition to succession planning for the future. We are committed to improving our gender and ethnicity balance and ensuring that disabled employees can thrive at work. To support this, we have created our 'All in' strategy, which is sponsored at an Executive level and is a key focus of the Better Connections Plan.

Diversity, Equity and Inclusion

In March 2022, we launched our Diversity, Equity and Inclusion (DE&I) strategy with the following ambitions for 2027:

a. Move the dial on diversity by having gender parity in our leadership population while driving towards gender parity across the organisation, in addition to increasing the representation of Global Majority[1] employees to a minimum of 15% leadership and 25% across the business.
b. Make equity part of everything we do.
c. Put inclusion at the heart of how we do business.

We aim to track our performance as an integrated business against the following indicators:

As at 31 December 2022	All Staff	Leadership
Female employees	30.6%	32.8%
Global Majority employees	16.8%	12.5%

a) Moving the dial on diversity

We understand that diversity of thought, background and experience is essential to drive business performance, and have made progress during the year to increase the awareness of the DE&I agenda across the organisation. Our aim is to create a fairer future for our people, and we want our workforce to go 'All in'. We commit to do more, not less, and to address systemic inequity and systemic barriers together for our people and the communities we serve. During the year, we launched our harmonised family friendly policy, which caters for a variety of situations such as generous maternity, paternity, and adoption policies, in addition to carer and neonatal leave to support our people when it matters.

b) Making equity part of what we do

We have made steady progress in embedding equity in our practices and procedures. In addition to the family friendly policy, we have implemented a trans-inclusive healthcare policy to provide access to financial support for our people who need to transition. Also, we committed to extending the private healthcare benefit to all employees in 2023. We intend to continue to make our healthcare policy even more inclusive by broadening our support for diverse communities, as well as focusing on an inclusive hiring transformation across the organisation.

c) Putting inclusion at the heart of how we do business

We aim to build a fully inclusive culture, celebrating everybody's individuality and differences. We want our organisation to be a place where people feel they can do the best work of their careers, feel psychologically safe and empowered to make decisions for the benefit of our business and customers.

To help us achieve our aim we have 6 employee networks: Enrich, Proudly, The Women's Network, The Neurodiversity Network, We Care and Ultraviolet. Our networks provide an open forum where employees have an opportunity to build community and belonging in our organisation. The networks also provide guidance to management on how we can be a leading, inclusive employer and service provider. In 2022, our networks held a range of campaigns and events including celebrations for International Women's Day, Carers Week, Neurodiversity Awareness Week, LGBTQ+ Pride, Disabled Pride, South Asian Heritage month and Black History Month.

We have a statutory obligation to publish annual gender pay gap reports for O2 and Virgin Media that detail our progress in this area. In line with our commitment to equity and increasing transparency we have also voluntarily disclosed our ethnicity pay gap for O2 and Virgin Media for 2022, as well as publishing an overall gender and ethnicity pay gap for Virgin Media O2.

Gender Pay Gap

Gender Pay Gap between the average pay of men and women As at 5th April 2022	O2	Virgin Media	Virgin Media O2
Mean hourly pay gap	10.5%	-2.4%	**2.0%**
Median hourly pay gap	20.7%	-0.8%	**4.2%**

Ethnicity Pay Gap[2]

Ethnicity Pay Gap between the average pay of white colleagues and Global Majority colleagues As at 5th April 2022	O2	Virgin Media	Virgin Media O2
Mean hourly pay gap	13.6%	8.2%	**10.3%**
Median hourly pay gap	14.4%	18.8%	**15.4%**

There is further progress required to close both our ethnicity and gender pay gaps. The biggest factor in both our gender and ethnicity pay gaps is representation at senior levels. We have made a commitment to increase leadership representation of both women and global majority employees by 2027 as part of our 5-year DE&I strategy.

1. Global Majority is a collective term that first and foremost speaks to and encourages those so-called to think of themselves as belonging to the global majority. It refers to people who are Black, Asian, Brown, dual-heritage, indigenous to the global south, and or have been racialised as 'ethnic minorities'. Globally, these groups currently represent approximately 85% of the world's population making them the global majority now, and with current growth rates, notwithstanding COVID-19 and its emerging variants, the global majority is set to remain so for the foreseeable future.
2. Ethnicity pay gap reporting is based on ethnicity as disclosed by our employees. As of 5 April O2 ethnicity disclosure was 78%, Virgin Media ethnicity disclosure was 54% and Virgin Media O2's ethnicity disclosure was 63%.

SUSTAINABILITY CONTINUED

Fair treatment in the workplace
We guarantee that all employees may exercise their employment rights and do not tolerate any situations of forced labour, threats, coercion, abuse, discrimination, violence, or intimidation in our working environment. We guarantee the right of our employees to belong to the trade union of their choice and we do not tolerate any kind of retaliation or hostile action towards employees who take part in trade union activities. We also have employment related grievance policies and processes, to resolve issues and concerns relating to an individual's employment.

We are committed to employment policies that are based on equal opportunities for all and the creation of a diverse and inclusive environment. We support the health and wellbeing of our employees and are committed to providing a range of occupational health and employee support services.

Our policies and line manager guidance ensures fair treatment of people with disabilities in relation to their recruitment, training, and development, for example:

a. Reasonable adjustments and practical considerations relating to disabilities.
b. Increasing the accessibility of our services making them more inclusive for disabled people.
c. Importance of diversity and ensuring that discrimination does not occur.
d. Importance of focusing on what people can do rather than what they cannot and challenging stereotypes about people with disabilities.
e. E-learning which is available to all our employees to highlight the legal and behavioural aspects of Diversity, Equity and Inclusion.

Talent and retention
Our continued focus remains on talent, retention, capabilities, and the skills of our people, including our future talent pool. We engaged a number of individuals across the organisation to define our approach to both talent management and leadership development. We are now in the process of rolling out these approaches across the organisation. Our Learning and Development team, and our partnership with LinkedIn Learning, continues to provide 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. During the year, we implemented a long- term incentive plan for the wider leadership team.

We have a 'future careers' programme including apprenticeship, internship, and graduate programmes, that enable us to build a future pipeline of talent for both leadership and technical specialist positions. Attracting diverse talent is important to us as we are aware of the industry challenge in this area. To address the challenge, we actively participated specialist and diversity events as well as utilising media channels that are dedicated to engaging with this audience especially for our recruitment processes. We listened to prospective candidates' feedback and as a result have taken the decision to revise the entry requirement making it more skills-based testing without impacting the quality of hire.

In recognition of the impact of the wider economic crisis as young people consider other alternatives to university education, alongside the more than 40 apprenticeship schemes we already offer, the business introduced five new schemes in digital marketing, cyber security, quantity surveying, network cabling and DevOps, helping apprentices learn in-demand skills and get into roles which would in some instances require a degree.

Employee wellbeing
Our people are not immune to the wider economic crisis and the increasing cost of living. In addition to our family friendly policy, which focuses on taking time away for moments that matter, our people also have access to the 'Unmind' app, focused on mental health, and a range of resources to support wellbeing overall. As a business we recognise that financial hardship is likely to be worse for our people on lower income and so we decided to offer a one-off cost-of-living allowance of £1,400 to all employees earning a basic salary of £35,000 with instalments paid between November 2022 and July 2023. Further details on our employee engagement are discussed in the Corporate Governance Statement on page 91.

Engaging employees in sustainability
To ensure that our employees understand and integrate our Better Connections Plan into their every day activities, we are ensuring training is provided and that ESG responsibilities are linked to our reward and recognition programme.

Employees are also encouraged to get involved in our strategy by taking advantage of our new volunteering programme, Take Five, which lets employees take five days of paid leave a year to volunteer in communities nationwide. During the year, over 1,200 of Virgin Media O2 employees gave their time to volunteer with local good causes, in turn helping over 120,000 people.

Our customers
We commit to treating our customers fairly, providing clear and transparent information about the products and services we offer, including associated fees and charges. We make it easy for our customers to communicate with us through multiple channels. If our customers tell us they are dissatisfied, we act swiftly and diligently to resolve any issues.

Customers put their trust in us to protect that data. We therefore use all information in a responsible way and protect personal data on our systems, ensuring it is kept private and safe, and is treated in a way that is compliant with laws and regulations.

We remain focused on enhancing customer experience. The primary way this is measured is Net Promoter Score (NPS), which captures the proportion of customers who are promoters less those who are detractors.

In January 2022, we announced we would not be re-introducing E.U. roaming charges which shows a clear differentiating factor against all other major U.K. mobile network operators. This was against a backdrop where customers were restarting travel following the effect of the COVID-19 pandemic. In February 2022, we announced its decision to change the early disconnection charge policy for customers moving home. Price increases in the first quarter negatively impacted NPS, with the full recovery for Cable Relationship NPS gained by the fourth quarter 2022 (+8pt improvement fourth quarter 2022 versus first quarter 2022).

SUSTAINABILITY CONTINUED

Cable Relationship NPS achieved the largest month on month improvement in 12 years (+6pts) in November 2022, driven by Speed boosts for 3.7 million customers, personalised customer communications and improved sentiment towards customer service. Install engineer NPS achieved +60 NPS for the first time in November 2022 as the field team continue to push the boundaries of customer experience; Contact Help journey NPS improved +24pts from first quarter 2022 to fourth quarter 2022 via continued multi-skilling, improved resource planning reducing wait times for customers and introduction of new VOC programme allowing front line advisors to receive instant feedback specific to interactions they have with customers. Record monthly Cable NPS was also achieved in Buy Purchase, Movers, Help and Fix Visit touchpoints driven by top-down focus and significant process improvements.

In October 2022, we created a new Customer Office function with the intention of providing increased dedicated focus on this area.

a) Accessibility and vulnerable customers

We believe that everyone should have access to the products and services they need to thrive in a digital world and that technology should be accessible to all. We want to help people in their homes, workplaces and communities have access to and enjoy the social, environmental and economic opportunities of connectivity.

b) Cost-of-living

With the significant effect of inflationary pressures on the cost of living in 2022, Ofcom found in its annual affordability study that 8 million U.K. households are having difficulty affording communications services. In response, we have taken a number of steps to help ensure our customers can access the services they need, by:

a. improving the availability, awareness and affordability of our existing social broadband tariff – Essential Broadband – which is aimed at people receiving Universal Credit;
b. adding fuel poverty, debt advice and financial support organisations to existing zero-rated websites so customers can access trusted advice without using their mobile data allowance.

c) Crisis response

We have worked hard to ensure that those impacted by war and natural disaster overseas had free connectivity in order to access essential services and stay in touch with loved ones – with a particular focus on Ukraine and Pakistan.

We introduced free calls and texts to and from Ukraine from February 2022 and removed charges for data use in Ukraine – an offer we extended to December 2022. Through the National Databank, we have also been able to provide free mobile data to Ukrainian refugees arriving in the U.K., alongside those from other conflict zones. We also zero-rated a Ukrainian language education website for school-age refugees based in the U.K. and provided a refugee recruitment support package.

Following the devastating floods in Pakistan, we credited back all customer charges for mobile calls, texts and data used in Pakistan, and international calls and texts to mobiles and landlines from the U.K. to Pakistan, between 29 August and 17 September 2022. We also donated a total of £850,000 to Ukraine and Pakistan humanitarian appeals via the Disasters Emergency Committee (DEC) and other charities. We also joined forces with U.K. charity Jangala which will make available ‘Big Boxes’, briefcase-sized devices that transform internet connectivity into Wi-Fi, to vulnerable people.

Our suppliers

Ethical sourcing

We aim to establish open, trusted and transparent relationships with our business partners and suppliers. And we expect our suppliers to maintain the highest ethical and environmental standards, in accordance with our Code of Conduct. We establish clear sustainability expectations of our suppliers, integrating ESG goals into our procurement processes – focusing on ongoing training and engagement. When we make a major purchase, suppliers are contractually committed to set significant carbon reduction goals, uphold our supply chain sustainability standards, and increase their contribution to society.

We take a zero-tolerance approach to modern slavery and human trafficking in our operations. During the year, we have undertaken modern slavery risk management reviews with high-risk suppliers. Our annual Modern Slavery Statement details our due diligence activities on this issue and can be found here: https://news.virginmediao2.co.uk/wp-content/uploads/2022/06/Virgin-Media-O2-2021-MSA-Statement.pdf

We respect and actively promote nationally and internationally recognised human and employment rights, including those contained in the United Nations Universal Declaration of Human Rights, and the principles related to the rights recognised by the International Labour Organization and its Eight Fundamental Conventions.

The SRB Committee and Virgin Media O2 Executive Management Team maintain oversight of supply chain sustainability management, and we also engage with sector initiatives such as the Joint Audit Cooperation to develop common sector sustainability standards.

SUSTAINABILITY CONTINUED

Sustainability performance data table[1]

Environment

Emissions
Scope 1 and 2 emissions (Market-based): 71,393 Metric Tonnes of CO_2e
Scope 1 and 2 emissions (Location based): 243,043 Metric Tonnes of CO_2e

Energy
Total energy consumption: 1,171,285 Megawatt Hours (**MWh**)
Total consumption of Renewable energy: 977,697 Megawatt Hours (**MWh**)

Waste
Total waste produced in the company: 5,053 Metric Tonnes (**T**)
Total Recycled waste: 4,252 Metric Tonnes (**T**)

Circular actions
Number of circular actions undertaken by customers: 2,405,203

Social

Digital inclusion
Number of digitally excluded people connected: 18,572

Digital skills
Number of people benefiting from programmes in digital skills: 1,536,457

Governance

Employees
Total number of employees: 17,054

Employee turnover
Total Employees leaving the business: 4,580
Voluntary leaves: 2,627
Involuntary leaves: 1,953

Gender balance
Men 11,813, Women 5,217, Other 24

Senior leadership by gender: 33.7% Women directors

Health and Safety Absentee Rate[2]: (total number of working days lost due to absenteeism of any cause against the total available annual work days) – 0.034
Injury Rate[2]: (total number of occupational accidents with sick leave against the total hours worked annually, multiplied by 200,000) – 0.36
Occupational Disease Rate[2]: (total number of occupational illnesses against the total hours worked annually, multiplied by 200,000) – 14.3

1. For the period 1 January 2022 to 31 December 2022.
2. Definitions aligned to International Labour Office reporting.

SUSTAINABILITY CONTINUED

Streamlined Energy and Carbon Report

We are pleased to report on our energy and carbon report for the financial year ended 31 December 2022.

The scope of the report includes our company owned stores, all corporate sites, switch and data centres, and cell sites (mast and antennae sites), it does not include 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 Department of Business, Energy and Industrial Strategy (**BEIS**) 2022 Conversion Factors.

2021 carbon figures have been restated in line with Virgin Media O2's environmental reporting policy and have not been reassured. A more accurate electricity consumption estimation approach for masts operating on third party sites has been implemented and backdated. In addition, the residual electricity grid mix emissions factor is now being used for non-renewable electricity consumption used in the masts operating on third party sites.

Virgin Media O2 Emissions

	2022 (tCO_2e)	2021 (tCO_2e)
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	**5,426**	5,331
Fugitive gases	**13,184**	11,110
Vehicle fuel	**14,020**	13,744
Total	**32,630**	30,185
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 (including renewables) – Location based	**210,413**	215,376
Electricity (excluding renewables) – Market based	**38,763**	52,994
Scope 1 and 2 – Total (Location based)	**243,043**	245,561
Scope 1 and 2 – Total (Market based)	**71,393**	83,179
Intensity Ratio (Scope 1 and 2 Market-based emissions per petabyte of data)	**1.78 kg CO_2e/PB**	2.31 kg CO_2e/PB
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.).[1]		
Air Travel	**1,346**	134
Land Travel	**4,212**	1,681

Methodology for scope data	**ISO14001:2015 and GHG Protocol**	**ISO14001:2015 and GHG Protocol**
Total Energy Consumption (MWh)	**1,171,285**	1,137,058
Carbon offsets (tCO_2e)	**0.0**	0.0

1. 2021 business travel emissions are based on the tank-to-wheel approach, 2022 business travel emissions are based on the well-to-wheel approach.

SUSTAINABILITY CONTINUED

Virgin Media O2 is committed to supporting the U.K.'s roadmap to net zero and enabling a zero-carbon future. Here is an overview of our progress made during 2022 against our objectives:

Net Zero: We remain on a science-based target pathway and on course for our 2025 target to reduce operational (Scopes 1 and 2) emissions by 60%, with a 18% reduction in 2021 and a 29% reduction in 2022 against our 2020 baseline. This was underpinned by the following performance:

a. **Renewable energy**: We continued to source 100% renewable electricity wherever we control the bill and focused on non-renewable electricity consumption from masts operating on third party sites. In addition, we were able to ensure 901 masts operating on third party sites are on renewable electricity supplies and for the first time we have purchased renewable energy certificates (REGOs) to match to 35% of the non-renewable electricity consumption, helping to reduce Scope 2 emissions by 38% since 2020.
b. **Fugitive gases**: Emissions from fugitive gases increased by 19% in 2022 compared to 2021 though remain 30% below our 2020 baseline. The year-on-year increase in 2022 is primarily due to fire suppression systems discharges where inert gas is not used. In response we are increasing our investment in replacing the gases with inert alternatives to drive emissions down in line with our net zero ambitions.
c. **Fleet fuel**: In 2022 we welcomed the first 76 electric vehicles into our van fleet as we work towards a full electric vehicle transition by the end of 2030. Due to the global supply chain issues facing the electric vehicle and wider automotive markets, we have faced significant challenges in receiving ordered vehicles so have not seen a reduction in fuel consumption in line with original expectations. With an increase in the overall size of the fleet to support our customers, we have seen a 2% increase in fuel emissions year on year. We expect to see this decline in line with our emissions reduction targets as we increase our electric vehicle transition.
d. **Static fuel**: Emissions from static fuel sources increased by 2% year on year but remains 10% down against our 2020 baseline. While emissions from gas heating decreased, there was a 20% increase in emissions from diesel linked to generators used to ensure our mobile network continues to function.
e. **Energy efficiency and reduction**: Alongside our market-based net zero goal, energy efficiency and reduction remain a key priority for Virgin Media O2. During 2022 we have focused on the following initiatives:
   i. Procuring more efficient equipment across all areas of the business and putting energy consumption as a key decision factor in all business cases.
   ii. Beginning a three-year programme of decommissioning of legacy fixed line voice equipment.
   iii. Auditing technical sites to identify and remove other legacy kit and consolidate products to more modern and efficient platforms.
   iv. Extending our usage of RAN Power Management technologies to more masts and more hours of the day.
   v. Continuing to rollout free air cooling and more robust battery backup solutions across the Radio Network.
   vi. Proactively shutting down under-utilised 3G carriers as we move towards sunsetting of 3G technologies.
   vii. Deploying new site monitoring capabilities to optimise technical site cooling and enable raising of set points in our data centres.

Task Force on Climate-Related Financial Disclosures (TCFD)

As shown in our risk factors, climate change is the single greatest sustainability challenge both the industry and the world faces today.

The role that we play in industry has an impact on the environment we live and operate in – it is important we recognise our part in reversing this impact and delivering a low-carbon economy.

This is our second voluntary disclosure, in readiness for mandatory reporting starting in our 2023 Annual Report, and this report explains how we identify, manage and mitigate climate-related risks and opportunities, in line with the Taskforce for Climate-Related Financial Disclosure's recommendations. We have structured the information in accordance with the eleven TCFD recommendations (2021 version), setting out our responses to the four thematic areas: Governance, Strategy, Risk Management, and Metrics and Targets. Where we are not yet in a position to fully align with TCFD recommendations, we have stated our ambitions for improvement.

For more information on our climate change principal risks please see the principal risks and uncertainties section of this report.

TCFD alignment roadmap

During the year, we undertook a range of activities to improve our alignment with TCFD recommendations, strengthen internal processes and reinforce our ability to manage climate risks and opportunities. In each section, we share the progress we have made as well as areas for improvements, so that we can ensure our organisation is adaptable, resilient and able to thrive in a low-carbon future.

Climate strategy and targets

In 2022, we launched our new sustainability strategy, the Better Connections Plan, and announced a new, consolidated net zero goal for 2040 across our value chain. We also set a second carbon goal to help our customers avoid 20 million tonnes of CO_2 by 2025, aiming to deliver environmental benefits for society that outweigh our own impacts. Our greatest potential for influencing others lies in our promotion of a shift towards low carbon ways of living; supporting other businesses to reach their net zero ambitions; and helping to accelerate the U.K.'s shift towards a zero-carbon future.

Biodiversity

While this TCFD statement focuses on climate risk and opportunity, it is clear our changing climate is interconnected with the Earth's natural ecosystems: extreme weather events and rising temperatures impact biological wealth in innumerable ways. We take a range of actions to mitigate any risks to nature that our operations may pose, including taking precautionary measures to respect biodiversity during construction and complying with planning legislation and industry best practice for network development. Over the coming years, we will continue to develop our management and reporting of nature-related risks and opportunities.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Governance

Board oversight of climate-related risks and opportunities

Our JV Board has overall responsibility for identifying opportunities to create value for the Group and its stakeholders and maintaining sufficient oversight to effectively manage and mitigate the principal risks to the business. The day-to-day management and decision-making of the Group is delegated to the Executive Management Team, overseen by the JV Board and its associated committees.

The Audit Committee – a Board delegated authority – oversees business risks, in addition to financial and non-financial reporting, internal control and compliance processes. We apply a risk-based governance approach, with increased oversight for the more significant risks of the business. During 2022, we implemented a new climate risk principal risk category into our corporate risk register, so climate risk will now be routinely monitored by the Audit Committee and Executive Management Team, alongside the Group's other priority risks.

The Sustainability and Responsible Business (**SRB**) Committee is responsible for overseeing all ESG activity and material risks – including climate-related risks – acting on behalf of the Executive Management Team (**EMT**). It maintains delegated authority for all decisions regarding the delivery and communication of the sustainability strategy and our climate goals, providing biannual updates to the Board and annual updates to the Audit Committee.

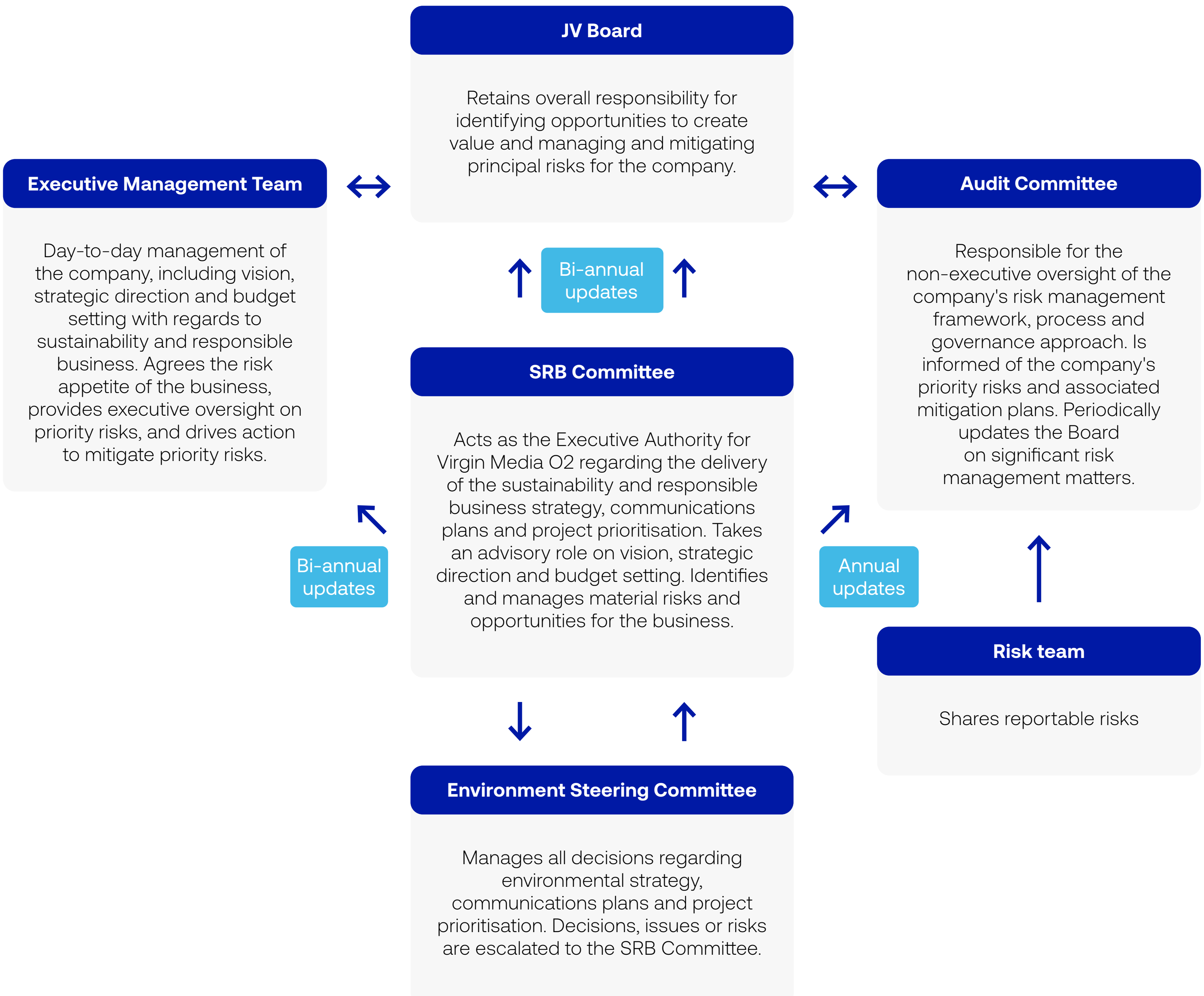
The Environment Steering Committee, one of three specialist steering committees set up to support the SRB Committee, assumes the overall management of all environmental aspects of our business, including performance, plans and risks. It is sponsored by EMT member Jeanie York, our Chief Technology Officer.

2022 Board updates

- The Board and EMT approved our new sustainability strategy and its associated climate targets. Bi-annual progress updates against our 2025 strategic goals will be provided to the Board.
- To improve understanding and awareness of climate risks, we invited an external agency to facilitate climate science immersion sessions with our EMT and also delivered a TCFD update to the EMT in November 2022.
- The Sustainability team report Objectives and Key Results (**OKR**s) on the net zero programme to the EMT on a monthly basis – highlighting any issues or risks to the delivery of the programme goals and targets.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Climate risk governance



More information about the composition and responsibilities of our key governance structures of Virgin Media O2 can be found in the Corporate Governance section on page 91.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Climate risk governance

Key achievements and next steps

2022 progress	2023 focus areas
Consolidated and aligned our previous businesses' ESG structures, chaired or sponsored by EMT members.	Aim to formally incorporate climate risk and opportunity management into the Terms of Reference of the Audit Committee and Environment Steering Committee.
Updated governance bodies including the JV Board and EMT on sustainability strategy, climate science and TCFD requirements.	Include climate-related risks and opportunities as a standing item in the biannual Board and annual Audit Committee updates, enhancing climate awareness and understanding.
Improved oversight of climate-related risk by incorporating a new specific climate risk in our risk register – thereby ensuring it will be overseen by the Board-delegated Audit Committee as part of our risk management governance.	Engage with our Finance and Strategy teams to embed sustainability considerations, and climate risk specifically, into the our strategy, financial planning and business decision-making processes.

Management's role in assessing and managing climate-related risks and opportunities

The EMT member who leads the delivery of the sustainability strategy is the Chief Communications and Corporate Affairs Officer (**CCCAO**). Daily management of climate-related risks and opportunities is undertaken by the Sustainability team, which reports to the CCCAO.

We replicated the EMT climate science immersion workshop with the SRB Committee (which includes representatives from all areas of the business), Corporate Affairs team, and wider employee population during 2022. We also marked the UN Global Climate Conference COP27 with a series of virtual events for all employees to ensure we are continuously improving awareness and understanding of climate issues.

To ensure that the Environment Steering Committee receives relevant climate-related information, Sustainability team members – who are also members of the Committee – attend best practice webinars and conferences and retain membership of industry forums. Additionally, environmental legislation is tracked through our Environmental Management System (**EMS**), complemented by an annual legislative compliance review, and reported to the Steering Committee. Any further relevant environmental targets, performance, risks or issues that require consideration or action by the Committee are shared by the Sustainability team.

Key achievement and next steps

2022 progress	2023 focus areas
Initiated climate awareness and engagement workshops with relevant governance bodies and the wider employee population.	Continue to engage and upskill our management in understanding climate risks, issues and opportunities.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Our Strategy

Short, medium and long-term climate-related risks and opportunities

We are collectively facing a climate emergency with the earth warming at an unprecedented rate and the effects already being felt across the globe. We know that climate change has the potential to impact our business and we have taken steps to understand the associated likelihood, possible impacts, and consequences of both physical and transitional climate-related risks, as well as considering any climate-related opportunities that may arise for our business. We have sought to integrate the risk and reward relationship into our decision-making process as we future proof our business.

In 2022 we undertook new analysis to identify three physical and seven transition risks, and four climate-related opportunities that we believe could materially impact our business, from a commercial and operational perspective. This included identifying key upstream and downstream dependencies across our operations and value chain, mapping these against a wider understanding of climate risks and evaluating them against a range of different climate scenarios. As a U.K.-based business with a global supply chain, climate change will impact our supply chain in different ways in different places and we plan to undertake further analysis to identify how the identified risks present themselves based on sector and, in particular, geography. In January 2023, our shortlist of ten risks and opportunities was validated and prioritised by the SRB Committee.

Time horizons (based upon leading practice) of 'short-term', 'medium-term' and 'long-term' shown in this section represent the following in years:

Time horizons	Short-term	Medium-term	Long-term
	3 years	3 to 10 years	>10 years

Physical risks

Physical risks are driven by extreme weather and long-term shifts in climate patterns that have direct impacts.

Risk type	Risk title	Risk description	Financial impact	Time horizon
Acute and chronic	Damage to infrastructure and disruption to operations due to the physical impacts of climate change	Risk that increased frequency in addition to the severity of extreme weather events (such as flooding, storms and wildfires) and longer-term shifts in weather patterns (such as sea-level rise, increased precipitation and extreme heat) result in damage to our physical and operational assets including network infrastructure, data centres etc. This leads to business disruption such as network services outages and restricted services, and more frequent repairs are necessary.	a. Decrease in revenue from lower sales b. Increase in operating costs from repairs c. Early retirement of existing assets due to frequent damage d. Increase in insurance premiums	Medium to long term
Acute and chronic	Disruption to workforce due to the physical impacts of climate change	Risk that increased frequency and severity of extreme weather events (such as extreme heat, extreme rainfall storms or flooding) have negative consequences on the productivity and safety of our people, leading to delays in the roll out of our services and increased customer dissatisfaction.	a. Decrease in revenue from lower output b. Increase in costs from negative impacts on workforce (absenteeism) c. Threat to business continuity	Medium to long term
Acute and chronic	Disruption to suppliers due to the physical impacts of climate change	Risk that increased frequency in addition to the severity of extreme weather events (such as flooding, storms and wildfires) and longer-term shifts in weather patterns (such as sea level rise, increased precipitation and extreme heat) disrupt the operations of our suppliers, leading to disruption to third-party operated services, such as call centres, and delays in product delivery.	a. Decrease in revenue from lower sales b. Threat to business continuity	Medium to long term

Key:
Acute – Risk of increasing severity of extreme weather events.
Chronic – Risk of longer-term changes and variability in weather patterns.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

b) Transition risks

Transition risks are driven by policy, regulation, technology development, reputation, and market shift as a result of goals to decarbonise.

Risk type	Risk title	Risk description	Financial impact	Time horizon
Market	Rising input prices leading to increased production and operating costs	Risk of increasing volatility in input prices (such as raw materials and energy) leading to fluctuating production and operational costs. For example, timing of energy policy changes and availability and demand for different raw materials as a result of market shifts may lead to higher energy prices and the risk of rising third-party costs associated with the manufacturing of handsets and wearables.	a. Increase in production and operating costs e.g. energy prices b. Reduction in profit margins	Long term
Technology	Increased costs from the transition to lower emissions technology	Risk of increased research and development (R&D) costs, associated with investment in new and alternative technologies to enable more efficient services and production processes, necessary to meet emissions reductions targets.	a. Increase in capital investments required for technology development b. Reduction in profit margins	Short to medium term
Policy and legal	Introduction of carbon pricing impacting operating costs	Risk of the introduction of a formal carbon pricing system in jurisdictions where we operate which results in having to pay for our GHG emissions – leading to increased operating costs.	a. Reduction in profit margins b. Increase in production and operating costs	Medium term
	Enhanced exposure to climate-related regulatory changes and litigation	Risk of enhanced exposure to climate-related litigation as a result of more stringent legislation and mandates on emissions associated with our services and products.	a. Increase in potential for climate litigation b. Increase in production costs c. Increase in staffing costs and investment to support reporting functions d. Loss of brand loyalty	Medium term
Reputation	Shifts in consumer preferences towards greener Telecom providers	Risk that we fail to keep up with competitors' climate action leading to consumers switching to Telecom providers with stronger ESG credentials, meaning lose market share and in turn becomes less desirable to potential investors.	a. Reduction in revenue and market share b. Decrease in access to capital c. Loss of brand loyalty	Short to medium term

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Risk type	Risk title	Risk description	Financial impact	Time horizon
Reputation	Failure to meet emission reduction targets across Scope 1, 2 and 3 emissions	Risk that we fail to meet our net zero 2040 target through missing our own Scope 1 and 2 targets directly or being implicated by third-party dependencies and associated Scope 3 emissions (for manufacturing in addition to licensing products). We may fail to meet targets as a result of changing business priorities, redirections of budget funding, or through third-parties failing to reduce their own Scope 1 and 2 emissions in line with our Scope 3 supplier climate targets. This could lead to reputational impacts and effects on internal and external stakeholder brand loyalty. Failure to meet such targets would also mean that we are unable to obtain sustainability-linked financing or further leverage green finance.	a. Damage to reputation b. Increase in potential for climate litigation c. Decrease in access to capital d. Decrease in employee retention rates and ability to attract talent e. Loss of brand loyalty	Medium to long term
Market	Disruption to our supply chain due to geopolitical volatility from climate-related impacts	Risk that geopolitical volatility, spurred on by the impacts of climate change, disrupts our supply chain, including the delivery of handsets and accessories. As a result, we are unable to meet customer demand for products and experiences disruption to services, increasing costs and reducing market share.	a. Increase in production and distribution costs b. Reduction in profit margins c. Loss of brand loyalty	Medium to long term

Key:
Policy and legal – risk of existing and emerging climate-related regulations, as well as climate-related litigation claims
Markets – risk of shifts in supply and demand as markets respond and react to climate change
Technology – risk of disruption to parts of the economic system caused by emerging technologies required to support the transition to a low carbon economy
Reputation – risk of damage to brand value and loss of customer base from shifting public sentiment over an organisation's response to climate change

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

c) Climate-related opportunities

Opportunity	Opportunity title	Opportunity description	Financial impact	Time horizon
Transition – resilience	Become a credible, low carbon Telecom provider	Opportunity to demonstrate credible improvements in ESG performance, such as meeting our net zero target ahead of 2040 deadline and having robust physical risk management strategies in place, going beyond potential investor expectations and leading to an improvement in market valuation as a result. As customers increasingly consider climate credentials when selecting a Telecom service provider this will lead to an increased market share over less progressive competitors.	a. Increase in revenue and customer market share increase in market valuation b. Increase in access to capital c. Increase in employee retention rates and ability to attract talent	Medium term
Transition – products and services	Development and expansion of low emissions products and services	Opportunity to expand our portfolio, including the development of low emission products and services, in line with shifting consumer sentiment towards greener consumption. These products and services would not only reduce our climate footprint, but also support our customers to achieve their personal emissions reduction and climate resilience goals. This will lead to an enhancement in our brand amongst both internal and external stakeholders.	a. Increase in revenue b. Increase in investment and access to capital c. Increase in brand loyalty d. Increase in customer market share	Short to medium term
Transition – markets	Access to new markets via new products and services	Opportunity to diversify our portfolio through the development of new products and services to give access to new markets or greater market share by pursuing climate objectives, such as decarbonisation or circularity targets. This would lead to an expansion of our customer target market and reputation as a low carbon Telecom provider whilst also providing the opportunity to leverage additional green finance as a result of ambitious climate action enabling us to meet our climate targets and enhance our green credentials.	a. Increase in revenue b. Increase in customer market share c. Increase in investment and access to capital	Medium term
Transition – resource efficiency	Green-led resource efficiency	Opportunity to harness green-led resource efficiency across our operations and distribution processes leading to a reduction in operating costs. For example, greening our fleet and increasing the use of recycled materials in products ahead of current target deadlines or switching to renewable energy sources across the value chain.	a. Reduction in operating costs b. Increase in revenue c. Increase in access to capital	Medium term

Key:
Resilience – adaptive capacity to respond to climate change, better manage the risks and seize the opportunities
Energy source – access to cost and emissions benefits through low-carbon and alternative energy options
Markets – access to new markets enabling the diversification of activities, facilitating the transition to a lower-carbon economy
Resource efficiency – improved efficiency across production and distribution processes, buildings, machinery and transport in relation to energy efficiency, water, waste management and material usage
Products and services – improved competitive position and ability to capitalise on shifting consumer preferences through development of low-emission products and services

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Key achievements and next steps

2022 progress	2023 focus areas
Updated our physical and transition climate-related risks and opportunities.	Formally address and incorporate the identified climate-related risks into our company risk framework.
Undertook a prioritisation exercise with the SRB Committee.	Map physical climate-related risks across our value chain.

Impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning

The climate-related risks and opportunities that we identify in the 'Short, medium and long-term climate-related risks and opportunities' section on page 55 include a description of the top-line potential financial impacts. Further examination of the wide-ranging potential impacts on our operations, products and services, supply chain and how climate risks influence our financial planning process, will be undertaken in 2023 by conducting quantitative analysis. While we are not currently consistent with the full disclosures recommended by the TCFD in this area, we hope to achieve greater alignment in 2023 through this additional quantitative evaluation.

Risks, business impact and mitigating activities

a) Extreme temperatures and flooding

Climate change can drive medium to long-term increases in operational costs as a result of shifts in climate patterns, for example extreme temperatures affecting infrastructure cooling costs; low-lying facilities being subject to flooding; and the impacts of increased or reduced precipitation.

High ambient temperatures can cause issues with the effectiveness of cooling units at our network sites. To mitigate this risk and ensure the network is always operational, we ensure resilient systems are in place to support any failures of air conditioning units. We have 24/7 temperature monitoring for all sites and have established an agreed temperature cooling contingency plan for every site.

We have several sites situated near main rivers in the U.K., meaning there is a potential risk of localised ground water flooding where local drains could overflow. We installed flood prevention systems and borehole monitoring on a site where this was identified as a risk.

b) Energy costs

The increasing cost of energy and transition to a decarbonised economy are financial impacts that could seriously affect our business resilience, for example by increasing property costs and fuel for our vehicle fleet. These challenges reinforce our commitment to use renewable energy wherever possible and continue our drive towards efficiency improvements and an all-electric fleet.

c) Value Chain

Some supply chain partners, particularly our outsourced overseas operations and the device supply chain, located mainly in Asia, are particularly vulnerable to the worst effects of climate change. We monitor this risk and embed sustainability requirements in our procurement processes. We consider climate risk at point of purchase for major suppliers, who are required to set science-based net zero targets, alongside other social and environmental factors.

Key achievements and next steps

2022 progress	2023 focus areas
We have identified some initial physical and transition risks and opportunities for Virgin Media O2 and discussed their potential impacts on the business.	We plan to examine how we can effectively factor the identified risks into Virgin Media O2's strategic decision making and financial planning processes.
	We will undertake quantitative climate-related scenario analysis to assess the financial implications of climate risks and opportunities over different time horizons, using the risks and opportunities identified during the qualitative scenario analysis.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Strategic resilience, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Scenario analysis can enable effective decision-making by allowing companies to understand and address the risks they may face to organisational resilience under different hypothetical futures. These futures are not predictions, but are plausible visions of the future that help to challenge accepted thinking.

Climate scenarios combine a range of factors, including climate, emissions, vulnerability, environmental and socioeconomic change. The climate science community often uses two key frameworks to develop these factors into a set of commonly-understood narratives: the Shared Socio-economic Pathways (**SSP**s) which describe different socioeconomic futures; and the Representative Concentration Pathways (**RCP**s) which model different emissions pathways and the associated impact on the climate. To develop our climate scenarios, we paired three different SSP/RCP combinations.

In January 2023, we held a workshop with our SRB Committee to validate and prioritise climate risks and opportunities against a range of future states to enable us to maximise the positive impacts and minimise the negative impacts on our business. Workshop participants covered a range of roles and responsibilities to ensure that risks and opportunities were considered from all aspects of the business.

Climate scenarios

a. Scenario 1 – Steady path to sustainability (1.5°C) – is optimistic about economic decarbonisation and assumes this is achieved in a steady, orderly fashion, to draw out transition risks. (SSP1 / RCP1.9 combination)
b. Scenario 2 – Middle of the road (2°C) – a delay in efforts to mitigate climate change results in a disorderly transition, indented to emphasise the extent of transition risks. (SSP2 / RCP2.6 combination)
c. Scenario 3 – Fossil-fuelled global growth (4°C) – this is a plausible worst-case scenario from a climate change perspective, intended to draw out physical risks. (SSP5 / RCP8.5 combination)

In January 2023, we held a workshop with our SRB Committee to validate and prioritise climate risks and opportunities against a range of future states to enable us to maximise the positive impacts and minimise the negative impacts on our business. Workshop participants covered a range of roles and responsibilities to ensure that risks and opportunities were considered from all aspects of the business.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Scenarios	Summary	Key characteristics	Potential organisational impact
1 – Steady path to sustain-ability (1.5°C) Orderly transition scenario	Under the 1.5°C steady path to sustainability scenario, the world takes the rapid and drastic policy measures required to meet the ambition of the 2015 Paris Agreement. Low carbon technologies take over from fossil-fuels, but under this scenario significantly reduced economic growth is just as important for reaching net zero emissions by 2050.	**Climate**: Global warming limited to 1.5°C above pre-industrial levels by 2100. **Societal approach to climate**: Globally coordinated efforts to reduce emissions to net zero by 2050 to avert the worst effects of climate change. **Economy**: The world makes a gradual but continual shift away from only valuing economic growth towards a wiser sense of prosperity and wellbeing.	Operational efficiencies would need to be made to reduce emissions and operating costs. As consumers move away from mass consumption towards more durable and higher quality products, we would need to adapt and diversify our portfolio of products and services to offer lower carbon solutions. We would take steps to strengthen the resilience of our supply chain.
2 – Middle of the road (2°C) Disorderly transition scenario	Under the middle of the road scenario, social, economic and technological trends do not yet shift markedly from historical patterns. The delay in efforts by government, businesses and citizens to mitigate climate change, and a divergence in responses across sectors and countries, results in a disjointed transition ultimately reaching warming below 2°C.	**Climate**: Global warming limited to < 2°C above pre-industrial levels by 2100. **Societal approach to climate**: Delayed, disorderly transition to a low carbon world which results in widening inequalities. **Economy**: Increasingly divergent outcomes at both micro and macro level, facing permanent scarring due to disorderly transition.	We would be exposed to more sudden transition risks and increased likelihood of physical impacts. Large carbon rises could affect the transport and distribution of our products and services, intensifying pressure to fully electrify our fleet and seek low carbon solutions across our value chain will become increasingly important and any changes could cause disruption to services and increase production costs.
3 – Fossil-fuelled global growth (4°C) Physical risk scenario	The 4°C scenario explores a possible route in which the world continues to use fossil fuels as the engine of economic growth, resulting in worst-case levels of global warming with increasingly severe and frequent extreme weather causing extensive business disruption, as well as chronic changes to seasonal weather patterns severely damaging economic growth. Governments quietly drop their climate commitments and instead intervene to build resilience to the worst impacts of climate change.	**Climate**: Global warming of 4°C above pre-industrial levels by 2100. **Societal approach to climate**: Global collaboration focused on protecting the population from a changing climate (as opposed to reducing human induced climate change). **Economy**: While the economy experiences long-term growth through to 2050, catastrophic economic toll of climate changes becomes an unprecedented drag to economic growth.	Our organisation would suffer impacts of increasing physical risks across our value chain. Extreme weather events could not only damage our infrastructure and ability to deliver our services (through network equipment overheating or site flooding, for example), but may also impact the health of our workforce – which would in turn lead to significant period of disruption to network services.

For each climate risk and opportunity, the time horizon under which it is most likely to materialise was assessed. The following time horizons were used, based on leading practice:

a. Short-term: up to three years (now to 2026)
b. Medium-term: three to ten years (2026 to 2036)
c. Long-term: greater than ten years (2036 to 2050)

Each of the climate risks and opportunities were then ranked according to a qualitative assessment by the stakeholders as High, Medium, or Low (overlaid with qualitative scenario analysis), using the following lenses:

a. Impact: the potential impact on our ability to achieve its strategic objectives should the risk or opportunity be realised.
b. Likelihood: the probability that the risk will present for Virgin Media O2 (applies to risks only).
c. Effort: the potential level of effort required, in terms of people and capital resources, should we choose to pursue that opportunity (applies to opportunities only).

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

The SRB agreed the most relevant current risks and opportunities for Virgin Media O2:

Physical risks	Transition risks	Opportunities
Damage to infrastructure and disruption to operations due to the physical impacts of climate change.	Disruption to our supply chain due to geopolitical volatility from climate-related impacts.	Green led resource efficiency.
Disruption to suppliers due to the physical impacts of climate change.	Rising input prices leading to increased production and operating costs.	Development and expansion of low emissions products and services and access to new markets via new products and services.

Key achievements and next steps

2022 progress	2023 focus areas
Held a scenario planning workshop with the SRB Committee, composed of key directorate representatives from across the business.	We will take steps to integrate the outputs of the scenario analysis into our strategic decision making and financial planning, undertake quantitative scenario analysis and set a timeframe for regularly refreshing our analysis to allow for variations over time.

Risk management

Processes for identifying and assessing climate-related risks

Managing risk is a shared responsibility: all employees and suppliers are required to identify, manage and report risk in accordance with the company's risk management policy.

Risks are identified and captured at all levels, in all areas of the business, with input from various sources and forums, including strategic planning, regular risk review meetings and operational teams. They are then assessed to determine their importance, appropriate prioritisation, and risk response. Risks are analysed based on their impact and likelihood to provide an overall risk rating which is then recorded on Virgin Media O2's Risk Heatmap. In addition, we consider proximity, which indicates how quickly the risk may materialise. Climate-related risks are identified and assessed in the same way as other business risks, through our existing risk management processes.

During 2022, we carried out a one-off, in-depth exercise to review and update climate-related risks – outlined in the Strategy section of this TCFD statement. This enabled us to develop and expand our understanding of the main physical and transition climate-related risks that could affect our business.

2022 progress	2023 focus areas
In-depth identification of climate-related physical and transition risks and opportunities.	Ongoing collaboration with Virgin Media O2's risk team to strengthen our ability to identify and assess climate risk.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Our Processes for managing climate-related risks
Our sustainability strategy, the Better Connections Plan, was informed by a materiality assessment: as a result of this analysis, climate action became one of three core pillars for the company to focus on. We have integrated all identified material environmental and social issues within our principal risks and uncertainties.

Once a risk has been identified and assessed, a risk owner is allocated. The risk owner determines the most appropriate response for the business and oversees progress, keeping relevant stakeholders updated. Risk responses include: reducing risk exposure ('treating', 'transferring' or 'terminating') or tolerating risk exposure, taking no further action to reduce it. The Director of Sustainability is the climate risk owner. We consider climate risk to be an 'immediate' risk because the effects of the Earth's warming are already materialising.

In the Strategy section of this TCFD statement page 55, we have described the climate-related risks that we have identified. On a day-to-day basis, climate-related risks are managed in the parts of our business they have the potential to affect.

We believe that one way of managing climate-related risk is to contribute to the slowing of global warming by taking climate action. Our net zero 2040 target sets out the pathway to reducing our impact and we provide more detail on the specific actions we are taking in the Metrics and Targets section page 64.

Key achievements and next steps

2022 progress	2023 focus areas
We have identified the key physical and transition climate-related risks and opportunities that have the greatest potential to affect our business and that will require our ongoing focus.	Ensure the newly-identified physical and transition climate-related risks and opportunities are captured into our risk management framework and have clear actions in place to manage them.

Processes for integration the identification, assessment, and management of climate-related risks into the overall risk management
In 2022, we implemented a new risk management framework which combines the best elements of the previous Virgin Media and O2 frameworks, applies core risk management principles and best practices, and is tailored to our new organisation. It's aligned to COSO and ISO31000 guidelines and is integrated into decision-making so that we can consistently identify, assess, manage and monitor risks - escalating priority risks that could adversely affect the future success of the business, such as climate risks.

All risks (as well as their controls and mitigating actions) are captured in the risk register, which is held within Virgin Media O2's designated Risk Management Information System – managed by the Risk Management Team. We apply risk governance thresholds to all risks, with risks judged to be either Priority Risks; Enhanced Oversight Risks; or Locally Managed Risks.

Priority risks, which now includes climate risk, are reported quarterly via the Audit Committee and EMT and, once identified, the Audit Committee is responsible for reporting any significant issues to the Board. For more information on our company's risk management, see page 71 of our Annual Report.

Key achievements and next steps

2022 progress	2023 focus areas
Climate risk is now integrated into the broader risk management practices of the business, including risk prioritisation frameworks and internal risk reporting procedures.	Continue developing discussions between the Sustainability and Risk team to ensure climate risk (including the physical and transition risks identified in 2022) remain fully incorporated into existing risk processes.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Metrics and targets

Metrics used to assess climate-related risks and opportunities

We engage in extensive global and local reporting, contributing to our shareholders' (Liberty Global and Telefónica, S.A.) annual reporting processes, as well as publishing ESG information in our U.K. Annual Report and on our website.

In our Streamlined Energy and Carbon Report (**SECR**) on page 49, we disclose Scope 1, Scope 2 and limited Scope 3 GHG emissions, as well as an emissions intensity ratio, in line with the GHG protocol and ISO14001:2015. We work with specialist environmental consulting agencies to produce our energy and emissions data, which is subsequently externally validated. Our Scope 3 emissions are limited to business travel at present, although we are looking to widen the scope of our Scope 3 reporting in future SECRs.

a) Emissions methodology

During 2022, we have continued to refine our emissions reporting approach and methodology to ensure we align with best practice. As part of this we have developed an internal emissions calculation policy, guided by the principles defined in the Greenhouse Gas Protocol, which outlines our approach for calculating emissions. This ensures our disclosures are assessed against criteria including relevance, completeness, consistency, transparency, and accuracy.

b) Remuneration

Plans are underway to include ESG metrics in the annual bonus of eligible employees during 2023. The Boards of our shareholders, Telefónica and Liberty Global, already have ESG metrics in their management annual bonus structure (with climate change making up 5% and 1% respectively). In 2022, we have also established ESG responsibilities within employees' roles, linked to our reward and recognition programme.

In 2023, we plan to undertake quantitative climate-related risk and opportunity analysis that will inform our approach towards widening the number of metrics that we collect data on and disclose in future TCFD statements.

Key achievements and focus areas

2022 progress	2023 focus areas
Drafted an emissions methodology, in line with best practice.	Undertake a Scope 3 mapping exercise to identify and disclose additional Scope 3 emissions sources.
Established ESG responsibilities in Virgin Media O2 employees' roles.	Secure approval to include ESG metrics (including climate change and carbon emissions) within Virgin Media O2's annual bonus structure.
	Investigate the possibility of including additional disclosures around the seven climate-related metric categories described by the TCFD, informed by a quantitative analysis of climate-related risk.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Scope 1, Scope 2, Scope 3 greenhouse gas (GHG) emissions and risks

We publish Scopes 1, 2 and some Scope 3 GHG emissions in our SECR statement on page 49: only two categories of Scope 3 emissions are currently disclosed. We plan to disclose a full value chain footprint in 2023.

Scope	Primary sources	Data collection methodology
1 – Direct	Emissions that come from sources that are company owned or controlled e.g. a. static combustion (fuel used in generators for heating and power); b. mobile combustion (vehicle fuel from company fleet); c. coolants and propellants used (air conditioning units and fire suppression systems)	Company fuel cards, business travel expenses, third party reports, invoices and site visits.
2 – Indirect	Emissions originating from purchased energy, including: a. purchased electricity; b. heat and steam	Electricity consumption invoices, co-location service invoices (i.e. where electricity is estimated by market operations), on-site meters or inverters. Calculated for location-based (using grid-average emissions intensity) and market-based (supplier-specific emissions intensity) methods.
3 – Indirect	Emissions come from a range of upstream and downstream sources, including: a. purchased goods and services b. fuel and energy related activity c. transport, distribution and logistics d. operational waste e. business travel: air, road and rail f. employee commuting g. use of sold products h. end-of-life treatment of sold products i. franchises j. investments	Invoices, third party reports, supplier published emissions data and estimated supplier emissions, purchase ledger spend, product lifecycle analysis and product energy testing, expense claims, employee headcount.

a) Related risks

Reducing emissions in line with our science based aligned targets not only directly addresses our contribution to climate change, but also helps to mitigate some of the transition risks identified in the strategy section of this TCFD statement, for example, in helping to reduce the impact of rising input prices on operational costs.

Key achievements and our focus

2022 progress	2023 focus areas
Consolidated Virgin Media and O2's carbon footprints and reported for the first time a Virgin Media O2 carbon footprint.	Evaluate widening our Scope 3 emissions reporting disclosures.

Targets to manage climate-related risks and opportunities and performance against targets

In setting bold and targeted goals to reduce our environmental impact, we take a science-based approach, including reflecting the latest science-based emissions reduction targets that are designed to achieve a 1.5 degrees warming scenario. In 2022, we set the following climate action targets:

a. Become net zero carbon across operations, products and supply chain by 2040.
b. Enable U.K. customers to avoid 20 million tonnes of CO_2 and support large-scale decarbonisation by 2025.

We are currently undergoing an official assessment process with the Science-Based Targets initiative (SBTi) for our targets and expect a response in spring 2023.

a) Net zero

To prevent the worst climate change, the Paris Agreement says we need to reach net zero emissions by 2050. Now we are aiming for net zero by 2040, across Scopes 1, 2 and 3 (2020 baseline). We are aiming for net zero by 2040, across Scopes 1, 2 and 3 (2020 baseline), in line with the Science-Based Target initiative's (**SBTi**) Net Zero standard. To achieve net zero emissions, companies must reduce their emissions by at least 90% before 2050 and invest in carbon-removal schemes to make up the other 10%. The new Net Zero Standard helps clear up climate confusion and make it easier for businesses to understand what is needed to meet global climate goals.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

2025	2030	2040
Reduce operational emissions (Scope 1 and 2) by 60%[1]	Reduce operational emissions (Scope 1 and 3) by 90%[1]	Net zero operations, products and supply chain
Reduce Scope 3 emissions by 25%[1]	Reduce Scope 3 emissions by 50%[1]	Reduce Scope 1, 2 and 3 emissions by 90%[1]

Our interim targets are:
Most of our carbon emissions relate to electricity used to power our network, so our focus is on switching our entire network to renewable energy and removing all possible non-renewable energy across our business. As our network expands and more customers connect to products and services with 5G, there is unsurprisingly a carbon cost as energy use increases, so it is vital we maintain the use of renewable energy sources and continue to drive energy efficiency improvements. We already source 100% renewable electricity at all sites where we directly control the bill.

Tangible actions that we are taking to make progress against our target include:

a. Scope 1 – replacing with fire suppression gases for zero carbon alternatives, upgrading air conditioning systems to reduce refrigerant gases, and transitioning company cars to electric vehicles.
b. Scope 2 – working with landlords at sites we do not operate to encourage the transition to renewable energy and we are now also purchasing REGOs to match to 35% of non-renewable electricity consumption.
c. Scope 3 – collaborating with our supply chain to reduce emissions across the goods and services we purchase, supporting more sustainable travel for our employees including enabling hybrid working and tackling waste across our operations.

b) Enabling others

Our second climate target commits us to helping customers avoid 20 million tonnes of CO_2 and supporting large-scale decarbonisation by 2025. Our 4G and 5G technology can help build a greener, more resilient economy by providing connected solutions in smart homes and cities, transport and healthcare. This is measured using a methodology developed by our shareholder Telefónica with support from the Carbon Trust.

As part of our Better Connections Plan 2025 sustainability targets, we are committed to achieving zero waste operations and products by the end of 2025 and to helping consumers to carry out 10 million circular actions to tackle e-waste by the end of 2025. Our waste targets include making sure over 95% of operational waste is recycled and ensuring 100% of customer packaging for own-branded products are widely recyclable and contain no single-use plastic.

c) Oversight and best practice

Our designated expert governance bodies, the SRB Committee and Environment Steering Committee monitor and track performance against the targets, and the Board are updated on progress twice a year. In order to ensure we have appropriate internal resource and focus, we have also created a net zero transformation project team. Working with experts in their field ensures our practices remain aligned with latest science-based thinking. We were 1 of only 10 'pathfinder' companies that worked towards the Carbon Trust's new 'Route to Net Zero Standard' – a certification that helps organisations measure and manage emissions and align targets with climate leadership by independently verifying carbon reductions and recommending carbon reduction strategies. We are currently certified at 'Advancing' level.

We have also joined The Climate Pledge to align our environmental commitments with the SBTi's new net-zero standard and are members of the Media Climate Pact which commits us to using our communications platform to change behaviours towards climate-friendly lifestyles.

Key achievements and next steps

2022 progress	2023 focus areas
Launched new, consolidated 2040 net zero target and worked with best practice expert organisations such as The Carbon Trust, the SBTi and The Climate Pledge to ensure our actions are aligned with the latest climate science.	Continue to work with industry experts to refine our methodologies and maintain our alignment with climate science.

1. Absolute reductions

Stakeholder Interaction – S172(1) Statement

We understand the importance of regular constructive two-way discussions with our stakeholders on how we create value and the delivery of our strategy and success. This is balanced against the needs of the business as we face industry-wide and macroeconomic challenges.

This statement explains how the Board has acted in good faith in the interest of the shareholders, whilst having regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006. This includes our obligation to have regard to the long-term sustainability and our stakeholders when taking principal decisions of strategic importance which are significant to any of our key stakeholders.

In discharging our responsibilities a governance framework has been put in place which includes procedures to support the assessment of those matters necessary for us to make informed decisions in our delivery of the long-term success and sustainability of the Company and the Group as a whole.

The Company's key stakeholders are integral to the key stakeholders of the operating businesses in the Group. For administrative efficiencies, key stakeholder engagements are conducted at operational level led by members of the Executive Management Team as Executive Sponsors (**Executives**).

Details of how we have promoted the success of the Group are disclosed in the Divisional Overview section on page 19. Some examples of how we considered matters of concern to our key stakeholders including the outcomes are detailed below with further details in the Corporate Governance Report on page 91.

STAKEHOLDER INTERACTION 172(1) STATEMENT CONTINUED

Customers

Our customer base comprises of both consumer and business customers. Further details of our customers segments are discussed in the Divisional Overview section of the Strategic Report on page 19.

Customer satisfaction is essential to our long-term success and putting our customers first is, and will always be, a foundational strategic priority for the organisation. Our large customer bases have broad needs and expectations, and the business remains increasingly focused on meeting and exceeding as many of them as possible as the household economic outlook continues to prove challenging.

Topic	How we engage and monitor	Outcomes
Championing and prioritising Customer Fairness. Outstanding connectivity at home and on the move. Suitable product options and flexibility in offerings.	**How we engage:** • We stay as close to our customers through an extensive primary insight calendar, ensuring we understand and meet their needs, by: • Continually interacting with all customer types with different product holdings, at different lifecycle stages. • Customer focus groups; to identify customer pain-points and make improvements. **How we monitor:** • Analyse customer journeys through customer journey measurement framework. • Customer insight from NPS, Social Media communities. • Customer segmentation embedded across the organisation.	Free connectivity to people experiencing data poverty via the National Databank. We have committed over 60 million GB of O2 data to it and people can be given a free O2 PAYG sim card and up to 12 months of vouchers that provide 20GB a month of data, free calls and free texts. Financial support (discount or change of tariff to lower cost to help the stay connected) to any customer who inform us of the financial struggles. **Products and Services launch:** • Essential broadband is our social tariff to provide low-cost broadband to customers in receipt of Universal Credit. • WiFi Max aim is to meet our key customer need of broadband reliability. • UK fastest WiFi guarantee with speeds of 20Mbps in every room or £100 back. This includes updated Connect app to enable customer to monitor speeds and in-home connectivity. • Stream is an entertainment service provided through a new, smaller and more sustainable set top box that works over WiFi and doesn't require cabling. A flexible 30-day contract with no minimum spend.

STAKEHOLDER INTERACTION 172(1) STATEMENT CONTINUED

People

Our people are core to the continuing success of our business and the wellbeing of our people is important to us. Further details of our People strategy can be found in the Our Employees section on page 45.

Topic	How we engage and monitor	Outcomes
Integrating as one team. Employee retention and commitment. Diversity, Equity and Inclusion. Wellbeing.	**How we engage**: • Quarterly live streams lead by the CEO and the Executives including Questions and Answers session. • Workplace, an interactive social platform two-way communication. • Executives tour across the country and corporate sites. The focus was to have a dialogue on the cost-of-living with employees. **How we monitor:** • Pulse surveys with a wide range of questions to understand the views and perceptions of employees.	Harmonised DE&I strategy 'All in' focused on increasing DE&I awareness across the business. A family friend policy. One-off cost of living support package for employees earning £35,000 and below.

Suppliers

We rely on a number of partners for important aspects of our operations, in particular the provision of products and services to our customers. The Board and Executives recognise that effective management of suppliers is important to the business reputation and long-term success of the Group. Further details of our supplier relationship and engagement can be found on page 94 of the Corporate Governance Statement.

Topic	How we engage and monitor	Outcomes
Supply continuity and protecting service quality against a volatile geopolitical background. Alignment with our ESG strategy, decarbonisation goals and our supply chain sustainability standards. Regulatory compliance, in particular Telecoms Security Act.	**How we engage**: • Dialogue with selected suppliers to understand any exposure and impacts of the pandemic and the Ukraine conflict on their ability to deliver services to us and how any impact would be managed. **How we monitor:** • Vendor Management Programmes with dedicated relationship leads. • Formal reviews. • Suppliers samples: to understand and address any gaps that may exist about the requirements of the Telecoms Security Act.	We shared our ESG goals and the strategy expectation with our suppliers. Integrated ESG goals into our procurement process and established and implemented carbon reduction programmes for significant supply chain emission sources both at a product and supplier level. Despite an unusual year of disruptive events impacting the supply chain we have been able to successfully work with our supplier partners to adapt and have maintained supply and customers service quality.

STAKEHOLDER INTERACTION 172(1) STATEMENT CONTINUED

Regulator

Our regulators are important to delivering on our purpose, a connectivity champion and provide services to our customers at affordable prices in a competitive market whilst taking into account the wider economic challenges impacting businesses and customers. Further details of our engagement with our regulators can be found on page 94 of the Corporate Governance Statement.

Topic	How we engage and monitor	Outcomes
Spectrum utilisation and opportunity. Future spectrum availability. Customer affordability.	**How we engage**: • Regular CEO roundtables, executive steering working groups. • Monthly working groups on matters of that important to the delivery of our purpose. **How we monitor:** • We responded to Ofcom's publication of spectrum roadmap and WRC-23 preparation as our position. • Ofcom released reports on affordability and financial vulnerability which identified concerns in relation to broadband affordability and urged broadband providers to consider their payment management and disconnection processes.	Ofcom amended the 2.6GHz TDD spectrum licence to unrestricted use which would enable us to have more flexibility on the use. Ongoing discussion on the long-term sustainability of the mobile spectrum as our position, is that additional spectrum must be reserved for mobile use. We introduced another social tariff for broadband in November in addition to the social tariff introduced in 2021.

Investors

Regular engagement with our shareholders, bondholders, banks, ratings agencies, sell-side analysts and industry analysts is important and we seek to embrace it as part of a two-way interaction in conjunction with our shareholders. We understand that it is important to promote the interests and remain committed in delivering value for them.

Topic	How we engage and monitor	Outcomes
Deep-routed understanding of competitor dynamics and market position Improved quarterly reporting Expanding our 1:1 and conference audience interaction Building relationships with Ratings Agencies Increased focus on how the Annual Report can support the investor audience Regularly updating website (news.virginmediao2.co.uk)	**How we engage**: • Investor calls and correspondence with the Head of Investor Relations in conjunction with group meetings with management supported alongside our shareholder Investor Relations teams. **How we monitor:** • Following the merger a greater focus has been given through the employment of a dedicated Investor Relations (IR) team. Their focus is to build out the IR infrastructure, improve audience understanding and interaction of the Group, develop regular and more detailed understanding of the external view in addition to continued progression of the IR programme.	CEO attendance at shareholder earnings calls. Quarterly 1:1 Group management meetings in conjunction with shareholder IR teams. Virgin Media O2 IR to attend conferences with Shareholders at most effective opportunities. Further progression of IR strategy throughout 2023.

Our Risk

Risk Management

Our approach is to support the business to identify and realise opportunities which deliver value creation and preservation, to aid our employees to effectively manage risks, and ultimately to help improve the Company and Group's position. Risk is managed at the Group level and the entities adopt the Risk Management framework. Risk management helps us to strike the optimal balance of how much uncertainty to accept whilst seeking value generation for all our stakeholders by:

a. Aiding alignment of risk appetite and strategy
b. Enhancing risk response decisions
c. Reducing operational surprises and losses
d. Identifying and managing multiple and cross-enterprise risks
e. Helping seize opportunities
f. Improving deployment of capital

There are operational thresholds in place to escalate and drive enhanced oversight of risks in accordance with the risk appetite of each business area.

Governance and Reporting

Our risk management model is aligned to both COSO and ISO31000 guidelines and is integrated into the management of our strategy, objectives, operations, and transformational activities. Additionally, executive management has established a culture of accountability for risk, embedding risk management into the responsibilities of all employees. Virgin Media O2's risk governance model enables aligned risk oversight across operational divisions, delivering an enterprise-level view to senior management with focus on significant and emerging risks facing the business.

The Joint-Venture (**JV**) Board is responsible to the Company, Group, and its two shareholders for oversight of the Risk Management program. This responsibility has been delegated to the Audit Committee, which performs the following Risk Management oversight functions:

a. Ensures that management has established an appropriate risk management program
b. Obtains periodic updates relevant risks included in the Company's risks register
c. Obtains periodic updates from management (at least twice annually) to review the adequacy of mitigation plans to address key risks in the underlying risk register
d. Reports to the Board significant risks that are either not sufficiently mitigated or where mitigation plans have not been executed on a timely basis

Risks are housed in the risk register and categorised into three profiles to ensure appropriate oversight and proportionate focus on risks in accordance with the risk appetite of each business area. The risk profiles are based on the likelihood of their occurrence and the potential impact on the Company and Group. Controls and action plans to mitigate the risks are also tagged to the risks and monitored. The Priority risks are reported quarterly to shareholders via the Audit Committee and to Virgin Media O2 Executive Management Team quarterly; the Enhanced Oversight risks are reviewed by the Wider Leadership teams at agreed frequencies; Locally Managed risks have local proportionate oversight by the accountable business area with escalation as appropriate.

OUR RISK CONTINUED

VMED O2 RISK GOVERNANCE

Top-down Approach
Oversight of priority risks and Risk Management process

Joint Venture Board
Oversight of Risk Management program

Audit Committee
Delegated responsibility for oversight of Risk Management program, including:
• Discuss priority risks and steps to monitor/control exposures at minimum twice per year
• Escalate to Board any significant risks either not sufficiently mitigated or where mitigation plans have not been executed on a timely basis
• Approve risk management policy/framework

Executive Committee
Review priority risks minimum twice per year
Oversight of risks over enhanced oversight threshold

Directorate Senior Management
Responsibility for maintaining risks for their Directorate in risk register
Responsibility for accuracy of risk register

Bottom-up Approach
Identification, assessment, and management of operational risks

Third Parties providing assurance

Internal Audit | **External auditors** | **Other external audits**

a) Risk Identification

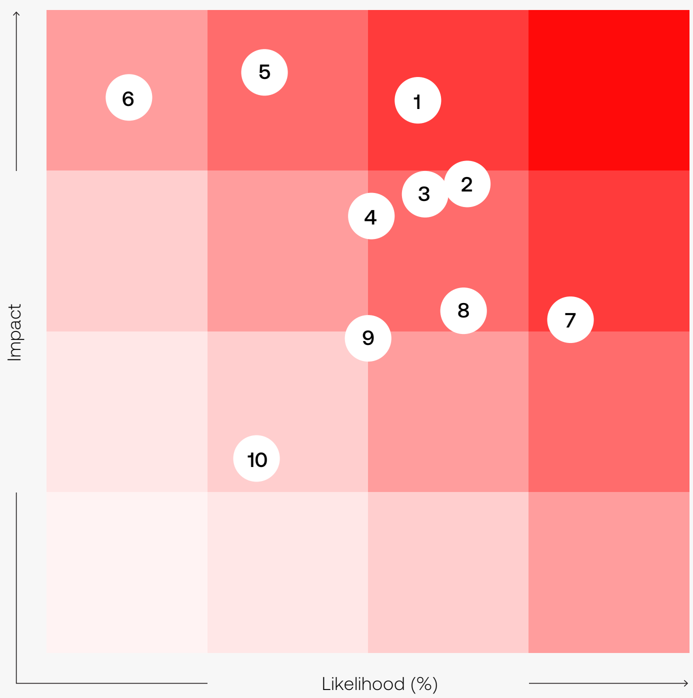
Risks are identified and captured at all levels, in all areas of the business. Input comes from various sources and forums, including strategic planning, regular risk review meetings; our operational teams; Governance, Risk, and Compliance functions; horizon scanning and monitoring of emerging risks. Risk identification activities are a continual part of the risk process operating in Virgin Media O2, considering both internal and external sources of risk to the effective delivery of the company and Group's strategy such as its operations, and transformation activities. We use ongoing monitoring to manage the triggers that could crystallise these risks and turn them into risk events.

b) Risk Assessment

All risks are assessed to determine their importance, appropriate prioritisation, and risk response. The combination of impact and likelihood provides the rating and profile of the risk. In addition, but separate to the rating and profile, we also consider proximity, which indicates how quickly the risk may materialise and so helps further determine appropriate prioritisation and response. The combination of the impact and likelihood assessment is illustrated on the Virgin Media O2 Risk Heatmap, supporting management oversight and risk prioritisation:

OUR RISK CONTINUED

VMED O2 risk assessment matrix



2022 Principal Risks		Trend YoY
1	Market Dynamics	↑
2	Security and Privacy	—
3	Legal, Regulatory, and Compliance	—
4	Technology	—
5	Transformational	—
6	Financial	↑
7	Economic and Political	↑
8	Supply Chain	↑
9	ESG	↑
10	People	—

For further background on the 2022 business context please see the previous sections of the strategic report.

c) Risk Response

Once a risk has been identified and assessed, the risk owner determines the most appropriate response for the business. In doing so, they consider the risk appetite of the business, and the benefits and opportunities as well as the resources required and exposures of the different options. If the response is to reduce the mix of likelihood and impact of the risk, the risk owner sets a measurable and achievable target and date. The main risk response options are as follows:

Reduce risk exposure

'Treat' (A.K.A: Mitigate, Reduce):
This is where the business takes actions to reduce the likelihood and impact of the risk, thusreducing the company's exposure.

'Transfer':
This is where the risk exposure is being transferred to a third party through insurance, contracts or outsourcing activities.

'Terminate' (A.K.A. Avoid):
This is where the business chose to not proceed with the activity which would give rise to the risk. This is usually applied in cases where the risk exposure is unacceptably significant (sits outside the business' risk appetite) or outweighs the opportunity the business was exploring.

Tolerate risk exposure

'Tolerate' (A.K.A.: Accept, Maintain):
This is where the business agrees to accept the current exposure of the risk, taking no further action to reduce it, and knowing it could impact the business.

'Tolerate - Investment not approved':
This is where the owner/business wants to reduce the risk but has been denied funding at this time. The risk is to be assigned this risk response status until the funding has been approved.

This is differentiated from 'tolerate' and management can recognise these risks where further exposure reduction is wanted but is not actively proceeding at this time.

This is usually applied where a risk sits outside the business' risk appetite but funding prevents action for now.

OUR RISK CONTINUED

Risk Factors

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

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

- Market dynamics;
- Security and privacy;
- Legal, Regulatory and compliance;
- Technology;
- Transformational;
- Financial;
- Economic and political;
- Supply chain;
- ESG;
- People;

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

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

Market Dynamics

Adverse economic developments could reduce customer spending for our mobile, broadband internet, video and fixed-line telephony services and increase churn.

Most of our revenue is derived from customers (from consumer to enterprise and multinational companies) who could be impacted by adverse economic developments globally, in Europe and the U.K. The current macroeconomic environment is highly volatile, with continued instability in global markets, including ongoing trade negotiations, uncertainty over inflation, energy price fluctuations, continued escalation in geopolitical tensions and global recession fears having all contributed to a challenging global economic environment. Future developments are dependent upon a number of political and economic factors, including the additional borrowing incurred by countries during the COVID-19 pandemic and the potential for lower growth expectations, higher global interest rates and continued inflationary pressures. As a result, we cannot predict how long challenging conditions will exist or the extent to which the markets in which we operate may deteriorate.

Unfavourable economic conditions, including the current cost-of-living crises in many of the countries in which we operate, may impact a significant number of our customers and the prices we are able to charge for our products and services, and, as a result, it may be (i) more difficult for us to attract new customers, (ii) more likely that customers will downgrade or disconnect their handsets, tariffs and services and (iii) less likely that customers will upgrade their handsets, tariffs and services and (iv) more difficult for us to maintain revenue at existing levels. The U.K. may also seek new or increased revenue sources due to fiscal deficits. Such actions may further adversely affect our results of operations. Accordingly, our ability to increase, or, in certain cases, maintain, our revenue, margins and liquidity could be materially adversely affected if the economic environment in U.K. or Europe remains uncertain or declines. We are currently unable to predict the extent of any of these potential adverse effects.

We have substantial indebtedness that may have a material adverse effect on our available cash flow, our ability to obtain additional financing if necessary in the future, our flexibility in reacting to competitive and technological changes and our operations.

We have a substantial amount of indebtedness. As of 31 December 2022, the outstanding principal amount of our consolidated debt, together with our lease obligations, aggregated £20.5 billion, including £3.0 billion that is classified as current on our consolidated statements of financial position and £14.5 billion that is not due until 2028 or thereafter.

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

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

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

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

OUR RISK CONTINUED

We may not be able to fund our debt service obligations in the future.
We have significant outstanding indebtedness that could require a partial or comprehensive refinancing in future periods. Borrowings under our credit facilities are currently due between 2023 and 2029, while the maturities of our outstanding senior and senior secured notes currently range from 2026 to 2031. See note 14 to our consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

OUR RISK CONTINUED

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

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

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

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

If VMED O2 was unable to continue to use the O2 Brand Rights or the 'Virgin' brand due to a termination of the O2 Trademark Licence, the O2 JV Trademark Licence and the brand licence from Virgin Enterprises Limited for any reason, significant time, effort and resources would be required to establish a new brand identity which could have a material adverse effect on our business and results of operations.

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

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

Our failure to maintain and further develop our direct and indirect distribution channels may affect our ability to acquire new customers and retain existing customers.
We acquire new customers, and upgrade existing customers, both via direct distribution channels (i.e. our shops, franchised shops, our website and mobile app and telesales) and indirect distribution channels (i.e. third-party retailers, as well as business partners, distributors, wholesale partnerships and MVNOs). There can be no assurance, however, that we will be able to maintain, grow or invest in our direct distribution channels. For example, we may be unable to maintain a competitive online presence, enter into new shop leases or renew existing shop leases on favourable terms, or at all. Similarly, we may be unable to find suitable replacement premises if leases of any of our existing premises are terminated prior to their stated expiration date. In addition, there can be no assurance that our current or future franchisees will continue to partner with us on favourable terms, or at all. Furthermore, there can be no assurance that we will recover any costs associated with investments in our direct distribution channels or that investing in maintaining or expanding our distribution channels will result in an increase in our revenue. Any failure to maintain, grow or invest in our direct distribution channels could adversely affect our business, cash flows, results of operations and financial condition.

We rely heavily on indirect distribution as a means of reaching to a broader range of customers and as a supplement to our direct distribution channels. Our consumer trading arrangement with Dixons Carphone (a leading independent specialist mobile retailer in the U.K.), previously one of our major partners, expired in April 2020 and was not renewed. There is no assurance that our existing arrangements with indirect distribution partners will continue beyond their terms. Indirect distributors may sell mobile contracts on behalf of a number of different MNOs, offering similar packages to those sold by the MNOs through their own direct distribution channels. As a result, indirect distributors may be viewed by some consumers as a price comparison hub for different tariff plans between MNOs and as offering more independent advice regarding the relative merits of such plans. This positioning of indirect distributors may give such distributors a degree of bargaining power in the negotiation of agreements with MNOs (including their agreements with us) and their commission fee. There is no assurance that the indirect distributors will not enter into preferential agreements with our competitors or decline to continue to enter into agreements with us, either on terms acceptable to us or at all. Our failure to maintain key indirect distribution relationships or expand our direct and indirect distribution presence (both through physical stores and online), or any failure by indirect distribution partners to procure new customers, could result in our being unable to retain or grow our market share and increase the

OUR RISK CONTINUED

costs of acquiring and retaining customers. Conversely, if indirect distribution partner growth is not appropriately directed, there is a risk of 'substitution', where customers switch from our direct channels to the channel provided by an indirect partner, thereby adversely impacting profitability. Any, or a combination, of the foregoing could have a material adverse effect on our business, cash flows, results of operations and financial condition.

Security and Privacy

A failure in our network and information systems, whether caused by a natural failure or a security breach, could significantly disrupt our operations.

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

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

A failure to comply with data protection laws may result in significant fines and reputational damage.

We process a substantial amount of customer data as part of our day-to-day business. In the event of a data breach (of any kind) which impacts personal data, we have notification obligations to the Information Commissioner's Office (**ICO**), impacted data subjects, and in some cases under our commercial contracts. The ICO has the power to fine companies up to 4% of global group turnover in respect of a data breach where the company is found to be at fault and any impacted data subject can levy claims for compensation (which can be aggregated into a 'class style' litigation). In addition, we may be liable under certain of our commercial contracts in the event of certain data breaches. In the event of any large-scale data breach, we may incur significant time and expense in investigating and remedying any such breach. Furthermore, the reputational impacts of a data breach, especially in an industry where customer trust is paramount and the processing of customer data is essential, are likely to be extensive and could have a material adverse effect on our business and results of operations. See 'We are subject to significant regulation, and changes in U.K. and E.U. laws, regulations, governmental policy affecting the conduct of our business, or other risks relating to claims, may have a material adverse effect on our ability to set prices, enter new markets or control our costs' below.

Unauthorised access to our network resulting in piracy could result in a loss of revenue.

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

OUR RISK CONTINUED

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

Under PCI-DSS, VMED O2 is classified as a Level 1 merchant and is required to undertake annual certification assessment, which consist of an external audit performed by a Qualified Security Assessor. VMED O2 has gain and maintained its PCI-DSS certification for the E-Commerce and Face to Face payment channels and has an agreed programme of work covering the remaining payment channels, which has been shared with the acquiring bank (the bank processing payments on our behalf). VMED O2 has implemented tokenisation solutions to reduce our exposure to card data compromise and its effects.

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

Legal, Regulatory and Compliance

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

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

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

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

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

OUR RISK CONTINUED

Technology

VMED O2 does not currently insure the underground portion of its fixed-line network and various pavement-based electronics associated with its fixed-line network and we may not insure such assets in the future.

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

Changes in technology, and our ability to develop and introduce new and enhanced products, may limit the competitiveness of and demand for our services.

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

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

A failure to adequately manage our legacy technologies and transformation could result in a loss of existing customers, a failure to attract new customers and in an increased likelihood of data security incidents.

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

Our ability to meet growing customer demand for mobile services and to expand our business depends, in part, on the capacity, speed and reliability of our mobile network which in turn depends on our ability to adequately manage network capacity and usage levels, successfully implement capacity expansion and yield management strategies, and acquire additional spectrum.

We are currently one of two operators with the least amount of spectrum of any MNO in the U.K. alongside Three. Recent technological advances and changes in customer behaviour and demands, including the increasing prevalence of smartphones a nd tablets and the use of data intensive applications on such devices (such as streaming of high definition video and making video calls), have resulted in substantial growth in mobile data volumes. Total mobile data volumes in the U.K. continue to grow, Ofcom estimated an increase of approximately 27% in the 2022 (Source: Ofcom Connected Nations 2022, December 2022).
We currently experience periods where localised sections of our network become capacity constrained, particularly during peak usage times. While these existing localised capacity constraints are managed as part of our ordinary business operations, if mobile data volumes continue to grow at current rates, and we are unable to secure additional network capacity, our mobile network may become severely capacity constrained in the short-to medium-term. Such severe capacity constraints would create speed and reliability issues on our mobile network and could cause significant service issues for our customers. Such service issues would likely result in customer dissatisfaction and could potentially lead to increased customer deactivation rates (also referred to as customer churn rates) and damage to our reputation. This could, in turn, have a material adverse impact on our business strategy and brand, and may result in us losing market share and being unable to grow our business.

Although we may be able to grow our mobile network capacity and thereby alleviate some or all of these capacity constraints by acquiring additional spectrum, there is no assurance that we will be able to acquire additional spectrum on commercially reasonable terms or at all. In addition, while Ofcom may hold additional spectrum auctions in the future, no assurance can be given that such additional spectrum auctions will not also be delayed (whether due to legal challenges or otherwise at the discretion of

OUR RISK CONTINUED

Ofcom), or that they will be held at all. Although we intend to bid for additional spectrum if and when the auctions occur, we may be unsuccessful in acquiring spectrum at a commercially acceptable price, or at all, in particular given the number of other potential bidders for spectrum, some of which may have substantially greater financial resources than us. In the event we are unable to acquire spectrum as part of any future auction, we may be unable to acquire additional spectrum by means of a commercial agreement with another spectrum licence holder. Such spectrum trading is rare in the U.K., any such agreement would be subject to Ofcom's consent and holders may be unwilling to sell spectrum to competitors for various strategic and commercial reasons.

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

Transformational

Our significant property, plant and equipment additions, namely in connection with our Network Extension, upgrade of our fixed-line network to full FTTP deployment of our 5G network and through the new fibre joint venture nexfibre to build a wholesale network in the U.K., may not generate a positive return.

Significant additions to our property, plant and equipment are, or in the future may be, required to add customers to our networks and to upgrade or expand our broadband communications networks and upgrade CPE to enhance our service offerings and improve the customer experience. Additions to our property, plant and equipment, which are currently underway, including in connection with our Network Extension and deployment of our 5G network, or are planned such as our intention announced in July 2021 to upgrade our fixed-line network to full FTTP, require significant capital expenditures for equipment and associated labour costs to build out and upgrade our networks as well as for related CPE. In particular, we have incurred, and will in the future incur, significant capital expenses for the deployment of new technologies such as our 5G network related to the purchase of frequencies and the deployment of network infrastructures for our mobile operations. New technologies and the use of multiple applications increasing customers' bandwidth requirements could lead to saturation of the networks and require Telecommunications operators to make additional investments to increase their infrastructure capacity. Additionally, significant competition, the introduction of new technologies, the expansion of existing technologies, such as Fibre to the 'x' (**FTTx**) and advanced Digital Subscriber Line (**DSL**) technologies, the impact of natural disasters, or adverse regulatory developments could cause us to decide to undertake previously unplanned builds or upgrades of our networks and CPE.

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

On 29 July 2022, Liberty Global and Telefónica announced an agreement with investment firm InfraVia Capital Partners to form a new fibre joint venture to build a wholesale FTTH network in the U.K., the transaction completed in December 2022 under the brand name nexfibre. nexfibre will roll out fibre to 5 million greenfield homes not currently served by VMED O2's network by 2026, with the opportunity to expand to an additional approximately 2 million greenfield homes. VMED O2 will commit to being an anchor tenant of the new network, extending its total fibre footprint to up to 23 million homes, as well as providing its well-established network expansion expertise, systems and relationships to nexfibre, including construction, IT, technology and corporate services.

The expected benefits and synergies from the Joint Venture Transactions may not materialise.

As a result of the Joint Venture Transactions, we expect to achieve certain benefits and synergies discussed elsewhere in this annual report relating to the operations of Virgin Media and O2. We may not realise any or all of the anticipated synergies of the Joint Venture Transactions that we currently anticipate. For more information regarding the synergies, see page 5. Our estimated synergies from the Joint Venture Transactions are subject to a number of assumptions about the timing, execution and costs associated with realising such synergies as well as the business model of the Joint Venture. In addition, we may be presented with significant costs and challenges in connection with the integration of Virgin Media and O2. Such assumptions are inherently uncertain and are subject to a wide variety of significant business, economic and competition

OUR RISK CONTINUED

risks and uncertainties. There can be no assurance that such assumptions will turn out to be correct and, as a result, the amount of synergies that we will actually realise and the timing of any such realisation may differ significantly from (and may be significantly lower than) the ones that we currently estimate. In addition, there can be no assurance that the business objectives of the Joint Venture Transactions will be achieved, particularly as the achievement of the benefits are, in many important respects, subject to factors that we do not control, including the responses of third parties with whom Virgin Media and O2 enter into contracts and do business.

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

As a result of the Joint Venture Transactions, we have recorded a significant amount of goodwill, which could be subject to impairment. We have recorded substantial amounts of goodwill and intangible asset values in connection with the Joint Venture Transactions. The intangibles have been recorded based upon our estimates of their fair values, and goodwill has been recorded based on the excess of the amounts paid as part of the Joint Venture Transactions based on the fair value of the Joint Venture's net assets at the date of the respective Contributions. As of 31 December 2022, an amount of £8.2 billion and £12.8 billion of intangibles subject to amortisation, net, and goodwill, respectively, was recorded with respect to the Joint Venture Transactions. Following the recording of the fair value of the net assets contributed in connection with the Joint Venture Transactions, we may subsequently experience unforeseen issues with VMED O2's business, which may adversely affect the anticipated returns or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets related to the Joint Venture Transactions. If management's projections used in its fair value calculations change, the estimated fair value could decline significantly and result in impairment. While impairments do not impact our measure of Adjusted EBITDA[1], Operating FCF or reported cash flows, the related non-cash charge in the income statement could have a material adverse effect on our results of operations, net equity or financial condition.

Financial

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

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

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

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

1. The APMs, including 'Adjusted' and 'Transaction Adjusted', are applied consistently throughout the Annual Report. The APMs are defined in full and reconciled to the reported statutory measure in note 32 of the Notes to the Consolidated Financial Statements.

OUR RISK CONTINUED

The phasing out of LIBOR will result in a new reference rate being applied to our LIBOR indexed, which may not be the same as the new reference rate applied to our LIBOR-indexed derivative instruments, and will have to be adjusted for.
In July 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Additionally, the European Money Markets Institute (the authority that administers EURIBOR) announced that measures needed to be undertaken by the end of 2021 to reform EURIBOR to ensure compliance with E.U. Benchmarks Regulation. In November 2020, ICE Benchmark administration (the entity that administers LIBOR) announced its intention to continue publishing USD LIBOR rates until 30 June 2023, with the exception of the one week and two-month rates which, along with all GBP LIBOR rates, it intended to cease publishing after 31 December 2021. Furthermore, in November 2022, the U.K. Financial Conduct Authority proposed that certain tenors of USD LIBOR would continue to be published on a synthetic basis until the end of September 2024.

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

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

Our 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 loan documents in the event that either the LIBOR rate or the EURIBOR rate is not available. Further, in December 2021, we amended our loan documents such that the reference rate for our sterling denominated loans would be determined based upon SONIA plus a credit adjustment spread once GBP LIBOR was no longer published and, through the Fallback Protocol, this will also be the new reference rate for our GBP LIBOR-indexed derivative instruments.

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

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

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

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

OUR RISK CONTINUED

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.

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

At 31 December 2022, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £1,456.6 million, (ii) aggregate undrawn debt facilities of £2,118.0 million and (iii) cash and cash equivalent and restricted cash balances of £87.4 million. For more information on our debt and derivative instruments, see notes 14 and 18, respectively, to our consolidated financial statements.

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

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

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

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

OUR RISK CONTINUED

Strategic transactions present many risks, and we may not realise the financial and strategic goals that were contemplated at the time of any transaction.

From time to time we have made acquisitions, dispositions and have entered into other strategic transactions (including spectrum auctions). In connection with such transactions, we may incur unanticipated expenses, fail to realise anticipated benefits and synergies, have difficulty integrating the combined businesses, disrupt relationships with current and new employees, customers and suppliers, incur significant indebtedness or experience delays or fail to proceed with announced transactions. These factors could have a material adverse effect on our business and our reputation.

Economical and Political

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

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

We are subject to significant regulation, and changes in U.K. laws, regulations, governmental policy affecting the conduct of our business, or other risks relating to claims, may have a material adverse effect on our ability to set prices, enter new markets or control our costs.

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

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

OUR RISK CONTINUED

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

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

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

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

OUR RISK CONTINUED

Supply chain

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

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

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

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

OUR RISK CONTINUED

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

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

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

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

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

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

OUR RISK CONTINUED

The Joint Venture will depend on Liberty Global and Telefónica as well as third-party suppliers and licensors to supply necessary equipment, software and certain services required for the Joint Venture's business.
The Joint Venture will rely on the Joint Venture Parents for the continued provision of key services, processes, resources and other assets (collectively, the **Business Services**) to support the business operations of VMED O2. Material services, resources or other assets will be provided either: (i) directly to the Joint Venture by the Joint Venture Parents (or other entities within their respective groups); or (ii) provided by third parties under arrangements in place with the Joint Venture Parents (or other entities within their respective groups). The continued provision of these services will be addressed by a services agreement between the Joint Venture and each of its Joint Venture Parents. If either Joint Venture Parent (or any other service provider within their respective groups) fails to perform its obligations under the services agreement, the Joint Venture will be required to provide those Business Services itself or to obtain substitute arrangements with third parties. The Joint Venture may be unable to provide the Business Service internally because of technical, financial or other constraints and may be unable to implement substitute arrangements with third parties on a timely basis on terms that are commercially acceptable and cost-effective. A failure by either Joint Venture Parent to provide Business Services in accordance with the services agreement could have a material adverse impact on the operations of VMED O2.

ESG

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

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

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

OUR RISK CONTINUED

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

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

People

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

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

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

Corporate Governance Report

Corporate Governance Statement

For the year ended 31 December 2022, in accordance with the Companies (Miscellaneous Reporting) Regulations 2019, the Company has applied the Wates Corporate Governance Principles for Large Private Companies during the reporting year as summarised below.

Principle One: Purpose and Leadership

The Board (Joint Venture Board) provides entrepreneurial leadership which sets out the Group's long-term strategic direction and challenge to the Executive Management Team's (**Executives**) implementation of the strategy to deliver sustainable success and value to the Group's stakeholders.

The Executives, in collaboration with the senior and middle management teams (**Leadership**), have established the broader behaviour framework: (1) Customer-First: customers at heart of everything we do, (2) Play at Pace: develop customer offerings in an efficient and timely manner; and (3) Speak Up: empower everyone to speak up to make a difference for the good of the organisation. The behaviour framework is underpinned by the Group's values: Brave, Real and Together. During the year, the Executives held a Leadership event and embarked on several roadshow events. This provided the opportunity for further discussions with employees, to promote the desired corporate culture across the Group.

Further details of how the Group has delivered on its purpose during the year is set out in the Divisional Overview on page 19.

Principle Two: Board Composition

The Board consists of mixed nationalities and continues to remain fit for purpose in relation to the size and complexity of the Group, given the collective expertise and global experience of the Board members. The Board consists of eight Shareholder Directors who are independent from the Group's activities. The provisions to deal with conflicts of interest are set out in the Company's articles and the Shareholders' Agreement. In addition, any permitted conflicts of interest between the Company and the Shareholders is overseen by the Framework Service Agreement, which sets out the rules of engagement between the Shareholders and the Group.

The Chair of the Board does not have a casting vote. The Chair is rotated biennially between the Shareholders and the first Chair is a Liberty Global Shareholder Director up until 31 May 2023. The Board has ultimate control of the Group's governance framework and retains oversight and accountability of certain Shareholder Reserved Matters as determined by the Shareholders Agreement.

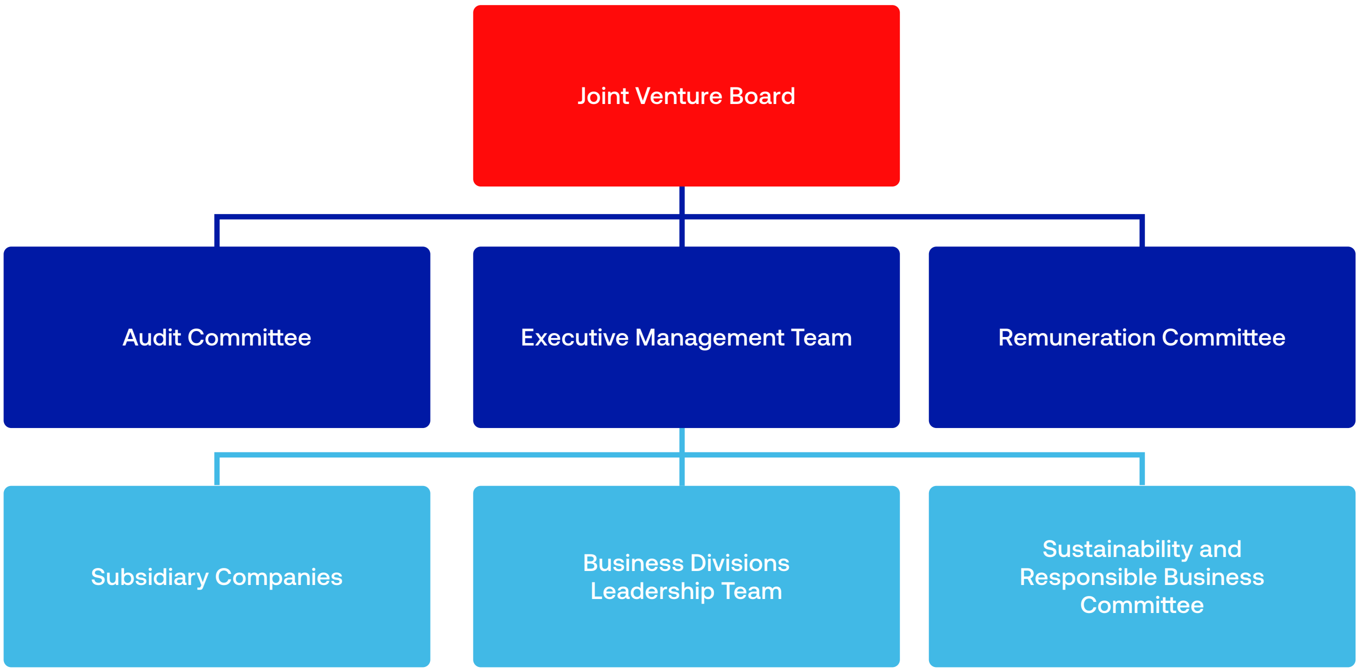
The Executive Management Team has the delegated authority for the day-to-day management and operational control of the Group's activities in accordance with the business plan in place from time to time. The Executives, led by the Chief Executive Officer (**CEO**), are gender diverse and of mixed nationalities with diverse skills and a wealth of experience and expertise. Details of the Executive Management Team's biographies can be found on the corporate website.

The Executives are supported by the Leadership team, which comprises of professional and experienced individuals that oversee specific business divisions. The Leadership team regularly update and advise the Board and Executives on significant matters which impact their business divisions.

The Sustainability and Responsible Business (**SRB**) Committee is a committee of the Executives, chaired by the Chief Communications and Corporate Affairs Officer. The SRB has the delegated authority to develop and implement the Group's sustainability strategy. The SRB members are part of the Leadership team and are responsible for the sustainability initiatives in their respective business divisions. Further details of the Group's responsible business approach are reported on page 39 of the report.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Governance Framework



Principle Three: Directors Responsibilities

The role of the Chair of the Board is separate from the CEO, who is not a Board member but attends the Board meetings to provide updates on the Executives delegated responsibilities. The structure allows the Board to meticulously challenge the implementation of the Group's strategy, position and performance. The Board is assisted by the Audit Committee which have clear terms of reference and consists of two Board members in addition to the Shareholders' General Counsels. The Audit Committee oversees the Group's risk management and internal control framework. The Remuneration Committee, whose detailed terms of reference consists of two Board members, are responsible for setting the remuneration policy and practices for the Group.

The Board and Executives are ultimately responsible for the Group's internal control framework, and together with the Leadership team are committed to maintaining a robust control framework which accords with the delivery of good governance, and the effective oversight of the operational controls through the delegation of authority processes. Further details of our internal control framework are set out in the Anti-bribery and Corruption Framework on page 40.

The Board has monthly meetings with standing agenda items of strategic importance to ensure enough oversight of the Group's position and performance. The Board process is reviewed periodically to ensure that it continues to remain fit for purpose. During the year, the Chair and the Company Secretary revised the Board protocol to further ensure that the quality and integrity of information provided to the Board is reliable and timely.

Principle Four: Opportunity and Risk

The Board oversees the development and implementation of the Group's strategy, including how the Group remains relevant within a highly competitive environment. The Group's key risks and mitigations are outlined in the Risk Factors section of the Strategic Report on page 74. The Executives are responsible for the identification and management of risks across the Group. The day-to-day operational risks are managed in the respective business divisions and overseen by the Group's Risk Management Function. The Group's risk appetite is determined by the Executives, who receive regular updates on the consolidated risk profiles.

During the year, the Group consolidated the Virgin Media and O2 risk management reporting framework. The Board has delegated the oversight of the Risk Management Framework to the Audit Committee which receives quarterly updates on the priority risks based on materiality and primary risks ranked in order of the priority risks exposure (impact and likelihood) within the consolidated group risks, in addition to any emerging risks in the horizon. The Audit Committee reviewed the Executives response to the Group's financial, economic, and operational risks profiles and were satisfied that the Executives have appropriate strategies in place to mitigate any material risks to the Group's performance and long-term sustainability.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Group's internal control framework incorporates preventative activities, covering such aspects as Group policy management, continuous monitoring and risk management, alongside the detective assurance activities of internal audit function. The control activities enable the Group to meet its objectives and to sustain and improve performance, whilst providing the required level of oversight for the Executives, Audit Committee and Board. The independent assurance activities include assessments of the internal controls over the financial reporting control framework at least annually which is undertaken by the internal audit team. The audit plan is reviewed and approved by the Audit Committee annually. The External Auditors have quarterly meetings with the Audit Committee to provide an update on the review of the processes and procedures.

Principle Five: Remuneration

The Board members are not remunerated by the Group. The Remuneration Committee has the delegated authority to make recommendations to the Board (i) to set and assess the Group's remuneration policy and practices that foster the retention and attraction of highly skilled talent, long-term succession planning, incentivise high performance to drive the achievement of the Group's Vision and long-term Strategy, in a way that represents a positive and entrepreneurial culture through short and long-term decision-making; (ii) approve certain senior level nominations and remuneration packages; and (iii) define policies for certain senior level appointments, and such other employee related matters as the Board may determine from time to time.

To align the success of the Leadership team with the sustainable success of the Group's business activities, part of the Executives and Leadership Team's remuneration are 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, customer satisfaction and sustainability objectives. The long-term variable remuneration is linked to the long-term value creation in the Group by measuring key financial objectives aligned to the 3-year strategy.

The remuneration of the workforce is determined by the Executives, ensuring that proposals are balanced, proportionate, and aligned with Group's commitment to build a diverse and inclusive workforce. The Group companies within the scope of the gender pay gap regulations comply with the obligation to publish their gender pay gap report. Insight from gender pay gap reports has informed the Group's diversity and inclusion policies put in place during the year. Details of the Executives Remuneration are disclosed in the notes the Financial Statements on page 113.

Principle Six: Stakeholder Relationship and Engagement

The Board is aware that the Group's stakeholders are important for the successful delivery of the Group's ambition and purpose. Given the complexity of the Group, the Executives have the delegated responsibility of the stakeholders in their respective business divisions and periodically report to the Board and Audit Committee on matters of strategic importance.

The Group's stakeholders' engagements are discussed below with further details on the Section 172 Statement on page 67.

Employees

The opinions of our employee are important to us, and we place great emphasis on receiving regular feedback through our engagement surveys. Our latest pulse survey had an 83% response rate and an engagement score of 79. This engagement score is calculated using 6 questions from our survey provider, Willis Towers Watson. These questions are externally benchmarked, as well as used as a comparison to our previous surveys. We have maintained the engagement score since 2021. The survey highlighted several key strengths within this question set alongside our Hot Topics – 86% of respondents feel proud to be associated with the company, 87% of the respondents stated that their performance has improved by conversations with their line managers and 84% of respondents confirmed that they get a personal sense of accomplishment from their work. The results of the survey are shared with the Executives and the Chief Human Resources Officer gives regular updates to the CEO on engagement across the business. There was also a positive response (84%) to the new family friendly policies, which allow people to take time away from work at moments that matter.

We have employee groups with key representatives across the Group whose role is to think holistically about the issues and concerns for employees in their business divisions. Through these groups we are able to get more regular insights into the sentiment in the business, address any concerns and ensure that follow up actions are adhered to. Further details of our employee strategy can be found in the Our Employees section on page 45.

Customers

Customer satisfaction is essential to our long-term success and putting our customers first is, and will always be, a foundational strategic priority for our organisation. Our large customer base has broad needs and expectations and as a Group, we remain focused on meeting and exceeding as many of our customers' expectations given the continuing challenges with the economic outlook.

Our customers expect quality products and services at an affordable price, customer care and loyalty. We interact with our customers through customer segmentation on the types of product offerings at different lifecycle stages. We continually analyse and implement measures to improve our customers' experience. Customer insights from the NPS, Social Media community and focus groups enable us identify customers' pain point to make improvements where necessary. Management receives monthly updates on the NPS, which is tracked across the business and provides great insight on the decision making on the types of product and services offering.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Regulators

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

Ofcom

Making things better for our customers is at the heart of everything we do. As a major player in the industry we proactively engage with Ofcom and the wider industry on matters of concern to our customers. During the year we responded to several Ofcom consultations and discussions: (1) to Ofcom's mobile strategy consultation paper making a case for a proactive regulatory approach to the mobile markets; (2) potential release of mmWave Spectrum; and (3) improving the future availability of mobile. At our request, Ofcom amended our 2.6 GHz TDD spectrum licence to allow unrestricted use of our spectrum holding necessary to improve our services to customers.

ICO

As a group we use data to operate our business and to deliver better outcomes for our customers, our business, and society generally. As part of the Business integration, during the year, the Group established a single Data Protection Office (**DPO**) headed by the Data Protection Officer. The DPO manages the relationship with the ICO and provides advice and support on data protection matters across the Group. In the last 12 months, the DPO has engaged positively with the ICO; our engagement has focussed on sharing Virgin Media O2's approach to data protection and demonstrating our commitment to upholding people's fundamental rights, including their data protection rights. During the year, the International Data Transfer Agreement (**IDTA**) gained parliamentary approval in March 2022. As a result, we have updated our processes and procedures including contractual clauses to ensure compliance with the regulations and set up a governance protocol for international transfers including an appropriate transfer risk assessment.

Financial Conduct Authority (FCA)

The Group has three regulated subsidiaries that are authorised to provide consumer credit and insurance services. Given the economic crisis the FCA's continuing focus is on helping customers, promoting competition and growth through higher conduct standards for the regulated firms. As a business, we have identified and delivered a range of measures to better support the impact of the cost of living for our customers. The FCA has published the Consumer Duty Regulations with the implementation deadlines in two phases (1) 31 July 2023 for products on sale at that point or thereafter, and (2) 31 July 2024 for products that are removed from sale before 31 July 2023. These regulations prioritise consumer outcomes and we have established our implementation plans which are underway to be delivered by the deadlines.

Suppliers

Oversight of supply chain sustainability management has been delegated to the Sustainability and Responsibility Business Council, a committee of the Executive Management Team. Engagement with strategic suppliers is managed through formal Vendor Management programmes with dedicated relationship leads and formal relationship reviews. It is important that our suppliers align with our code of conduct, which details our standards expected of suppliers with respect to environmental management, ethics and human rights. The Board continue to have zero tolerance towards modern slavery in the supply chain and receives updates on matters of concern to the suppliers. The Board approved the Group's Modern Slavery Report, which is published annually.

Routine and exceptional management reporting ensures appropriate stakeholder visibility at all relevant tiers of management both within Virgin Media O2 and its shareholder parents.

We are aware of the wider economic pressures on our supply chain and continue to maintain the priority of supply continuity and service quality. Examples of supplier engagement can be found in the Section 172 Statement on page 67. Further details of our responsible business plan can be found in the Sustainability Section on page 39.

Communities

Our Better Connections Plan is our Group's sustainability framework which sets out our ambition to create a more connected future for our customers and the communities we serve. Our plan is centred on three pillars: (1) Carbon: to become net zero carbon operations, products and supply chain by 2040; (2) Circularity: to achieve zero waste operations and products and focusing our efforts on re-use and recycling of devices or donation to people in need; and (3) Communities: to eradicate data poverty and reduce digital exclusion by providing phones, data and affordable tariffs and services to people who need them.

Investors

It is important for us to engage proactively with all our investors providing effective and regular dialogue to ensure that feedback is clearly understood in order to support understanding of the Group or areas of concern and meet our obligations.

Independent Auditor's Report

To the Board of Directors VMED O2 UK Holdings Ltd:

Opinion

We have audited the consolidated financial statements of VMED O2 UK Holdings Ltd and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2022, and 2021, and the related consolidated statements of profit or loss, comprehensive income (loss), changes in equity, and cash flows for the periods then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the periods then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

KPMG LLP
London, U.K.
24 March 2023

Consolidated Financial Statements

Consolidated statements of financial position

	Note References	31 December 2022 in millions	31 December 2021 in millions
ASSETS			
Non-current assets:			
Intangible assets, net	10	£ 21,054.1	£ 22,036.7
Property, plant and equipment, net	10 and 15	9,474.3	9,757.9
Investments	20	9.6	8.9
Deferred tax assets	24	69.4	73.0
Related-party notes receivable	19 and 25	10,807.4	8,796.3
Derivative instruments	18 and 19	1,700.3	398.9
Retirement benefit asset	22	360.2	369.0
Trade receivables and other non-current assets	11, 23 and 25	383.7	363.2
Total non-current assets		**43,859.0**	**41,803.9**
Current assets:			
Trade receivables and other current assets	11, 23 and 25	2,317.9	2,160.0
Derivative instruments	18 and 19	362.7	95.6
Inventory	13	178.6	157.6
Related-party receivables	25	26.0	223.1
Cash and cash equivalents		46.0	48.3
Total current assets		**2,931.2**	**2,684.6**
Total assets		**£ 46,790.2**	**£ 44,488.5**
LIABILITIES AND OWNER'S EQUITY			
Non-current liabilities:			
Non-current debt and lease obligations	14, 15, 19 and 25	£ 17,507.5	£ 16,211.0
Retirement benefit obligation	22	4.3	4.5
Non-current portion of provisions	16	154.5	171.4
Derivative instruments	18 and 19	421.9	734.5
Deferred tax liabilities	24	1.0	7.5
Trade payables and other non-current liabilities	12, 23 and 25	227.1	251.5
Total non-current liabilities		**18,316.3**	**17,380.4**
Current liabilities:			
Trade payables and other current liabilities	12, 23 and 25	3,763.1	3,720.4
Current tax payable	24	1.8	32.0
Derivative instruments	18 and 19	269.0	191.5
Provisions	16	37.5	31.1
Current portion of debt and lease obligations	14, 15 and 19	3,008.9	2,379.0
Total current liabilities		**7,080.3**	**6,354.0**
Total liabilities		**25,396.6**	**23,734.4**
Owner's equity:			
Additional paid-in capital (**APIC**)	27	20,773.8	20,773.8
Accumulated profit (loss)	27	720.6	(58.6)
Accumulated other comprehensive income (loss)	27	(100.8)	38.9
Total owner's equity		**21,393.6**	**20,754.1**
Total owner's equity and liabilities		**£ 46,790.2**	**£ 44,488.5**

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

Consolidated statements of profit or (loss)

	Note References	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Revenue	5 and 25	£ 10,360.0	£ 6,158.2
Cost of sales	25	(3,425.8)	(2,217.6)
Gross profit		**6,934.2**	**3,940.6**
Personnel expenses	8 and 22	(690.4)	(419.3)
Other expenses	15, 21 and 25	(2,493.0)	(1,432.3)
Depreciation and amortisation	10	(3,553.9)	(2,041.8)
Operating profit	6	**196.9**	**47.2**
Finance income	23 and 26	4,589.9	549.7
Finance costs	23 and 26	(4,023.1)	(729.4)
Net finance income (costs)		**566.8**	**(179.7)**
Share of results of equity method investments	20	0.7	0.2
Other income (expense), net		(3.6)	1.0
		563.9	**(178.5)**
Profit (loss) before income taxes		**760.8**	**(131.3)**
Income tax (expense) benefit	24	(7.2)	49.3
Net profit (loss)		**£ 753.6**	**£ (82.0)**

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

Consolidated statements of comprehensive income (loss)

	Note References	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Net profit (loss)		**£ 753.6**	**£ (82.0)**
Other comprehensive income (loss), net of taxes:			
Items that have been or may be reclassified to the statement of profit or loss			
Foreign currency translation adjustments		30.8	13.3
Items that will not be reclassified to the statement of profit or loss			
Pension-related adjustments and other	22	(170.5)	25.6
Other comprehensive (loss) income		**(139.7)**	**38.9**
Comprehensive income (loss)		**£ 613.9**	**£ (43.1)**

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

Consolidated statements of changes in equity

	APIC[a] in millions	Accumulated profit (loss) in millions	Accumulated other comprehensive income (loss) in millions	Total owner's equity in millions
Balance at 1 January 2022	**£ 20,773.8**	**£ (58.6)**	**£ 38.9**	**£ 20,754.1**
Net profit	—	753.6	—	753.6
Other comprehensive loss	—	—	(139.7)	(139.7)
Share-based compensation	—	25.6	—	25.6
Balance at 31 December 2022	**£ 20,773.8**	**£ 720.6**	**£ (100.8)**	**£ 21,393.6**

	APIC[a] in millions	Accumulated loss in millions	Accumulated other comprehensive income in millions	Total owner's equity in millions
Balance at 1 June 2021	**£ 20,773.8**	**£ —**	**£ —**	**£ 20,773.8**
Net loss	—	(82.0)	—	(82.0)
Other comprehensive income	—	—	38.9	38.9
Share-based compensation	—	23.4	—	23.4
Balance at 31 December 2021	**£ 20,773.8**	**£ (58.6)**	**£ 38.9**	**£ 20,754.1**

(a) APIC includes share premium and the merger reserve (as described in note 27) resulting from the September 2021 Transactions (as defined in note 3). The total value recognised in APIC represents the value required to be recognised after purchase price accounting as a result of the JV Transaction (as defined in note 1).

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

Consolidated statements of cash flows

	Note References	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Cash flows from operating activities:			
Net profit (loss)		£ 753.6	£ (82.0)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
Share-based compensation expense	21	43.6	23.4
Depreciation and amortisation	10	3,553.9	2,041.8
Impairment, restructuring and other operating items, net	10, 16 and 20	61.8	37.4
Amortisation of debt premiums, deferred financing costs and non-cash interest	14	(8.6)	(5.5)
Realised and unrealised gains on derivative instruments, net	18 and 23	(2,188.2)	(379.1)
Foreign currency transaction losses, net	23	1,103.5	310.5
Losses on debt extinguishment, net	14 and 23	—	0.3
Deferred income tax expense (benefit)	24	52.3	(2.2)
Interest paid		(827.7)	(368.5)
Income taxes paid		(2.8)	(6.9)
Changes in operating assets		(279.0)	(612.6)
Changes in operating liabilities		1,101.2	862.5
Net cash provided by operating activities		**3,363.6**	**1,819.1**
Cash flows from investing activities:			
Capital expenditures, net	10	(1,522.2)	(748.1)
Net advances to related parties	25	(2,106.0)	(625.1)
Other investing activities, net		67.1	—
Net cash used by investing activities		**£ (3,561.1)**	**£ (1,373.2)**
Cash flows from financing activities:			
Repayments of third-party debt and lease obligations	14 and 15	£ (3,464.0)	£ (3,447.7)
Borrowings of third-party debt	14	3,338.5	2,903.4
Net repayments of related-party debt	25	(49.3)	—
Payment of financing costs and debt premiums	14	(13.6)	(27.6)
Net cash received related to derivative instruments	18	381.2	26.9
Other financing activities, net		(0.3)	(7.2)
Net cash provided (used) by financing activities		**192.5**	**(552.2)**
Effect of exchange rate changes on cash and cash equivalents		3.1	0.6
Net decrease in cash and cash equivalents and restricted cash		(1.9)	(105.7)
Cash and cash equivalents and restricted cash:			
Beginning of period		89.3	195.0
End of period		**£ 87.4**	**£ 89.3**
Details of end of period cash and cash equivalents and restricted cash:			
Cash and cash equivalents		£ 46.0	£ 48.3
Restricted cash included in trade receivables and other current assets and trade receivables and other non-current assets		41.4	41.0
Total cash and cash equivalents and restricted cash		**£ 87.4**	**£ 89.3**

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

Notes to consolidated financial statements 31 December 2022

1. Basis of Presentation

VMED O2 UK Holdings Limited (**VMED O2**) is a private company, incorporated, domiciled and registered in the United Kingdom (**U.K.**) The registered number is 13047827 and the registered address is 500 Brook Drive, Reading, RG2 6UU.

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

In these notes, the terms 'we,' 'our,' 'our Company' 'our Group' and 'us' may refer, as the context requires, to VMED O2 or collectively to VMED O2 and its subsidiaries. As of 31 December 2022, the primary subsidiaries of VMED O2 include (i) Virgin Media Inc. and its subsidiaries (collectively, **Virgin Media**) and (ii) O2 Holdings Limited and its subsidiaries (collectively, **O2**).

VMED O2 is a wholly-owned subsidiary of VMED O2 UK Limited, which is a 50:50 joint venture (the **Joint Venture**) that was formed on 1 June 2021 between Liberty Global plc (through Liberty Global Europe 2 Limited) (**Liberty Global**) and Telefónica, SA (through Telefónica O2 Holdings Limited) (**Telefónica**) (the **JV Transaction**) (the **Shareholders**). Prior to the completion of the JV Transaction, (i) Virgin Media was a wholly-owned subsidiary of Liberty Global that provided fixed and mobile communications services in the U.K. and (ii) O2 was a wholly-owned subsidiary of Telefónica that provided mobile communications services in the U.K.

These consolidated financial statements were authorised for issue following review by the Audit Committee of the Joint Venture. These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through 24 March 2023.

2. Accounting Policies

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

Basis of Accounting

The principal accounting policies adopted by VMED O2 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 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.

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 of 31 December 2022.

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

Joint arrangements are defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities required the unanimous consent of the parties sharing control. For additional information regarding our joint arrangements, see the relevant section below under Joint Arrangements.

Going Concern

The financial statements have been prepared on a going concern basis. The following paragraphs summarise the basis on which we have reached our conclusion.

After making suitable enquiries and obtaining the necessary assurances, we have a reasonable expectation that we have adequate resources to continue in operational existence for the foreseeable future.

It is VMED O2's practice for operational and financial management to be undertake 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's 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 for reasonably possible downsides in trading performance, prepared for the Group as a whole, indicate the 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 date of this report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

Business Combinations under Common Control

Business combinations between entities that are under common control are accounted for at book value. The assets and liabilities acquired or transferred are recognised or derecognised at the carrying amounts previously recognised in the ultimate controlling parent company's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity and any gain or loss arising is recognised directly in equity.

On 16 September 2021, as part of certain joint venture reorganisation transactions, VMED O2 UK Limited made a contribution to VMED O2, comprising VMED O2 UK Limited's then ownership interests in (i) Virgin Media (ii) O2 and (iii) VMED O2 UK Financing I plc, in exchange for ordinary shares, issued at a premium.

These transactions have been accounted for as common control transfers, under the pooling interest method and, accordingly been reflected at carry over basis as of 1 June 2021, see note 3.

Foreign Currency Translation and Transactions

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

Intangible Assets

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

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

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

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

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

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

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

Property, Plant and Equipment

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

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

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

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 a finance cost.

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

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

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

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 for all leases less than £5,000 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 or 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 B2B customers for use of various network assets. For arrangements which meet the criteria to be recognised as a finance lease, we derecognise the asset and recognize a receivable at an amount equal to the net investment in the lease, recognising revenue arising from the lease component when control of the network asset is transferred to the customer.

Non-Derivative Financial Instruments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 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 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.

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

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

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

We derecognise a financial liability when its contractual obligations are discharged, cancelled or expired.

For information concerning the fair values of our debt and derivatives, see notes 14 and 18, respectively. For information concerning how we arrive at our fair value measurements, see note 19.

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

Derivative Instruments

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

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our consolidated statements 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 statements of cash flows.

For information regarding our derivative instruments, see note 18.

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.

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 our allowance for expected credit losses of trade receivables, see note 11.

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.

Cash and Cash Equivalents and Restricted Cash

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

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

Our significant non-cash investing and financing activities, if any, would be disclosed in our consolidated statements of owner's equity and in notes 10, 14, 15 and 18.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Employee Benefit Plans
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 the Company 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, the Company 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 statements of financial position. 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.

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

Sale of Multiple Products and Services. We sell broadband internet, video, 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 is allocated proportionally to the individual products or services based on the relative standalone selling price for each respective product or service.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

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

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

Contract Liabilities. We record contract liabilities when we receive payment prior to transferring goods or services to a customer. We primarily recognise contract liabilities for (i) installation and other upfront services which do not represent a separate performance obligation and (ii) other services that are invoiced prior to when services are provided.

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

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

Sales and Other VAT. Revenue is recorded net of applicable sales and other VAT.

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

For additional information regarding our revenue recognition and related costs, see note 11. For a disaggregation of our revenue by major category, see note 5.

Share-based Compensation
We recognise all share-based and long term incentive payments from Liberty Global and Telefónica to our employees, including grants of employee share-based incentive awards, based on their grant-date fair values and our estimates of forfeitures. We recognise share-based compensation expense as a charge to operations over the vesting period based on the grant-date fair value of outstanding awards, which may differ from the fair value of such awards on any given date. Where borne by our Company, payroll taxes incurred in connection with the vesting or exercise of share-based incentive awards are recorded as a component of share-based compensation expense in our consolidated statements 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 straight-line method to recognise share-based compensation expense for outstanding share awards to our employees that do not contain a performance condition and the accelerated expense attribution method for our outstanding share awards that contain a performance condition and vest on a graded basis.

For additional information regarding our share-based compensation, see note 21.

Critical Accounting Policies, Estimates and Judgements
In connection with the preparation of the consolidated financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Critical accounting policies are defined as those policies that are reflective of significant judgments, estimates and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe the following accounting policies are critical in the preparation of the consolidated financial statements because of the judgement necessary to account for these matters and the significant estimates involved, which are susceptible to change:
- Impairment of property, plant and equipment and intangible assets (including goodwill);
- Costs associated with construction and installation activities;
- Fair value measurements;
- Joint arrangements; and
- Income tax accounting.

(a) Impairment of Property, Plant and Equipment and Intangible Assets (including goodwill)
Carrying Value. The aggregate carrying value of our property, plant and equipment and intangible assets that was held for use comprised 65.2% of our total assets at 31 December 2022.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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 (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 the recoverable amount is less than carrying value, any excess would be charged to operations as an impairment loss. The recoverable amount is the higher of fair value less costs of disposal and value in use.

The determination of our CGU is judgmental, and involves an identification of the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The CGU we use to evaluate goodwill for impairment is our sole reportable segment reflecting our mobile, broadband internet, video and fixed-line telephony business delivered across our fixed-line and mobile networks in the U.K.

An impairment loss will be recognised when the recoverable amount, being the higher of the CGU's value-in-use and fair value less costs of disposal, of a CGU is less than the carrying amount at the date of testing. When required, considerable management judgement is necessary to estimate the recoverable amount of our sole CGU and underlying non-current and indefinite-lived assets. We typically determine value in use 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. Future cash flows used in the value-in-use calculation are based on five-year financial forecasts in the strategic plan, as approved by senior management and the board. The process of preparing the strategic plan takes into account current market conditions and challenges, the macroeconomic, competitive, regulatory and technological environment, the CGU's competitive position and future growth opportunities.

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.

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

(c) Fair Value Measurements

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

Recurring Valuations. We performed 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 notes 18 and 19.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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 2022 and period from 1 June 2021 to 31 December 2021, we recognised net gains of £2,188.2 million and £379.1 million, respectively, attributable to changes in the fair values of these items.

As further described in note 19, actual amounts received or paid upon the settlement of our derivative instruments may differ materially from the recorded fair values at 31 December 2022.

Non-recurring Valuations. Our non-recurring valuations are primarily associated with the application of acquisition accounting which require fair value determinations as of the applicable valuation date. Accounting for the Joint Venture formation has also required a non recurring valuation. In making these determinations, we are required to make estimates and assumptions that affect the recorded amounts, including, but not limited to, expected future cash flows, market comparables and discount rates, remaining useful lives of non-current assets, replacement or reproduction costs of property, plant and equipment and the amounts to be recovered in future periods from acquired net operating losses and other deferred
tax assets. To assist us in making these fair value determinations, we may engage third-party valuation specialists. Our estimates in this area impact, amongst other items, the amount of depreciation and amortisation, impairment charges and income tax expense or benefit that we report. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain. All of our non-current assets are subject to impairment assessments. For additional information, see note 19. For information regarding our non-current assets, see note 10.

(d) 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 statements of financial position and the consolidated statements of profit or loss, respectively.

We have determined our interests in CTIL, which is principally engaged in maintaining and managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone Limited (**Vodafone**) and Telefónica 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 our 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 our share of net assets of the joint venture since the acquisition date. The statement of comprehensive income (loss) reflects our share of the results of operations of the joint venture.

(e) Income Tax Accounting

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

Net deferred tax assets are recognised to the extent that the realisation of them is considered probable. Recognising deferred tax assets requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning strategies. The actual amount of deferred income tax benefits realised in future periods will likely differ from the net deferred tax assets reflected in our 31 December 2022 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 judgement is required to assess the impact of possible future outcomes on our current and deferred tax positions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

3. Joint Venture Formation

The Joint Venture was consummated on 1 June 2021, at which point VMED O2 UK Limited 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.

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

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

(a) Represents the estimated enterprise value as of 1 June 2021 of the Joint Venture. For additional information regarding certain fair value inputs used in the enterprise valuation, see note 19.
(b) The amounts represent estimated fair values as of 1 June 2021. For additional information regarding certain fair value inputs used in the enterprise valuation, see note 19.
(c) Other assets and liabilities primarily consist of net pension assets and derivative assets and liabilities.

Common Control Transfer

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

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

4. Recent Pronouncements

New Accounting Standards, Not Yet Effective

At the date of preparation of these consolidated financial statements, the following accounting standards and amendments to existing standards had been published, but their application is not mandatory:

Standards and amendments	Title	Mandatory application: annual periods beginning on or after
Amendments to International Accounting Standard (**IAS**) 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9	1 January 2023
Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	Optional

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

5. Segment Reporting

We have one reportable segment that provides mobile, broadband internet, video and fixed-line telephony services in the U.K. Our revenue by major category is set forth below:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Mobile[(a)]	£ 5,913.7	£ 3,514.0
Handset[(a)]	1,614.6	1,051.7
Fixed	3,953.6	2,372.2
Consumer fixed[(b)]	3,398.7	2,009.1
Subscription[(c)]	3,329.7	1,961.1
Other[(d)]	69.0	48.0
B2B fixed[(e)]	554.9	363.1
Other[(f)]	492.7	272.0
Total	**£ 10,360.0**	**£ 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 subscription and other revenues for ongoing services and the recognition of deferred installation revenue over the associated contract period.
(c) Consumer fixed subscription revenue includes 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 fixed-line and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period. Additionally, we include revenue from certain small or home office (**SoHo**) subscribers who 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.
(d) Consumer fixed other revenue includes, among other items, channel carriage fees, late fees and revenue from sale of equipment.
(e) B2B fixed revenue includes (i) revenue from business broadband internet and fixed-line telephony services offered to medium to large enterprises and, on a wholesale basis, to other operators and (ii) revenue from long-term leases of portions of our network.
(f) Other revenue includes revenue from the Smart Metering and Implementation Programme, the provision of information and communication technology services and associated connectivity to O2 business customers and other services. Beginning in December 2022 those other services include services provided to nexfibre.

Remaining Performance Obligations

The total future revenue from the remaining terms of our contracts with customers for performance obligations not yet delivered to those customers was estimated to be £7,272.0 million and £5,850.0 million as of 31 December 2022 and 2021, respectively. Future revenue is expected to be substantially recognised within 3 years.

No information has been provided about remaining performance obligations at 31 December 2022 or 2021 that was part of a contract with an original expected duration of less than one year.

6. Group Operating Profit

The details of certain charges (credits) included in group operating profit are set forth below:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Depreciation of property, plant and equipment (note 10)	£ 2,321.5	£ 1,303.4
Depreciation of ROU assets (note 15)	£ 201.3	£ 125.0
Amortisation of intangible assets (note 10)	£ 1,232.4	£ 738.4
Gain on disposal of property, plant and equipment	£ (4.3)	£ (6.3)
Cost of inventories recognised within cost of sales	£ 1,820.4	£ 1,178.4
Net impairment losses on financial and contract assets	£ 187.1	£ 106.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

7. Auditor's Remuneration

We paid the following amounts to the Group auditor in respect of the audit of the consolidated 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 the 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.

	31 December	
	2022 in millions	**2021 in millions**
Audit services:		
Audit of the parent Company and consolidated financial statements	£ 4.5	£ 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	0.3
Total	**£ 5.0**	**£ 0.5**

8. Staff Costs and Directors' Emoluments

Staff Costs

The total staff costs for the indicated periods are set forth below:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Wages and salaries	£ 892.1	£ 515.8
Social security costs	94.1	53.4
Pension costs — defined contribution plan	67.1	31.0
Share-based payments	43.6	23.4
Total	**£ 1,096.9**	**£ 623.6**

For further information on compensation of key management personnel, see note 9.

Average Staff Numbers

The average monthly number of employees for the indicated periods are set forth below:

	Year ended 31 December 2022	Period from 1 June 2021 to 31 December 2021
Sales and marketing	5,680	5,481
Operations	10,139	10,832
Administration	1,235	1,621
Average number of employees	**17,054**	**17,934**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Directors' Emoluments

	Year ended 31 December 2022 in thousands	Period from 1 June 2021 to 31 December 2021 in thousands
Directors' remuneration	£ 778.2	£ 881.0
Amounts paid under long-term incentive plans	88.3	452.8
Total	**£ 866.5**	**£ 1,333.8**
Company contributions paid to pension schemes	**£ 8.0**	**£ 53.5**
Highest paid director:		
Remuneration (including amounts paid under long-term incentive plans)	£ 436.6	£ 485.2
Company contributions paid to pension schemes	4.0	22.4
Total	**£ 467.6**	**£ 507.6**

	31 December	
	2022	**2021**
Number of directors accruing benefits under pension plans	2	6

There were no other transactions with directors during the year.

9. Key Management Personnel Compensation

Key management personnel comprise the board of directors and key senior management of our Company and our main subsidiaries, including employees of both Liberty Global and Telefónica, which are remunerated through our Shareholders. Their compensation for the indicated periods is as follows:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Salaries and short-term benefits(a)	£ 12.2	£ 5.3
Share-based compensation(b)	7.2	2.0
Total	**£ 19.4**	**£ 7.3**

(a) Salaries and short-term benefits include salaries, bonus, directors' fees and certain other cash and non-cash benefits
(b) Share-based compensation include charges for awards associated with ordinary shares of Liberty Global and Telefónica. In addition to the amounts in the table above, a payable of £4.0 million related to the JV long term incentive plan is due to key management with vesting expected during 2025. See note 21 for further information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

10. Intangible Assets and Property, Plant and Equipment

Intangible Assets

Changes in the carrying amounts of our goodwill and intangible assets subject to amortisation during the year ended 31 December 2022 and the period from 1 June 2021 to 31 December 2021 are as follows:

	Goodwill in millions	Customer relationships in millions	Service concession arrangements and licences in millions	Computer software in millions	Intangible assets in progress in millions	Total in millions
Cost:						
1 June 2021	**£ 12,847.9**	**£ 7,713.0**	**£ 1,461.7**	**£ 524.5**	**£ 67.7**	**£ 22,614.8**
Additions	—	—	—	73.2	86.1	159.3
Retirements, disposals and other	—	—	—	(6.5)	—	(6.5)
Assets transferred into service	—	—	—	63.4	(63.4)	—
31 December 2021	**12,847.9**	**7,713.0**	**1,461.7**	**654.6**	**90.4**	**22,767.6**
Additions	—	—	—	—	249.8	249.8
Retirements, disposals and other	—	—	—	(1.9)	—	(1.9)
Assets transferred into service	—	—	—	235.1	(235.1)	—
31 December 2022	**£ 12,847.9**	**£ 7,713.0**	**£ 1,461.7**	**£ 887.8**	**£ 105.1**	**£ 23,015.5**
Accumulated amortisation:						
1 June 2021	**£ —**	**£ —**	**£ —**	**£ —**	**£ —**	**£ —**
Amortisation	—	(499.9)	(78.3)	(160.2)	—	(738.4)
Retirements, disposals and other	—	—	—	7.5	—	7.5
31 December 2021	**—**	**(499.9)**	**(78.3)**	**(152.7)**	**—**	**(730.9)**
Amortisation	—	(857.0)	(92.5)	(282.9)	—	(1,232.4)
Retirements, disposals and other	—	—	—	1.9	—	1.9
31 December 2022	**£ —**	**£ (1,356.9)**	**£ (170.8)**	**£ (433.7)**	**£ —**	**£ (1,961.4)**
Intangible assets, net:						
31 December 2022	**£ 12,847.9**	**£ 6,356.1**	**£ 1,290.9**	**£ 454.1**	**£ 105.1**	**£ 21,054.1**
31 December 2021	**£ 12,847.9**	**£ 7,213.1**	**£ 1,383.4**	**£ 501.9**	**£ 90.4**	**£ 22,036.7**

Goodwill is not amortised, but is instead tested for impairment at least annually for our sole CGU. An impairment loss will be recognised when the recoverable amount of a CGU is less than the carrying amount at the date of testing.

The determination of our CGU is judgmental, and involves an identification of the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management considered that Virgin Media O2 as a whole is a single CGU as it meets the requirement noted above due to significant fixed mobile convergence and interlinked business units that align with management's ongoing monitoring of the business. For further details, please refer to the Accounting Policies section.

The determination of recoverable amount, being the higher of the CGU's value-in-use and fair value less costs of disposal, is inherently judgmental and requires management to determine certain estimates, including management's expectations of future revenue and net cash flows, discount rates and terminal growth rates.

Future cash flows used in the value-in-use calculation are based on five-year financial forecasts included as a part of the business' ten-year plan. A longer time horizon has been used for capital intensive projects such as our full fibre upgrade plan. Given the capital-intensive nature in the initial years, using a five-year period for the goodwill impairment analysis provides an imbalanced view of the net present value and the longer time horizon more accurately reflects the cash flows in the long run.

The process of preparing the business plan takes into account past experience, current market conditions and challenges, the macroeconomic, competitive, regulatory and technological environment, the CGU's competitive position and future growth opportunities. Management consider EBITDA margin, WACC, terminal growth rate (**TGR**), capital intensity ratio and terminal value tax rate to be key assumptions.

The average EBITDA margin growth assumed in the business plan over the projected period is 4.1%. This is based on past experience, future pricing strategy and consequent customer behaviour, procurement requirements and benchmarking performed against comparable companies in the sector.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Future cash flow forecasts are discounted using the post-tax WACC, determined by the weighted average cost of equity and debt according to our financing structure, and benchmarked against externally available data. The post-tax discount rate used in the value-in-use calculation as at 31 December 2022 and 31 December 2021 was 7.3% and 6.8%, respectively. The pre-tax discount rate at 31 December 2022 and 31 December 2021 was 8.3% and 7.7% respectively.

The terminal growth rate reflects our long-term growth prospects, the growth and maturity of the industry we operate in, and new technology developments. This is benchmarked against externally available data and analysts' estimates. The terminal growth rate used in the value-in-use calculation as at 31 December 2022 and 31 December 2021 was 1.0%.

The capital intensity ratio used in determining the terminal value free cash flow is based on the strategic plan and reflects that planned network upgrades will be stepped down over time towards a normalised level that is based upon our future capital requirements. The capital intensity ratio applied to the cash flow projections as at 31 December 2022 and 31 December 2021 was 16.0%.

The effective tax rate used in determining the post-tax free cash flow as at 31 December 2022 and 31 December 2021 was 24.3% and 24.1%, respectively. It is based on our current forecast corporation tax rates and the utilisation of available unused tax losses. This is sensitive to future changes in corporation tax rates and forecast of the utilisation of unused losses.

As at 31 December 2022 and 31 December 2021, the value-in-use exceeds the carrying value by approximately £0.3 billion and £1.5 billion, respectively. The recoverable amount exceeds the carrying value by less than 1%. The year-on-year reduction in headroom is amongst other factors predominantly driven by:
(a) Adverse economic and business conditions, political challenges and industry trends;
(b) Fluctuation in currency exchange rates and interest rates;
(c) Inflationary pressures impacting consumer disposable income and spending levels; and
(d) Certain events that are outside of our control, such as the ongoing invasion of Ukraine by Russia, which continues to impact energy prices.

Any of the following changes in assumptions in isolation will cause the recoverable amount to equal the carrying amount:
(a) A reduction in EBITDA margin by 0.44%, a reasonable possible change in EBITDA margin is expected to be 1%
(b) An increase in the discount rate from the current assumption by 0.05%, a reasonable possible change in discount rate is expected to be 0.5%
(c) A reduction in the terminal growth rate from the current assumption by 0.06%, a reasonable possible change in discount rate is expected to be 0.5%
(d) An increase in the capital intensity ratio by 0.28%, a reasonable possible change in capital intensity ratio is expected to be 1%
(e) An increase in the terminal value tax rate by 0.79%, a reasonable possible change in terminal value tax rate is expected to be 0.7%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Property, Plant and Equipment, Net

Changes in the carrying amounts of our property, plant and equipment, net, during the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021 are as follows:

	Plant and machinery in millions	Land and buildings in millions	Furniture, tools and other items in millions	Property, plant and equipment in progress in millions	Total in millions
Cost:					
1 June 2021	**£ 7,701.4**	**£ 982.9**	**£ 855.7**	**£ 349.3**	**£ 9,889.3**
Additions	551.7	72.1	39.3	527.5	1,190.6
Retirements, disposals and other	(47.6)	(11.9)	(0.4)	—	(59.9)
Assets transferred into service	120.7	9.4	74.7	(204.8)	—
31 December 2021	**8,326.2**	**1,052.5**	**969.3**	**672.0**	**11,020.0**
Additions	59.0	41.6	—	2,057.6	2,158.2
Retirements, disposals and other	(180.2)	(34.6)	(19.7)	(50.3)	(284.8)
Assets transferred into service	1,319.8	40.5	457.0	(1,817.3)	—
31 December 2022	**£ 9,524.8**	**£ 1,100.0**	**£ 1,406.6**	**£ 862.0**	**£ 12,893.4**
Accumulated depreciation:					
1 June 2021	**£ —**	**£ —**	**£ —**	**£ —**	**£ —**
Depreciation	(1,035.5)	(122.9)	(145.0)	—	(1,303.4)
Retirements, disposals and other	36.2	4.7	0.4	—	41.3
31 December 2021	**(999.3)**	**(118.2)**	**(144.6)**	**—**	**(1,262.1)**
Depreciation	(1,834.3)	(188.2)	(299.0)	—	(2,321.5)
Retirements, disposals and other	142.6	3.2	18.7	—	164.5
31 December 2022	**£ (2,691.0)**	**£ (303.2)**	**£ (424.9)**	**£ —**	**£ (3,419.1)**
Property, plant and equipment, net:					
31 December 2022	**£ 6,833.8**	**£ 796.8**	**£ 981.7**	**£ 862.0**	**£ 9,474.3**
31 December 2021	**£ 7,326.9**	**£ 934.3**	**£ 824.7**	**£ 672.0**	**£ 9,757.9**

During the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, we recorded non-cash increases to our property, plant and equipment related to vendor financing arrangements of £759.9 million and £361.2 million, respectively, which exclude related VAT of £145.6 million and £65.5 million, respectively, that were also financed under these arrangements.

11. Trade Receivables and Other Assets

The details of our trade receivables and other non-current and current assets are set forth below:

	31 December	
	2022 in millions	**2021 in millions**
Trade receivables and other non-current assets:		
Trade receivables	£ 128.3	£ 76.2
Contract assets	95.8	116.3
Prepayments	16.7	10.6
Restricted cash	41.4	40.8
Other	101.5	119.3
Total	**£ 383.7**	**£ 363.2**
Trade receivables and other current assets:		
Trade receivables	£ 1,142.0	£ 1,207.9
Contract assets	207.0	194.3
Prepayments	266.1	260.6
Unbilled revenue	199.3	161.5
Other	503.5	335.7
Total	**£ 2,317.9**	**£ 2,160.0**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

The detailed ageing of our trade receivables and the related allowance for expected credit losses is set forth below:

	31 December 2022		31 December 2021	
	Trade receivables, gross in millions	Allowance for expected credit losses in millions	Trade receivables, gross in millions	Allowance for expected credit losses in millions
Not past due	£ 1,133.6	£ (5.5)	£ 1,218.7	£ (31.4)
1 - 90 days	126.4	(26.6)	75.2	(10.4)
90 - 360 days	82.0	(55.8)	28.4	(14.4)
Over 360 days	30.3	(14.1)	33.4	(15.4)
Total trade receivables	**£ 1,372.3**	**£ (102.0)**	**£ 1,355.7**	**£ (71.6)**

The development of our allowance for expected credit losses of trade receivables for the indicated periods is set forth below (in millions):

Allowance at 1 June 2021	**£ —**
Increase in allowance for expected credit losses	(101.9)
Write-off of receivables	30.3
Allowance at 31 December 2021	**(71.6)**
Increase in allowance for expected credit losses	(159.4)
Write-off of receivables	129.0
Allowance at 31 December 2022	**£ (102.0)**

When a trade receivable is determined to be uncollectible, it is written off against the allowance for expected credit losses. The allowance for expected credit losses of trade receivables is included within other expenses in our consolidated statements of profit or loss.

The allowance for expected credit losses is based upon our assessment of probable loss related to uncollectible trade receivables. We use a number of factors in determining the allowance, including, amongst other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

Contract Costs
Our aggregate assets associated with incremental costs to obtain and fulfil our contracts were £143.8 million and £73.5 million at 31 December 2022 and 2021, respectively. The non-current and current portions of our assets related to contract costs are included within trade receivables and other non-current assets and trade receivables and other current assets, respectively, in our consolidated statements of financial position. We amortised £102.0 million and £61.2 million during the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, respectively, to operating costs and expenses related to these assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

12. Trade Payables and Other Liabilities

Trade payables are non-interest bearing and generally repayable on terms of up to 60 days. The details of our trade payables and other non-current and current liabilities are set forth below:

	31 December	
	2022 in millions	**2021 in millions**
Trade payables and other non-current liabilities:		
Contract liabilities (note 11)	£ 139.6	£ 164.4
Other	87.5	87.1
Total	**£ 227.1**	**£ 251.5**
Trade payables and other current liabilities:		
Trade payables	£ 1,378.6	£ 1,312.7
Contract liabilities (note 11)	554.5	592.2
Other taxes payable	548.3	553.9
Accrued capital expenditures	423.9	415.6
Accrued expenses	410.5	426.4
Other	447.3	419.6
Total	**£ 3,763.1**	**£ 3,720.4**

During the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, we recognised revenue of £545.2 million and £524.1 million, respectively, that was included in our contract liability balances at 31 December 2021 and 1 June 2021.

13. Inventory

Our inventory primarily consists of mobile devices and is presented net of provisions for obsolescence. As of 31 December 2022 and 2021, our inventory was £178.6 million and £157.6 million, respectively. There is no material difference between the carrying value of inventories and their replacement cost.

14. Debt

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

	31 December 2022		Principal amount 31 December	
	Weighted average interest rate[(a)]	**Unused borrowing capacity[(b)] in millions**	**2022 in millions**	**2021 in millions**
VMED O2 Credit Facilities[(c)]	6.23%	£ 2,028.0	£ 6,921.1	£ 5,954.2
VMED O2 Senior Secured Notes	4.51%	—	8,453.1	7,964.8
VMED O2 Senior Notes	4.54%	—	1,207.2	1,104.0
Vendor financing[(d)]	5.20%	—	2,442.7	2,104.7
CTIL Loan[(e)]	6.02%	90.0	160.0	—
Other	1.00%	—	199.9	206.1
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest[(f)]	**5.19%**	**£ 2,118.0**	**£ 19,384.0**	**£ 17,333.8**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

	31 December	
	2022 in millions	**2021 in millions**
Total third-party debt before deferred financing costs, discounts, premiums and accrued interest	**£ 19,384.0**	**£ 17,333.8**
Deferred financing costs, discounts and premiums, net	40.0	67.0
Total carrying amount of third-party debt	**19,424.0**	**17,400.8**
Lease obligations (note 15)	839.3	927.2
Total third-party debt and lease obligations	**20,263.3**	**18,328.0**
Accrued interest	227.9	189.8
Related-party debt (note 25)	25.2	72.2
Total debt including interest and lease obligations	**£ 20,516.4**	**£ 18,590.0**
Non-current debt and lease obligations	**£ 17,507.5**	**£ 16,211.0**
Current portion of debt and lease obligations	**£ 3,008.9**	**£ 2,379.0**

(a) Represents the weighted average interest rate in effect at 31 December 2022 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue premiums or discounts and commitment fees, but excluding the impact of deferred financing costs, the weighted average interest rate on our aggregate third-party variable- and fixed-rate indebtedness was 4.67% at 31 December 2022. For information regarding our derivative instruments, see note 18.

(b) Unused borrowing capacity under the VMED O2 Credit Facilities comprises (i) £1,378.0 million equivalent under the Revolving Facility and (ii) £650.0 million under Term Loan X (previously defined as Term loan A, as defined and described under Financing Transactions below). Unused borrowing capacity represents the maximum availability under the VMED O2 Credit Facilities at 31 December 2022 without regard to covenant compliance calculations or other conditions precedent to borrowing. At 31 December 2022, based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests £2,028.0 million 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 2022 compliance reporting requirements, and based on the most restrictive applicable leverage covenants and leverage-based restricted payment tests, we expect £2,028.0 million 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 2022, or the impact of additional amounts that may be available to borrow, loan or distribute under certain defined baskets within the VMED O2 Credit Facilities.
The CTIL Loan is a revolving loan facility with maximum borrowing capacity equivalent to £500.0 million (as defined and described below). At 31 December 2022, our proportional share of the unused borrowing capacity of the CTIL Loan was £90.0 million.

(c) As of 31 December 2022 and 2021, principal amounts include £41.0 million and £17.8 million, respectively, of borrowings pursuant to excess cash facilities under the VMED O2 Credit Facilities. These borrowings are owed to certain non-consolidated special purpose financing entities that have issued notes to finance the purchase of receivables due from certain of our subsidiaries to certain other third parties for amounts that we and our subsidiaries have vendor financed. To the extent the proceeds from these notes exceed the amount of vendor financed receivables available to be purchased, the excess proceeds are used to fund these excess cash facilities under our senior credit facilities.

(d) Represents amounts owed to various creditors pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property, plant and equipment additions and operating expenses. These arrangements extend our repayment terms beyond a vendor's ordinary due dates (e.g., extension beyond a vendor's customary payment terms) and as such are classified outside of accounts payable as debt in our consolidated statements of financial position. These obligations are generally due within one year and include VAT that was also financed under these arrangements. For purposes of our consolidated statements of cash flows, operating-related expenses financed by an intermediary are treated as constructive operating cash outflows and constructive financing cash inflows when the intermediary settles the liability with the vendor as there is no actual cash outflow until we pay the financing intermediary. During the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, the constructive cash outflows included in cash flows from operating activities and the corresponding constructive cash inflows included in cash flows from financing activities related to these operating expenses were £1,765.8 million and £882.6 million, respectively. Repayments of vendor financing obligations at the time we pay the financial intermediary are included in repayments of third-party debt and lease obligations in our consolidated statements of cash flows.

(e) Represents our proportional share of the third-party debt of CTIL. We have determined our interest in CTIL, which is principally engaged in maintaining and managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone and Telefónica UK Limited, to be classified as a joint operation. As a result, the assets, liabilities, revenue, expenses and share of commitments have been recognised in proportion to VMED O2's contribution to the joint operation within our consolidated financial statements.

(f) As of 31 December 2022 and 2021, our debt had an estimated fair value of £17.5 billion and £17.4 billion, respectively. The estimated fair values of our debt instruments are generally determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 19.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

General Information

Credit Facilities. We have entered into a senior secured credit facility agreement with certain financial and other institutions and senior credit facility agreements with certain non-consolidated special purpose financing entities (as described under VMED O2 Credit Facilities below) (the '**credit facilities**'). Certain of our credit facilities provide for adjustments to our borrowing rates based on the achievement, or otherwise, of certain sustainability-linked metrics. Our credit facilities contain certain covenants, the more notable of which are as follows:

- Our credit facilities contain certain consolidated net leverage ratios, as specified in the relevant credit facility, which are required to be complied with (i) on an incurrence basis and (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 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 (iii) accelerate all outstanding loans and terminate their commitments thereunder;
- Our credit facilities require that we observe certain affirmative and negative undertakings and covenants, which are subject to certain materiality qualifications and other customary and agreed exceptions;
- In addition to customary default provisions, our senior secured credit facilities include cross-default provisions with respect to the other indebtedness of certain of our subsidiaries, subject to agreed minimum thresholds and other customary and agreed exceptions; and
- Our senior credit facilities provide that any failure to pay principal at its stated maturity (after the expiration of any applicable grace period) of, or any acceleration with respect to, other indebtedness of the borrower or certain subsidiaries over agreed minimum thresholds (as specified under the applicable senior credit facility), is an event of default under the respective senior credit facility.

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

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

Pursuant to the respective indentures for the SPE Notes (the **SPE Indentures**) and the respective accession agreements for the Funded Facilities, the call provisions, maturity dates and applicable interest rates for each Funded Facility are the same as those of the related SPE Notes. Each SPE, as lender under the relevant Funded Facility, is treated the same as the other lenders under the senior secured credit facilities, with benefits, rights and protections similar to those afforded to the other lenders. Through the covenants in the applicable SPE Indenture 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

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

VMED O2 Notes

The details of the outstanding VMED O2 Notes as of 31 December 2022 are summarised in the following table:

				Outstanding principal amount		
VMED O2 Notes	**Maturity**	**Interest rate**	**Original issue amount in millions**	**Borrowing currency in millions**	**Pound sterling equivalent in millions**	**Carrying value[a] in millions**
Senior Notes:						
2030 Dollar Senior Notes	15 July 2030	5.000%	$ 925.0	$ 925.0	£ 764.6	£ 763.4
2030 Euro Senior Notes	15 July 2030	3.750%	€ 500.0	€ 500.0	442.6	443.2
Total Senior Notes					**1,207.2**	**1,206.6**
Senior Secured Notes:						
2027 Sterling Senior Secured Notes	15 April 2027	5.000%	£ 675.0	£ 675.0	675.0	696.5
2029 4.00% Sterling Senior Secured Notes[b]	31 January 2029	4.000%	£ 600.0	£ 600.0	600.0	596.7
2029 Dollar Senior Secured Notes	15 May 2029	5.500%	$ 1,425.0	$ 1,425.0	1,177.8	1,247.5
2029 5.25% Sterling Senior Secured Notes	15 May 2029	5.250%	£ 340.0	£ 340.0	340.0	356.8
2030 4.25% Sterling Senior Secured Notes	15 January 2030	4.250%	£ 635.0	£ 635.0	635.0	635.9
2030 Dollar Senior Secured Notes	15 August 2030	4.500%	$ 915.0	$ 915.0	756.3	757.6
2030 4.125% Sterling Senior Secured Notes	15 August 2030	4.125%	£ 480.0	£ 480.0	480.0	478.8
2031 Euro Senior Secured Notes[b]	31 January 2031	3.250%	€ 950.0	€ 950.0	841.0	848.1
2031 4.25% Dollar Senior Secured Notes[b]	31 January 2031	4.250%	$ 1,350.0	$ 1,350.0	1,115.8	1,091.2
2031 4.75% Dollar Senior Secured Notes[b][c]	15 July 2031	4.750%	$ 1,400.0	$ 1,400.0	1,157.2	1,153.8
2031 Sterling Senior Secured Notes[b][c]	15 July 2031	4.500%	£ 675.0	£ 675.0	675.0	671.8
Total Senior Secured Notes					**8,453.1**	**8,534.7**
Total					**£ 9,660.3**	**£ 9,741.3**

(a) Amounts are net of deferred financing costs, discounts, premiums and accrued interest, including amounts recorded in connection with acquisition accounting for the Joint Venture, where applicable.
(b) Respective Senior Secured Notes are SPE Notes that have been issued by VMED O2 Financing I.
(c) Respective Senior Secured Notes are VMED O2 Green Bonds that have been issued by VMED O2 Financing I.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

VMED O2 Notes	Call Date
2030 Dollar Senior Notes	15 July 2025
2030 Euro Senior Notes	15 July 2025
2027 Sterling Senior Secured Notes	15 April 2022
2029 4.00% Sterling Senior Secured Notes	31 January 2024
2029 Dollar Senior Secured Notes	15 May 2024
2029 5.25% Sterling Senior Secured Notes	15 May 2024
2030 4.25% Sterling Senior Secured Notes	15 October 2024
2030 Dollar Senior Secured Notes	15 August 2025
2030 4.125% Sterling Senior Secured Notes	15 August 2025
2031 Euro Senior Secured Notes	31 January 2026
2031 4.25% Dollar Senior Secured Notes	31 January 2026
2031 4.75% Dollar Senior Secured Notes	15 July 2026
2031 Sterling Senior Secured Notes	15 July 2026

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

	Redemption Price					
	2030 Dollar Senior Notes	2030 Euro Senior Notes	2027 Sterling Senior Secured Notes	2029 4.00% Sterling Senior Secured Notes	2029 Dollar Senior Secured Notes	2029 5.25% Sterling Senior Secured Notes
12-month period commencing	15 July	15 July	15 April	31 January	15 May	15 May
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 and thereafter	100.000%	100.000%	N.A.	100.000%	100.000%	100.000%

	Redemption Price						
	2030 4.25% Sterling Senior Secured Notes	2030 Dollar Senior Secured Notes	2030 4.125% Sterling Senior Secured Notes	2031 Euro Senior Secured Notes	2031 4.25% Dollar Senior Secured Notes	2031 4.75% Dollar Senior Secured Notes	2031 Sterling Senior Secured Notes
12-month period commencing	15 October	15 August	15 August	31 January	31 January	15 July	15 July
2024	102.125%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2025	101.063%	102.250%	102.063%	N.A.	N.A.	N.A.	N.A.
2026	100.531%	101.125%	101.031%	101.625%	102.125%	102.375%	102.250%
2027	100.000%	100.563%	100.516%	100.813%	101.063%	101.188%	101.125%
2028 and thereafter	100.000%	100.000%	100.000%	100.406%	100.530%	100.594%	100.563%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

VMED O2 Credit Facilities

The VMED O2 Credit Facilities are the senior and senior secured credit facilities of certain subsidiaries of VMED O2. The details of the borrowings under the VMED O2 Credit Facilities as of 31 December 2022 are summarised in the following table:

VMED O2 Credit Facilities	Maturity	Interest rate	Facility amount (in borrowing currency) in millions	Outstanding principal amount in millions	Unused borrowing capacity in millions	Carrying value[a] in millions
Senior Secured Facilities:						
L[b]	15 January 2027	SONIA+3.25%	£ 400.0	£ 400.0	£ —	£ 396.9
M[b]	15 November 2027	SONIA+3.25%	£ 500.0	500.0	—	496.0
N[c]	31 January 2028	LIBOR+2.50%	$ 3,300.0	2,727.6	—	2,716.9
O[d]	31 January 2029	EURIBOR+2.50%	€ 750.0	664.0	—	661.3
P	31 January 2026	SONIA+2.75%	£ —	—	—	—
Q[c]	31 January 2029	LIBOR+3.25%	$ 1,300.0	1,074.5	—	1,075.1
R[d]	31 January 2029	EURIBOR+3.25%	€ 750.0	664.0	—	664.9
S[g]	31 January 2029	4.00%	£ 600.0	600.0	—	596.7
T[g]	31 January 2031	3.25%	€ 950.0	841.0	—	848.1
U[g]	31 January 2031	4.25%	$ 1,350.0	1,115.8	—	1,091.2
V[g]	15 July 2031	4.50%	£ 675.0	675.0	—	671.8
W[g]	15 July 2031	4.75%	$ 1,400.0	1,157.2	—	1,153.8
X[b]	30 September 2027	SONIA+3.25%	£ 850.0	850.0	650.0	829.4
Revolving Facility[e]	15 January 2026	SONIA+2.75%	£ 1,378.0	—	1,378.0	—
Elimination of Facilities S, T, U, V and W in consolidation[g]				(4,389.0)	—	(4,361.6)
Total Senior Secured Facilities				**6,880.1**	**2,028.0**	**6,840.5**
Senior Facilities:						
Financing Facility III[f]	15 July 2028	4.875%	£ 900.0	28.9	—	27.5
Financing Facility IV[f]	15 July 2028	5.000%	$ 500.0	12.1	—	12.1
Total Senior Facilities				**41.0**	**—**	**39.6**
Total				**£ 6,921.1**	**£ 2,028.0**	**£ 6,880.1**

(a) Amounts are net of deferred financing costs and discounts, where applicable.
(b) Facility L, Facility M and Facility X are each subject to a SONIA floor of 0.0%.
(c) Facility N and Facility Q are each subject to a USD LIBOR floor of 0.0%.
(d) Facility O and Facility R are each subject to a EURIBOR floor of 0.0%.
(e) The Revolving Facility has a fee on unused commitments of 1.1% per year.
(f) 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.
(g) The amounts outstanding under Facilities S through W are eliminated in our consolidated financial statements.

Financing Transactions

Below we provide summary descriptions of certain financing transactions completed during 2022. In general, a portion of our financing transactions may include non-cash borrowings and repayments. During the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, our non-cash borrowings and repayments aggregated £376.0 million and nil, respectively.

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

In January 2022, CTIL entered into a £500.0 million revolving loan facility (the **CTIL Loan**). The CTIL Loan was issued at par, matures on 6 January 2027 and bears interest at a rate of Sterling Overnight Index Average (**SONIA**) + 2.0%, subject to a SONIA floor of 0.0%. The first drawdown of the CTIL Loan was used to redeem, in full the £460.0 million outstanding principal amount of CTIL's shareholder loans. Subsequent to the first drawdown, CTIL continued to drawdown and repay the CTIL Loan. We consolidate our portion of CTIL as a joint operation and as such, we have reflected 50% of the outstanding CTIL Loan in our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

In August 2022, we entered into a £1,500.0 million term loan facility (**Term Loan X**), which comprises four tranches, (Facilities X1, X2, X3 and X4) comprising £1,124.0 million of new money and £376.0 million of rolling commitments from our existing Term Loan P facility. Term Loan X matures on 30 September 2027 and bears 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). On 21 December 2022, Term Loan X was partially drawn down. Facility X1, comprising £474.0 million of new money, was issued at 99% of par and used to partially fund the fourth quarter dividend. Facility X4, comprising £376.0 million of rolling commitments, was utilized as part of the non-cash repayment of Term Loan P. The remaining proceeds from the loan are expected to primarily be used for general corporate purposes.

Maturities of Debt

Maturities of our debt as of 31 December 2022 are presented below:

	Third-party debt[a] in millions	Related-party debt in millions	Total in millions
Year ending 31 December:			
2023	£ 2,583.8	£ —	£ 2,583.8
2024	45.1	—	45.1
2025	27.9	25.2	53.1
2026	15.6	—	15.6
2027	2,589.8	—	2,589.8
Thereafter	14,121.8	—	14,121.8
Total debt maturities[b]	**19,384.0**	**25.2**	**19,409.2**
Accrued interest	227.9	—	227.9
Deferred financing costs, discounts and premiums, net	40.0	—	40.0
Total debt	**£ 19,651.9**	**£ 25.2**	**£ 19,677.1**
Non-current portion	**£ 16,839.5**	**£ 25.2**	**£ 16,864.7**
Current portion	**£ 2,812.4**	**£ —**	**£ 2,812.4**

(a) Amounts include SPE Notes issued by the SPEs which, as described above, are consolidated by VMED O2.
(b) Amounts include vendor financing obligations of £2,442.7 million, as set forth below (in millions):

Year ending 31 December:	
2023	£ 2,349.5
2024	45.1
2025	27.9
2026	15.4
2027	4.8
Total vendor financing maturities[1]	**£ 2,442.7**
Non-current portion	**£ 93.2**
Current portion	**£ 2,349.5**

(1) Virgin Media Vendor Financing Notes III Designated Activity Company and Virgin Media Vendor Financing Notes IV Designated Activity Company (together, the **2020 VM Financing Companies**) have issued an aggregate £1,313.3 million equivalent of 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

15. Leases

General

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

ROU Assets

A summary of the changes in our ROU assets for the year ended 31 December 2022 and the period from 1 June 2021 to 31 December 2021 is set forth below:

	Land and buildings in millions	Plant and machinery in millions	Total in millions
Cost:			
1 June 2021	£ 794.9	£ 175.4	£ 970.3
Additions	48.0	15.9	63.9
Retirements and disposals	(13.4)	(15.9)	(29.3)
31 December 2021	829.5	175.4	1,004.9
Additions	41.6	59.0	100.6
Retirements and disposals	(13.3)	(24.1)	(37.4)
31 December 2022	**£ 857.8**	**£ 210.3**	**£ 1,068.1**
Accumulated depreciation:			
1 June 2021	£—	£—	£—
Depreciation	(89.0)	(36.0)	(125.0)
Retirements and disposals	5.3	3.6	8.9
31 December 2021	(83.7)	(32.4)	(116.1)
Depreciation	(142.9)	(58.4)	(201.3)
Retirements and disposals	6.3	7.4	13.7
31 December 2022	**£ (220.3)**	**£ (83.4)**	**£ (303.7)**
ROU Assets, net:			
31 December 2022	**£ 637.5**	**£ 126.9**	**£ 764.4**
31 December 2021	£ 745.8	£ 143.0	£ 888.8

Our ROU assets are included in property, plant and equipment, net, in our consolidated statements of financial position. At 31 December 2022 and 31 December 2021, the weighted average remaining lease term of our ROU assets was 8.5 years and 7.2 years respectively. The weighted average discount rate for 31 December 2022 and 31 December 2021 was 5.0% and 4.5% respectively. During the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, we recorded non-cash additions to our ROU assets associated with leases of £100.6 million and £63.9 million, respectively.

Lease Liabilities

Maturities of our lease liabilities are presented below:

	31 December	
	2022 in millions	2021 in millions
Not later than one year	£ 230.5	£ 219.1
Later than one year and not later than five years	489.5	534.9
Later than five years	390.1	459.1
Total payments	**1,110.1**	**1,213.1**
Less: present value discount	(270.8)	(285.9)
Present value of lease payments	**£ 839.3**	**£ 927.2**
Non-current portion[(a)]	**£ 642.8**	**£ 743.6**
Current portion[(a)]	**£ 196.5**	**£ 183.6**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Lease Expense

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

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Depreciation:		
Land and buildings	£ 142.9	£ 89.0
Plant and machinery	58.4	36.0
Total depreciation	**201.3**	**125.0**
Interest expense	37.1	23.8
Total lease expense	**£ 238.4**	**£ 148.8**

Expenses relating to leases of low-value assets and short-term leases for which no ROU asset or lease liability has been recognised were not material.

Cash Flows from Leases

Our total cash outflows from leases recorded during the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021 were £206.8 million and £117.8 million, respectively.

Leases as a Lessor

We have entered into a number of 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 ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, we recognised net gains of £72.2 million and £53.7 million, respectively, and interest income of £1.2 million and £0.8 million, respectively, related to these arrangements.

The non-current and current portions of our lease receivables are included within trade receivables and other non-current assets and trade receivables and other current assets, respectively, in our consolidated statements of financial position. Maturities of our lease receivables are presented below:

	31 December	
	2022 in millions	2021 in millions
Not later than one year	£ 136.0	£ 88.7
Later than one year and not later than five years	28.0	39.5
Total undiscounted lease receivables	**164.0**	**128.2**
Less: unearned finance income	(3.2)	(2.8)
Net investment in leases	**£ 160.8**	**£ 125.4**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

16. Provisions

A summary of the changes in our provisions during the indicated periods is set forth below:

	Restructuring[a] in millions	Asset retirement obligations[b] in millions	Other in millions	Total in millions
Balance at 1 June 2021	**£ 4.3**	**£ 179.4**	**£ 21.7**	**£ 205.4**
Additions to property, plant and equipment	—	2.8	—	2.8
Net charges (credits) included in other expenses in the consolidated statements of profit or loss	41.5	(6.9)	(16.8)	17.8
Cash payments	(23.5)	—	—	(23.5)
Balance at 31 December 2021	**22.3**	**175.3**	**4.9**	**202.5**
Disposals of property, plant and equipment and other	—	(29.1)	—	(29.1)
Additions to property, plant and equipment	—	—	—	—
Net charges (credits) included in other expenses in the consolidated statements of profit or loss	49.3	(1.0)	0.4	48.7
Cash payments	(28.2)	(0.8)	—	(29.0)
Reclassifications	(2.4)	1.3	—	(1.1)
Balance at 31 December 2022	**£ 41.0**	**£ 145.7**	**£ 5.3**	**£ 192.0**

(a) Restructuring provisions include the full cost of planned business restructuring programmes entered into during the year and as a result of the JV Transaction, most of which are expected to be completed within the next 12 months.

(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. 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. as at 31 December 2022 and 31 December 2021, anticipated to be over the next 27 years and 31 years, respectively. The provision recognised represents the best estimate of the expenditure required to settle the present obligation at 31 December 2022. Such cost estimations, expressed at current price levels at the date of the estimate are discounted at 31 December 2022 and 31 December 2021 using rates in the range of 1.89% to 4.04% and 1.12% to 3.05%, respectively, per annum. The initial discounted cost amount has been capitalised as part of property, plant and equipment and depreciated over the life of the assets.

17. Financial Risk Management

Overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

Credit Risk

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

We manage the credit risks associated with our trade receivables by performing credit verifications, following established dunning procedures and engaging collection agencies. We also manage this risk by disconnecting services to customers whose accounts are delinquent. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers. For information regarding the ageing of our trade receivables, see note 11.

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 2022, our exposure to counterparty credit risk included (i) derivative assets with an aggregate fair value of £1,456.6 million, (ii) aggregate undrawn debt facilities of £2,118.0 million and (iii) cash and cash equivalents and restricted cash of £87.4 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 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 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 the event of 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 compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty.

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

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

Liquidity Risk
Liquidity risk is the risk that we will encounter difficulty in meeting our financial obligations. In addition to cash and cash equivalents, our primary sources of liquidity are cash provided by operations and access to the available borrowing capacity of our various debt facilities. For information regarding our borrowing availability, see note 14.

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

Our most significant financial obligations relate to our debt obligations, as described in note 14. 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 14. It is the intention of the Shareholders that the Joint Venture, and by extension VMED O2, will be a self-funding company capable of financing its activities on a stand-alone basis without recourse to either Shareholder.

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, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

The following table shows the timing of expected cash payments or receipts based on the contractually agreed upon terms for our financial liabilities as of 31 December 2022:

	Payments (receipts) due during:						
	2023 in millions	**2024 in millions**	**2025 in millions**	**2026 in millions**	**2027 in millions**	**Thereafter in millions**	**Total in millions**
Debt:							
Principal – third-party	£ 2,583.8	£ 45.1	£ 27.9	£ 15.6	£ 2,589.8	£ 14,121.8	£ 19,384.0
Principal – related-party	—	—	25.2	—	—	—	25.2
Interest[(a)]	1,169.6	1,002.1	953.5	932.8	874.8	1,409.5	6,342.3
Leases[(a)]	230.5	171.3	135.5	103.9	78.8	390.1	1,110.1
Projected derivative cash payments (receipts), net[(b)]	94.1	227.6	155.9	173.0	258.6	423.8	1,333.0
Total	**£ 4,078.0**	**£ 1,446.1**	**£ 1,298.0**	**£ 1,225.3**	**£ 3,802.0**	**£ 16,345.2**	**£ 28,194.6**

(a) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of 31 December 2022. 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.

(b) The pound sterling equivalents of our net projected cash flows associated with our derivative instruments are based on interest rate projections and exchange rates as of 31 December 2022. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments or receipts required in future periods. For additional information regarding our derivative instruments, see note 18.

Market Risk

Interest Rate Risk

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

In general, we enter into derivative instruments to protect against increases in the interest rates on our variable-rate debt. Accordingly, we have entered into various derivative transactions to manage exposure to increases in interest rates. We use interest rate derivative contracts to exchange, at specified intervals, the difference between fixed and variable interest rates calculated by reference to an agreed-upon notional principal amount. We also use interest rate cap agreements and swaptions to lock in a maximum interest rate if variable rates rise, but also allow our Company to benefit from declines in market rates. Under our current guidelines, we use various interest rate derivative instruments to mitigate interest rate risk, generally for the full term of the underlying variable-rate debt. In this regard, we use judgement 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 18.

In July 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. Additionally, the European Money Markets Institute (the authority that administers EURIBOR) announced that measures would need to be undertaken by the end of 2021 to reform EURIBOR to ensure compliance with the E.U. Benchmarks Regulation. In November 2020, ICE Benchmark Administration (the entity that administers LIBOR) announced its intention to continue publishing USD LIBOR rates until 30 June 2023, with the exception of the one-week and two-month rates which, along with all GBP LIBOR rates, it ceased to publish after 31 December 2021. Furthermore, in November 2022, the FCA proposed that certain tenors of USD LIBOR would continue to be published on a synthetic basis until the end of September 2024.

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 (**IBOR**s). 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

Publication of GBP LIBOR and the one week and two-month USD LIBOR rates ceased on 31 December 2021 as planned. Currently there is no consensus amongst loan borrowers and investors as to which rates should replace USD LIBOR. It is possible, however, that any new reference rate that applies to our USD LIBOR-indexed debt could be different to any new reference rate that applies to our USD LIBOR-indexed derivative instruments. We plan to continue to manage this difference and any resulting increased variable-rate exposure through modifications to our debt and 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 contracts and those with appropriate fallback language as of 31 December 2022 and 2021. 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 in millions	**Amount with appropriate fallback clause in millions**	**Total amount of unreformed contracts in millions**	**Amount with appropriate fallback clause in millions**
As of 31 December 2022:				
Financial liabilities:				
Term Loans – GBP denominated	N/A	N/A	N/A	N/A
Term Loams – USD denominated	N/A	N/A	3,802.0	—
Vendor financing	N/A	N/A	—	—
Interest Rate Derivatives – receivable (net)	N/A	N/A	—	6,529.4
As of 31 December 2021:				
Financial liabilities:				
Term Loans – 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	—

Weighted Average Variable Interest Rate

At 31 December 2022, the outstanding principal amount of our variable-rate indebtedness aggregated £7.3 billion and the weighted average interest rate (including margin) on such variable-rate indebtedness was approximately 6.3%, 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 £36.5 million. As discussed above and in note 18, we use interest rate derivative contracts to manage our exposure to increases in variable interest rates. In this regard, increases in the fair value of these contracts generally would be expected to offset most of the economic impact of increases in the variable interest rates applicable to our indebtedness to the extent and during the period that principal amounts are matched with interest rate derivative contracts.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risk with respect to our consolidated debt in situations where our debt is denominated in U.S. dollars and euros. Although we generally match the denomination of our and our subsidiaries' borrowings with our functional currency, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in our functional currency (unmatched debt). In these cases, our policy is to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2022, substantially all of our debt was either directly or synthetically matched to our functional currency. For additional information concerning the terms of our derivative instruments, see note 18.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Currently, the U.K. is facing various macro-economic pressures, including financial and political challenges, that have impacted the broader U.K. economy, valuation of the local currency, interest rates and inflationary pressures. In addition to the exposure that results from the mismatch of our borrowings and our functional currency, we are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our functional currency (non-functional currency risk), such as equipment purchases, programming contracts, notes payable and notes receivable (including intercompany amounts) and certain services provided by our Shareholders. Changes in exchange rates with respect to amounts recorded in our consolidated statements of financial position related to these items will result in unrealised (based upon period-end exchange rates) or realised foreign currency transaction gains and losses upon settlement of the transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our functional currency, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. Generally, we will consider hedging non-functional currency risks when the risks arise from agreements with third parties that involve the future payment or receipt of cash or other monetary items to the extent that we can reasonably predict the timing and amount of such payments or receipts and the payments or receipts are not otherwise hedged. In this regard, we have entered into foreign currency forward and option contracts to hedge certain of these risks. For additional information concerning our foreign currency forward and option contracts, see note 18.

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 14.

18. Derivative Instruments

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

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

	31 December 2022			31 December 2021		
	Non-current in millions	**Current in millions**	**Total in millions**	**Non-current in millions**	**Current in millions**	**Total in millions**
Assets:						
Cross-currency derivative contracts[(a)]	£ 872.8	£ 180.7	£ 1,053.5	£ 270.4	£ 13.7	£ 284.1
Interest rate derivative contracts[(a)]	827.5	177.5	1,005.0	128.5	81.4	209.9
Foreign currency forward and option contracts	—	4.5	4.5	—	0.5	0.5
Total	**£ 1,700.3**	**£ 362.7**	**£ 2,063.0**	**£ 398.9**	**£ 95.6**	**£ 494.5**
Liabilities:						
Cross-currency derivative contracts[(a)]	£ 82.9	£ 80.0	£ 162.9	£ 560.4	£ 87.9	£ 648.3
Interest rate derivative contracts[(a)]	339.0	187.9	526.9	174.1	101.2	275.3
Foreign currency forward and option contracts	—	1.1	1.1	—	2.4	2.4
Total	**£ 421.9**	**£ 269.0**	**£ 690.9**	**£ 734.5**	**£ 191.5**	**£ 926.0**

(a) We consider credit risk relating to our and our counterparties' non-performance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net losses of £112.9 million and £85.8 million during the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, respectively. These amounts are included in finance costs in our consolidated statements of profit or loss. For additional information regarding our fair value measurements, see note 19.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

The details of our realised and unrealised gains on derivative instruments, net, are set forth below:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Cross-currency and interest rate derivative contracts:		
Third-party	£ 2,190.2	£ 80.6
Related-party	—	300.8
Foreign currency forward and option contracts	(2.0)	(2.3)
Total	**£ 2,188.2**	**£ 379.1**

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our consolidated statements 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:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Operating activities	£ 3.4	£ (21.1)
Financing activities	381.2	26.9
Total	**£ 384.6**	**£ 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, however notwithstanding, given the size of our derivative portfolio, the default of certain counterparties could have a significant impact on our consolidated statements of profit or loss. Collateral is generally not posted by either party under the terms of our derivative instruments. At 31 December 2022 and 31 December 2021, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of £1.5 billion and £31.5 million respectively.

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 the event of 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Details of our Derivative Instruments

Cross-currency Derivative Contracts

We generally match the denomination of our borrowings with the functional currency of the supporting operations or, when it is more cost effective, we provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At 31 December 2022, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts:

31 December 2022			31 December 2021		
Notional amount due from counterparty in millions	Notional amount due to counterparty in millions	Weighted average remaining life in millions	Notional amount due from counterparty in millions	Notional amount due to counterparty in millions	Weighted average remaining life in millions
$ 14,624.0	£ 11,500.4[a]	4.4	$ 14,624.0	£ 11,111.5[a]	5.4
€ 3,100.0	£ 2,795.5	6.0	€ 3,100.0	£ 2,795.5	7.0
£ 1,005.5	$ 1,445.0[b]	2.1	£ 1,005.5	$ 1,445.0[b]	3.1
$ 500.0	£ 394.2	2.5	£ 394.2	$ 500.0	3.5
$ 166.6	€ 150.0	5.5	$ 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 the year end date. These instruments are typically entered into in order to extend existing hedges without the need to amend existing contracts.
(b) These derivative instruments do not involve the exchange of notional amounts at the inception and maturity of the instruments. Accordingly, the only cash flows associated with these derivative instruments are coupon-related payments and receipts.

Interest Rate Swap Contracts

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

	Pay fixed rate[a]		Receive fixed rate	
	Notional amount in millions	Weighted average remaining life in years	Notional amount in millions	Weighted average remaining life in years
31 December 2022	£ 12,764.3	3.0	£ 3,530.8	2.5
31 December 2021	£ 13,768.7	4.1	£ 3,530.8	3.5

(a) Includes forward-starting derivative instruments.

Interest Rate Swap Options

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

Basis Swaps

Our basis swaps involve the exchange of attributes used to calculate our floating interest rates, including (i) the benchmark rate, (ii) the underlying currency and (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 2022 and 31 December 2021, the total pound sterling equivalent of the notional amounts due from the counterparty was £5.1 billion and £8.1 billion, respectively. The related weighted average remaining contractual life of our basis swap contracts in 31 December 2022 and 31 December 2021 was 0.2 years and 0.5 years, respectively.

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 2022, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1.6 billion and £7.3 billion, respectively. At 31 December 2021, the pound sterling equivalent notional amounts of our purchased interest rate caps and floors were £1.5 billion and £9.3 billion, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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 a decrease of 76 basis points and increase of 73 basis points to our borrowing costs at 31 December 2022 and 31 December 2021, respectively.

Foreign Currency Forwards and Options
We enter into foreign currency forward and option contracts with respect to non-functional currency exposure. As of 31 December 2022 and 31 December 2021, the total of the notional amounts of our foreign currency forward and option contracts was £321.9 million and £289.5 million, respectively.

19. Fair Value Measurements

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

In order to manage our interest rate and foreign currency exchange risk, we have entered into various derivative instruments, as further described in note 18. 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 18.

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

Upon formation of the JV Transaction, the assets and liabilities of Virgin Media and O2 have been recorded at their fair value, as further described in note 3. The following list sets forth the primary non-recurring valuations performed related to certain of our assets and liabilities upon closing of the JV Transaction:

- Enterprise Value. The valuation of our Company (our only reporting unit) is based on discounted cash flow and market approach analyses. With the exception of certain inputs of our weighted average cost of capital and discount rate calculations, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The market approach is performed using comparable trading entity enterprise values, EBITDA multiples and transaction multiples from comparable transactions. The discount rate used is the WACC, determined by the average cost of equity and debt according to the finance structure established for our CGU. We used a pre-tax discount rate of 6.9% in connection with the enterprise value of our Company;
- Customer Relationships. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer relationship, contributory asset charges and other factors. The discount rate used is the WACC, determined by the average cost of equity and debt according to the finance structure established for our CGU. We used a pre-tax discount rate of 6.9% in connection with the valuation of our customer relationships;
- Mobile Spectrum Licenses. The valuation of our mobile spectrum licenses in primarily based upon a market approach, which assumes the prices companies would pay for similar assets in market transactions;
- Tangible Assets. The valuation of our tangible assets is typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence; and
- Third-party Debt. The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

		31 December 2022		31 December 2021	
	Category under IFRS 9[(a)]	Carrying amount in millions	Fair value in millions	Carrying amount in millions	Fair value in millions
Assets carried at fair value:					
Derivative financial instruments	II	£ 2,063.0	£ 2,063.0	£ 494.5	£ 494.5
Assets carried at cost or amortised cost:					
Trade receivables and unbilled revenue	I	£ 1,341.3	£ 1,341.3	£ 1,369.4	£ 1,369.4
Loans receivable – related-party (note 25)	I	10,807.4	10,807.4	8,796.3	8,796.3
Inventory	I	178.6	178.6	157.6	157.6
Restricted cash	I	41.4	41.4	41.0	41.0
Other current and non-current financial assets	I	565.9	565.9	728.8	728.8
Cash and cash equivalents	I	46.0	46.0	48.3	48.3
Total		**£ 12,980.6**	**£ 12,980.6**	**£ 11,141.4**	**£ 11,141.4**
Liabilities carried at fair value:					
Derivative financial instruments	II	£ 690.9	£ 690.9	£ 926.0	£ 926.0
Liabilities carried at cost or amortised cost:					
Debt obligations	I	£ 19,424.0	£ 17,465.4	£ 17,333.8	£ 17,376.1
Loans payable – related-party (note 25)	I	25.2	25.2	72.2	72.2
Accrued liabilities	I	1,494.3	1,494.3	1,226.7	1,226.7
Trade payables and other liabilities	I	1,397.1	1,397.1	1,334.2	1,334.2
Lease obligations	I	839.3	839.3	927.2	927.2
Total		**£ 23,179.9**	**£ 21,221.3**	**£ 20,894.1**	**£ 20,936.4**

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

On 1 June 2021, the date of the JV Transaction, all financial assets and liabilities were stated at their respective fair values, as further described above.

20. Investments

Name	Country of incorporation principal place of business	Proportion of ownership interest held as at 31 December 2022
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, a 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 £9.6 million and £8.9 million as of 31 December 2022 and 2021, respectively. During the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, we recognised comprehensive income of £0.7 million and £0.2 million, respectively, related to this investment.

21. Share-based Compensation

Our share-based compensation expense relates to (i) charges for share-based incentive awards associated with ordinary shares of Liberty Global and Telefónica held by certain employees of our subsidiaries and (ii) charges for incentive awards associated with the performance of the JV, under the JV's long term incentive plan, held by certain employees of our subsidiaries.

All the outstanding share-based incentive awards from Liberty Global and Telefónica will vest by the end of 2024. Share-based compensation expense allocated to our Company by Liberty Global and Telefónica is reflected as an increase to consolidated equity, offset by any amounts recharged to us, and is included within other expenses in our consolidated statements of profit or loss.

All the outstanding incentive awards for the JV' long term incentive plan will vest by the end of 2025. The associated expense is included within other expenses in our consolidated statements of profit or loss.

22. Employee Benefit Plans

VMED O2 maintains the following defined benefit and defined contribution plans for its employees:

Defined Benefit Plans:

- The defined benefit section of the Telefónica U.K. Pension Plan;
- The National Transcommunications Limited Pension Plan (**NTL**);
- The NTL 1999 Pension Scheme (**NTL 99**);
- Unfunded pension promises to former Telefónica U.K. employees; and
- Unfunded pension promises to former NTL employees, known as the Annual Compensation Payments (**ACP**) Plan

Defined Contribution Plans:

- The Telefónica U.K. Pension Scheme;
- The Virgin Media Pension Plan; and
- The defined contribution section of the Telefónica U.K. Pension Plan

As of the 1 June 2021 formation of VMED O2, all of the defined benefit plans are closed to new entrants and further benefit accrual. The Telefónica U.K. Pension Scheme and the Virgin Media Pension Plan remains open to new entrants and further contributions and the employer contributions are recognised as part of our staffing costs.

Defined Benefit Plans

A valuation of our defined benefit plans was undertaken as of 31 December 2022 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 our consolidated statements of financial position as of 31 December 2022 and 2021 arising from obligations related to our defined benefit plans are as follows:

	31 December 2022		31 December 2021	
	Funded in millions	**Unfunded in millions**	**Funded in millions**	**Unfunded in millions**
Fair value of plan assets	£ 1,824.4	£ —	£ 2,720.1	£ —
Projected benefit obligation	(1,464.2)	(4.3)	(2,351.1)	(4.5)
Net asset (liability)	**£ 360.2**	**£ (4.3)**	**£ 369.0**	**£ (4.5)**

Changes in the fair value of the plan assets associated with our various funded defined benefit plans for the indicated periods are set forth below (in millions):

Balance at 1 June 2021	**£ 2,481.8**
Return on assets (excluding interest income)	131.2
Employer contributions	118.0
Benefits paid	(37.7)
Interest income	28.2
Administration costs	(1.4)
Balance at 31 December 2021	**2,720.1**
Return on assets (excluding interest income)	(1,079.5)
Employer contributions	213.4
Benefits paid	(76.0)
Interest income	49.7
Administration costs	(3.3)
Balance at 31 December 2022	**£ 1,824.4**

We expect to contribute £1.0 million to our defined benefit plans during the year ended 31 December 2023, with these payments relating to the expected administration costs of the NTL and NTL 99 Plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Changes in the present value of the projected benefit obligations associated with our various funded and unfunded defined benefit plans during the indicated periods are set forth below:

	Funded in millions	Unfunded in millions
Balance at 1 June 2021	**£ (2,264.5)**	**£ (4.3)**
Actuarial loss on financial assumptions	(51.6)	(0.1)
Benefits paid	37.7	—
Actuarial loss on demographic assumptions	(33.7)	—
Interest cost	(24.5)	—
Actuarial loss on expectation adjustments	(14.5)	(0.1)
Balance at 31 December 2021	**(2,351.1)**	**(4.5)**
Reclassification of ACP from provisions	—	(1.1)
Current service costs	—	—
Past service cost	—	—
Actuarial loss on financial assumptions	1,008.2	1.8
Benefits paid	76.0	0.3
Employee contributions	—	—
Actuarial loss on demographic assumptions	(0.8)	—
Interest cost	(41.8)	(0.1)
Actuarial loss on experience adjustments	(154.7)	(0.7)
Balance at 31 December 2022	**£ (1,464.2)**	**£ (4.3)**

All census data from the most recent triennial valuations has been reflected within the calculation of projected benefit obligations disclosed above.

Our defined benefit plans assets as of 31 December 2022 comprise the following:

	L1		L2	L3	
	Listed in millions	Unlisted in millions	Listed in millions	Unlisted in millions	Total in millions
Cash and cash equivalents	£ 404.8	£ 37.5	£ (492.8)	£ —	£ (50.5)
Derivatives	—	—	(6.5)	—	(6.5)
Bonds	184.8	—	1,022.3	207.3	1,414.4
Equity	—	—	13.1	—	13.1
Private debt and equity	—	—	—	324.2	324.2
Insurance policies	—	—	—	128.5	128.5
Property	—	—	1.2	—	1.2
Total	**£ 589.6**	**£ 37.5**	**£ 537.3**	**£ 660.0**	**£ 1,824.4**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Valuation of L3 assets

The techniques used to determine the L3 asset values listed above are detailed for Bonds, Private debt and equity, and Insurance policies respectively.

Bonds and Private debt and equity are valued using market valuations where possible. Where market valuations are not possible, assets are valued using one of the following methodologies depending on the nature of the underlying asset:

- Floating rate assets are priced at par unless the asset is impaired;
- Fixed rate assets are priced using a matrix pricing model;
- Where assets are deemed to be distressed, a decision will be made on whether the continued use of the model price is appropriate or the asset should be priced on an expected recovery basis;
- Certain debt instruments are valued using broker quotes where such quotes are available from reputable financial information providers and assessed accordingly; or
- Earnings and multiples analysis or discounted cash flow models are used for certain private debt and equity assets. Discounting inputs used can include risk free curves, credit spreads and asset premium spreads. Spreads are derived from observable baskets of assets, using credit spread matrices for corporate spreads according to currency, rating and maturity. Some filtering and calibration of the matrices is made for comparable assets.

Insurance policies are valued using the same methodology as the associated liability based on the census data included in the most recent triennial valuation, adjusted for movements in actuarial assumptions and inflation experience.

The details of the gain (loss) related to our defined benefit plans and recognised in the consolidated statements of comprehensive income (loss) for the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021, respectively, are set forth below:

	2022		2021	
	Funded in millions	Unfunded in millions	Funded in millions	Unfunded in millions
Return on plan assets in excess of interest income	£ (1,079.5)	£ —	£ 131.2	£ —
Actuarial loss on demographic assumptions	(0.8)	—	(33.7)	—
Actuarial gain (loss) on financial assumptions	1,008.2	1.8	(51.6)	(0.1)
Actuarial loss on experience adjustments	(154.7)	(0.7)	(14.5)	(0.1)
Total gain (loss) in other comprehensive income (loss)	**£ (226.8)**	**£ 1.1**	**£ 31.4**	**£ (0.2)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

The main assumptions, shown as a range, as adopted under IAS 19, Employee Benefits for our defined benefit plans (funded and unfunded) as of 31 December 2022 are as follows:

	Telefónica U.K. and Unfunded Pension Plan	NTL and Unfunded ACP	NTL 99
Life expectancy (male currently age 60/40) (in years)	87.6 / 89.0	87.5 / 89.0	87.0 / 88.5
Life expectancy (female currently age 60/40) (in years)	89.5 / 90.9	89.6 / 91.0	89.2 / 90.7
Discount rate	4.8%	4.9%	4.8%
Inflation assumptions:			
RPI	3.2%	3.3%	3.2%
CPI	2.7%	2.8%	2.7%
Mortality base table	95% / 105% (M/F) S3NA	92% / 98% (M/F) S3PA	98% / 103% (M/F) S3PA
Mortality future improvements	CMI_2021 projections with long term rate of improvement of 1.25% per annum, w2021 of 0%, and an initial addition of 0.25% for each of the plans		

At 31 December 2022, the weighted average duration of the defined benefit obligation of our Telefónica U.K. funded and unfunded Pension Plan, NTL funded and unfunded ACP, and NTL 99 funded plans were 18, 12, and 17 years, respectively.

A reduction in the discount rate and 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 an increase in the inflation rate will result in the opposite effect of similar magnitude. There is also uncertainty around the future life expectancy of the U.K. population. The value of current and future pension benefits will depend on how long these pensions are assumed to be in payment.

Any sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. In presenting sensitivity analysis the change in present value of defined benefit obligations has been calculated using the projected unit credit method as of 31 December 2022, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position. The rate of inflation assumption sensitivity factors in the impact of changes to all assumptions relating to inflation including associated pension increase assumption. The following sensitivity analysis table summarises how a reasonably possible change in particular assumptions would, in isolation, result in an increase to the defined benefit obligation as of 31 December 2022 (in millions):

Decrease discount rate by 0.25%	£ 58.0
Increase inflation rate by 0.25%	£ 49.4
Increase life expectancy by 1 year	£ 38.3

As of 31 December 2022, the expected future benefit payments from the plans are:

	Funded in millions	Unfunded in millions
Year ending 31 December:		
2023	£ 75.5	£ 0.2
2024	78.1	0.2
2025	80.3	0.2
2026	82.5	0.2
2027	85.0	0.2
Thereafter	2,831.9	8.5
Total	**£ 3,233.3**	**£ 9.5**

Other Pension Plans

We also operate defined contribution plans. The assets of these defined contributions arrangements are held separately from those of the Company in independently administered funds. The expense related to defined contribution plans is equal to the contributions payable for the corresponding period. The expense included in our consolidated statements of comprehensive income for the year ended 31 December 2022 and period from 1 June 2021 to 31 December 2021 was £67.1 million and £31.0 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

23. Finance Income and Costs

A summary of the finance income and costs that are included in our net finance income (costs) is set forth below:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Finance income:		
Interest income	£ 350.1	£ 170.6
Realised and unrealised gains on derivative instruments	3,452.6	379.1
Foreign currency transaction gains	787.2	—
Total finance income	**4,589.9**	**549.7**
Finance costs:		
Interest expense	(868.0)	(418.6)
Foreign currency transaction losses	(1,890.7)	(310.5)
Realised and unrealised losses on derivative instruments	(1,264.4)	—
Losses on debt extinguishment	—	(0.3)
Total finance costs	**(4,023.1)**	**(729.4)**
Net finance income (costs)	**£ 566.8**	**£ (179.7)**

24. Income Taxes

VMED O2 files its primary income tax return in the U.K. and our subsidiaries file income tax returns in the U.K. and the U.S. The major components of our income tax (expense) benefit are as follows:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Current tax (expense) benefit:		
Current year	£ (21.5)	£ 17.7
Adjustments for previous years	15.4	10.4
Recognition of previously unrecognised tax benefits	51.2	19.0
Total current year benefit	**45.1**	**47.1**
Deferred tax (expense) benefit:		
Origination and reversal of temporary differences and tax losses	(7.7)	26.5
Adjustments for previous years	16.9	(13.6)
Change in U.K. statutory tax rate	(61.5)	(10.7)
Total deferred tax (expense) benefit	**(52.3)**	**2.2**
Total income tax (expense) benefit	**£ (7.2)**	**£ 49.3**

For the period from 1 June 2021 to 31 December 2021, £55.2 million of deferred tax benefit was directly recorded to other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Income tax (expense) benefit attributable to our profit (loss) before income taxes differs from the amount computed using the U.K. corporate income tax rate as a result of the following factors:

	Year ended 31 December 2022 in millions	Period from 1 June 2021 to 31 December 2021 in millions
Profit (loss) before income taxes	**£ 760.8**	**£ (131.3)**
Computed 'expected' tax (expense) benefit[(a)]	**£ (144.6)**	**£ 24.9**
Group relief claimed for nil consideration[(b)]	62.4	23.8
Fixed asset differences[(c)]	78.3	15.3
Impact of changes in tax rates on deferred tax assets and liabilities	(61.5)	(10.7)
Adjustment relating to prior years	32.3	(3.2)
Expenses not deductible for tax purposes	(15.1)	(2.0)
Foreign taxes	32.6	0.6
Other	8.4	0.6
Total income tax (expense) benefit	**£ (7.2)**	**£ 49.3**

(a) The statutory or 'expected' tax rate is the U.K. rate of 19.0%. In March 2021, legislation was introduced to increase the U.K. corporate income tax rate from 19.0% to 25.0% from 1 April 2023. This rate change was substantively enacted on 24 May 2021 and enacted on 10 June 2021 (**Finance Bill 2021**). The effect of the increased tax rate on our deferred tax balances is reflected in our statement of financial position at 31 December 2022 and 2021. Where appropriate, movements in deferred tax have been calculated at 25.0%.
(b) Group relief for no consideration relates to group relief claimed from VMED O2 UK Limited.
(c) Fixed asset differences include the impact of the U.K. 'super-deduction' enacted in Finance Bill 2021, which provides a permanent tax benefit for the cost of qualifying capital expenditures as well as accelerating tax allowances.

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and liabilities are presented in the tables below:

	1 January 2022 in millions	Recognised in profit or loss in millions	Recognised in other comprehensive income in millions	31 December 2022 in millions
Property, plant and equipment	£ 1,549.0	£ 92.9	£ —	£ 1,641.9
Intangible assets	(1,757.5)	167.0	—	(1,590.5)
Tax losses	210.1	7.7	—	217.8
Pensions	(88.8)	(51.0)	53.1	(86.7)
Other	152.7	(268.9)	2.1	(114.1)
Deferred tax asset (liability)	**£ 65.5**	**£ (52.3)**	**£ 55.2**	**£ 68.4**

	1 June 2021 in millions	Recognised in profit or loss in millions	Recognised in other comprehensive loss in millions	31 December 2021 in millions
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
Deferred tax asset (liability)	**£ 70.1**	**£ 2.2**	**£ (6.8)**	**£ 65.5**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Our recognised deferred tax balances as of 31 December 2022 and 2021 are set forth below:

	31 December 2022		31 December 2021	
	Deferred tax assets in millions	**Deferred tax liabilities in millions**	**Deferred tax assets in millions**	**Deferred tax liabilities in millions**
Property, plant and equipment	£ 1,641.9	£ —	£ 1,549.0	£ —
Intangible assets	—	(1,590.5)	—	(1,757.5)
Tax losses	217.8	—	210.1	—
Pensions	—	(86.7)	—	(88.8)
Other	86.2	(200.3)	160.2	(7.5)
Deferred tax asset (liability)	**1,945.9**	**(1,877.5)**	**1,919.3**	**(1,853.8)**
Offset between deferred tax assets and liabilities	(1,876.5)	1,876.5	(1,846.3)	1,846.3
Net deferred tax asset (liability)	**£ 69.4**	**£ (1.0)**	**£ 73.0**	**£ (7.5)**

Where there is right and ability to offset deferred tax balances, this position is presented net in our consolidated statements of financial position.

The amount of our gross deductible temporary differences and tax loss carry forwards for which no deferred tax asset is recognised are as follows:

	31 December	
	2022 in millions	**2021 in millions**
Capital losses	£ 12,101.6	£ 12,102.8
Tax losses	29.4	32.1
Deductible temporary differences	325.4	179.7
Total	**£ 12,456.4**	**£ 12,314.6**

These deductible temporary differences and tax loss carry forwards are not subject to expiration. The use of the items above is highly restricted and they may only be offset against certain limited types of gains or profits. It is not regarded as probable that such gains or profits will arise.

We have taxable temporary differences on certain investments in subsidiaries. No additional income taxes have been provided for unremitted earnings, or any additional temporary differences associated with investments in subsidiaries, because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. It is not practicable to estimate the amount of unrecognised deferred tax liabilities in respect of these temporary differences.

In the normal course of business, our income tax filings are subject to review by U.K. and U.S. taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in these tax jurisdictions. Such disputes may result in future tax and interest and penalty assessments by these taxing authorities. As of 31 December 2022 and 2021, we recorded provisions for uncertain tax positions of £20.5 million and £63.1 million, respectively. The ultimate resolution of tax contingencies will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations.

On 16 August 2022, the Inflation Reduction Act was signed into law in the U.S. Although this legislation does not increase the U.S. corporate income tax rate, it includes, among other provisions, a new 15.0% corporate alternative minimum tax on 'adjusted financial statement income' that is effective for tax years beginning after 31 December 2022. We currently believe these rules are not likely to be applicable to our Company, although we will continue to monitor additional guidance as it is issued to assess the impact to our tax position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

25. Related Party Transactions

All related-party transactions relate to regular trading activities of our Company and are on an arm's length basis. Our related-party transactions consist of the following:

	Year ended 31 December 2022 in millions	**Period from 1 June 2021 to 31 December 2021 in millions**
Credits (charges) included in:		
Revenue	£ 291.1	£ 148.0
Cost of sales	(2.7)	(0.6)
Other operating	21.3	—
Other expenses	(323.2)	(182.9)
Share-based compensation expense	(25.6)	(23.4)
Included in operating profit	**(39.1)**	**(58.9)**
Interest income	333.7	161.2
Interest expense	(10.5)	(1.8)
Realised (losses) on derivative instruments	—	(46.8)
Included in net profit	**£ (284.1)**	**£ 53.7**
Property, plant and equipment transfers, net	**£ 3.6**	**£ 0.6**

Revenue. Amounts primarily consist of our charges to the Tesco Mobile Limited (**Tesco Mobile**) joint venture, and to a lesser extent, charges to nexfibre and insurance and roaming charges to Telefónica.

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

Other operating. Amounts consist of pass-through construction costs to nexfibre, and to a lesser extent, gain on disposal of assets to nexfibre.

Other expenses. Amounts primarily consist of support function staffing, network and technology services provided to us by certain subsidiaries of Liberty Global and Telefónica, as well as brand and licensing fees payable to Telefónica for use of the 'O2', 'O2 Refresh' and 'Priority' brands.

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

Interest expense. Amounts represent interest expense on non-current related-party debt, as further described below.

Interest income. Amounts primarily represent interest accrued on the VMED O2 UK Limited Receivable (as defined below).

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

Property, plant and equipment transfers, net. Amounts primarily represent net transfers with certain Liberty Global subsidiaries and associates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

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

	31 December	
	2022 in millions	2021 in millions
Assets:		
Non-current receivables[a]	£ 10,807.4	£ 8,796.3
Trade receivables[b]	75.3	24.0
Other current receivables[c]	26.0	223.1
Total	**£ 10,908.7**	**£ 9,043.4**
Liabilities:		
Lease obligations[d]	£ 105.8	£ 104.3
Related-party debt[e]	25.2	72.2
Accounts payable[f]	188.4	148.2
Accrued and other liabilities[f]	71.0	65.8
Total	**£ 390.4**	**£ 390.5**

(a) Amounts represent interest-bearing loan receivables due from VMED O2 UK Limited (the **VMED O2 UK Limited Receivable**), which bear interest at a rate of 4.75%.
(b) Amounts primarily relate to trade receivables arising from our charges to Tesco Mobile, as well as accrued income owed from nexfibre.
(c) Amounts primarily relate to non-interest bearing receivables due from VMED O2 UK Limited and from certain Liberty Global and Telefónica subsidiaries.
(d) Amounts represent lease obligations with certain Liberty Global subsidiaries and associates.
(e) Amounts represent an interest-bearing loan due to VMED O2 UK Limited, which bears interest at a rate of 4.36% and matures on 18 December 2025.
(f) Amounts represent both non-interest and interest-bearing payables, accrued capital expenditures and other accrued liabilities related to transactions with VMED O2 UK Limited and certain Liberty Global and Telefónica subsidiaries and associates, which are periodically cash settled.

26. Reconciliation of Movements in Liabilities to Cash Flows from Financing Activities

	Debt and lease obligations in millions	Derivative (assets) liabilities in millions	Total in millions
1 January 2022	**£ 18,400.2**	**£ 431.5**	**£ 18,831.7**
Cash flows from financing activities:			
Repayments of debt and lease obligations	(3,464.0)	—	(3,464.0)
Borrowings of debt	3,338.5	—	3,338.5
Net repayments of related-party debt	(49.3)	—	(49.3)
Payment of financing costs and debt premiums	(13.6)	—	(13.6)
Net cash received related to derivative instruments	—	381.2	381.2
Other financing activities, net	(0.3)	—	(0.3)
Total cash flows from financing activities	**(188.7)**	**381.2**	**(192.5)**
Realised and unrealised gains on derivative instruments, net	—	(2,188.2)	(2,188.2)
Interest accruals	17.7	—	17.7
Assets acquired under vendor financing arrangements, including VAT	905.5	—	905.5
Assets acquired under leases	100.6	—	100.6
Effect of changes in foreign exchange rates	1,065.7	—	1,065.7
Other liability-related changes	(12.5)	3.4	(9.1)
31 December 2022	**£ 20,288.5**	**£ (1,372.1)**	**£ 18,916.4**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

27. Capital and Reserves

Share Capital

	31 December 2022	2021
Called up, allotted and fully paid:		
Ordinary shares of £1 each	3	3

APIC

APIC includes share premium (£28,700.0 million) adjusted for group reconstruction relief (£7,926.2 million), resulting from the September 2021 Transactions (see note 3). Whereby, VMED O2 UK Limited made a contribution to VMED O2 UK Holdings Limited comprising VMED O2 UK Limited's then ownership interests in (i) Virgin Media and (ii) certain other entities, including O2 Holdings Limited (the parent company of O2), in return for two £1 ordinary shares of VMED O2 UK Holdings Limited, issued at a premium of £14,350.0 million each.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the pension reserve and 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 consolidated statements of profit or loss upon disposal of the foreign operations.

Accumulated Profit

Accumulated profit records the Company's retained profit or loss.

28. Commitments and Contingencies

Commitments

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

	Payments due during						
	2023 in millions	2024 in millions	2025 in millions	2026 in millions	2027 in millions	Thereafter in millions	Total in millions
Programming commitments[(a)]	£ 619.7	£ 537.8	£ 396.1	£ 387.5	£ 366.5	£ 179.9	£ 2,487.5
Purchase commitments[(b)]	981.3	136.9	78.5	52.9	51.9	32.7	1,334.2
Network and connectivity commitments[(c)]	790.5	72.9	50.8	21.3	18.0	177.4	1,130.9
JV Service Agreements[(d)]	197.9	201.4	205.6	209.9	89.3	—	904.1
Other commitments	120.2	33.4	28.6	26.4	21.3	14.2	244.1
Total	**£ 2,709.6**	**£ 982.4**	**£ 759.6**	**£ 698.0**	**£ 547.0**	**£ 404.2**	**£ 6,100.8**

(a) 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.

(b) Purchase commitments include unconditional and legally binding obligations related to (i) the purchase of customer premise and other equipment and (ii) certain service-related commitments, including call centre, information technology and maintenance services.

(c) Network and connectivity commitments include (i) service commitments associated with the nexfibre construction programme (see below for further details), (ii) commitments associated with VMED O2's full fibre upgrade and (iii) 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. Following notice given to cancel the MVNO agreement with Vodafone, by the end of 2022 all Virgin Mobile traffic had been successfully moved to run over the O2 network. Migration of Virgin Mobile customer plans to O2 will begin in March 2023.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

In addition to the commitments set forth in the table above, we have significant commitments under (i) derivative instruments. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments, see note 18.

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

Legal and Regulatory Proceedings and Other Contingencies
Disclosure Requests. O2 has been addressing a request for disclosure made by governmental authorities related to possible violations of anti-bribery laws and regulations. O2 continues to co-operate with the governmental authorities investigating this matter, which is still ongoing. It is not possible at this time to predict the full scope or duration of this matter or its eventual outcome.

Phones 4u. Legal proceedings have been issued in the High Court against O2 by the Administrators of Phones 4u. O2 has vigorously denied the allegations and filed its amended defence to this claim in October 2021. Hearings at the High Court commenced 16 May 2022 and have since concluded. The judgement is yet to be delivered with no firm expectation on timing. No provision has been made in relation to this matter.

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

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

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 to build a wholesale FTTH network in the U.K., the transaction completed in December 2022 under the brand name nexfibre. nexfibre will roll out fibre to 5 million greenfield homes not currently served by VMED O2's network by 2026, with the option to expand to an additional 2 million greenfield homes. VMED O2 will commit to being an anchor tenant of the new network, extending its total fibre footprint to up to 23 million homes, as well as providing its well-established network expansion expertise, systems and relationships to nexfibre, including construction, IT, technology and corporate services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

29. Principal Subsidiary Undertakings

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 companies are registered in England and Wales, unless otherwise noted.

Direct Shareholdings

Name of company	Company number	Holdings	Proportion held	Nature of business
Virgin Media Inc.	N/A[a]	Common Stock	100%	Holding
VMED O2 UK Financing I plc	12800739[b]	Ordinary	100%	Finance
VMED O2 UK Holdco 1 Limited	12800546[b]	Ordinary	100%	Holding

Indirect Shareholdings

Name of company	Company number	Holdings	Proportion held	Nature of business
Birmingham Cable Limited	2244565	Ordinary	100%	Dormant
Bitbuzz UK Limited	8178308	Ordinary	100%	Telecoms
CableTel Herts and Beds Limited	1785533	Ordinary	100%	Dormant
CableTel Northern Ireland Limited	NI029131[j]	Ordinary	100%	Dormant
CableTel Surrey and Hampshire Limited	2740651	Ordinary	100%	Dormant
Cellular Radio Limited	1612599[f]	Ordinary	100%	Dormant
Cornerstone Telecommunications Infrastructure Limited	8087551[d]	Ordinary	50%	Telecoms
Digital Mobile Spectrum Limited	8247385[e]	Ordinary	25%	Other Telecoms Activities
DX Communications Limited	SC133682[k]	Ordinary	100%	Dormant
Eurobell (Holdings) Limited	2904215	Ordinary	100%	Dormant
Flextech Limited	2688411	Ordinary	100%	Dormant
General Cable Limited	4925679	Ordinary	100%	Holding
giffgaff Limited	4196996[f]	Ordinary	100%	Telecom
Internet Matters Limited	8822801[g]		25%	Web Portal
Matchco Limited	3405630[c]	Ordinary	76%	In Liquidation
ntl (B) Limited	2735732	Ordinary	100%	Dormant
ntl (BCM Plan) Pension Trustees Limited	4342230	Ordinary	100%	Dormant
ntl (South East) Limited	1870928	Ordinary	100%	Dormant
ntl (V)	2719474	Ordinary	100%	Dormant
ntl Business Limited	3076222	Ordinary	100%	Dormant
ntl CableComms Group Limited	3024703	Ordinary	100%	Dormant
NTL CableComms Group LLC	N/A[a]	Ordinary	100%	Dormant
ntl Communications Services Limited	3403985	Ordinary	100%	Holding
ntl Glasgow	SC075177[l]	Ordinary	100%	Telecoms
ntl Glasgow Holdings Limited	4170072	Ordinary	100%	Holding
ntl Kirklees	2495460	Ordinary	100%	Telecoms
ntl Kirklees Holdings Limited	4169826	Ordinary	100%	Holding
ntl Midlands Limited	2357645	Ordinary	100%	Dormant
ntl Pension Trustees II Limited	11258264	Ordinary	100%	Corporate Trustee
ntl Pension Trustees Limited	3771014	Ordinary	100%	Corporate Trustee
ntl Rectangle Limited	4329656	Ordinary	100%	Dormant
ntl South Central Limited	2387692	Ordinary	100%	Dormant
ntl Telecom Services Limited	2937788	Ordinary	100%	Dormant
ntl Trustees Limited	2702219	Ordinary	100%	Dormant
O2 Cedar Limited	4678681[f]	Ordinary	100%	Non-trading
O2 Communications Limited	4271548[f]	Ordinary	100%	Non-trading

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Name of company	Company number	Holdings	Proportion held	Nature of business
O2 Holdings Limited	2604354[f]	Ordinary	100%	Holding
O2 Networks Limited	2604351[f]	Ordinary	100%	Holding
O2 Redwood Limited	2383186[f]	Ordinary	100%	Dormant
O2 Unify Limited	7999361[f]	Ordinary	100%	Non-trading
Statiq Limited	8702435[f]	Ordinary	100%	Non-trading
Telefónica Cybersecurity Tech UK Limited	12490724[f]	Ordinary	100%	Dormant
Telefónica Europe People Services Limited	486438[h]	Ordinary	100%	In Liquidation
Telefónica UK Limited	1743099[f]	Ordinary	100%	Telecoms
Telefónica UK Pension Trustee Limited	4267552[f]	Ordinary	100%	Corporate Trustee
Telewest Communications (Scotland) Limited	SC080891[l]	Ordinary	100%	Dormant
Telewest Communications Cable Limited	2883742	Ordinary	100%	Dormant
Telewest Communications Networks Limited	3071086	Ordinary	100%	Dormant
Telewest Limited	3291383	Ordinary	100%	Dormant
Tesco Mobile Limited	4780736[i]	Ordinary	50%	Telecoms
The Mobile Phone Store Limited	2837875[f]	Ordinary	100%	Dormant
Theseus No. 1 Limited	2994027	Ordinary	100%	Dormant
Theseus No. 2 Limited	2994061	Ordinary	100%	Dormant
Virgin Media Bristol LLC	N/A[a]	Ordinary	100%	Finance
Virgin Media Business Limited	1785381	Ordinary	100%	Telecoms
Virgin Media Communications Limited	3521915	Ordinary	100%	Dormant
Virgin Media Finance Holdings Inc.	N/A[a]	Ordinary	100%	Investment Holding
Virgin Media Finance PLC	5061787	Ordinary	100%	Finance
Virgin Media Finco 2 Limited	12581419	Ordinary	100%	Holding
Virgin Media Finco Limited	8045612	Ordinary	100%	Finance
Virgin Media Group LLC	N/A[a]	Ordinary	100%	Holding
Virgin Media Intermediary Purchaser Limited	13047371	Ordinary	100%	Dormant
Virgin Media Investment Holdings Limited	3173552	Ordinary	100%	Finance
Virgin Media Investments Limited	7108297	Ordinary	100%	Finance
Virgin Media Limited	2591237	Ordinary	100%	Telecoms
Virgin Media Mobile Finance Limited	9058868	Ordinary	100%	Finance
Virgin Media National Networks Limited	5174655	Ordinary	100%	Dormant
Virgin Media O2 Employee Medical Trust Limited	5993968	Ordinary	100%	Dormant
Virgin Media Operations Limited	11118162	Ordinary	100%	Holding
Virgin Media Payments Limited	6024812	Ordinary	100%	Collections
Virgin Media PCHC Limited	1733724	Ordinary	100%	Dormant
Virgin Media Secretaries Limited	2857052	Ordinary	100%	Guarantor
Virgin Media Secured Finance PLC	7108352	Ordinary	100%	Finance
Virgin Media Senior Investments Limited	10362628	Ordinary	100%	Finance
Virgin Media SFA Finance Limited	7176280	Ordinary	100%	Finance
Virgin Media Trade Receivables Intermediary Financing Limited	12552094	Ordinary	100%	Finance
Virgin Media Wholesale Limited	2514287	Ordinary	100%	Telecoms
Virgin Mobile Telecoms Limited	3707664	Ordinary	100%	Telecoms
Virgin WiFi Limited	4414701	Ordinary	100%	Dormant
VM Transfers (No 4) Limited	2369824	Ordinary	100%	Dormant
VMED O2 Secretaries Limited	4272689[f]	Ordinary	100%	Corporate Secretary
VMED O2 UK Financing II plc	12804417[b]	Ordinary	100%	Holding
VMED O2 UK Holdco 3 Limited	12807077[b]	Ordinary	100%	Holding

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

Name of company	Company number	Holdings	Proportion held	Nature of business
VMED O2 UK Holdco 4 Limited	12809596[b]	Ordinary	100%	Holding and Finance
Weve Limited	8178832[f]	Telefónica A	100%	Non-trading
Yorkshire Cable Communications Limited	2490136	Ordinary	100%	Dormant

All companies are registered at 500 Brook Drive, Reading, RG2 6UU, unless otherwise noted below.

(a) 1550 Wewatta Street, Suite 1000, Denver, CO 80202
(b) Griffin House, 161 Hammersmith Road, London W6 8BS
(c) 1 More London Place, London, SE1 2A
(d) Hive 2, 1530 Arlington Business Park, Theale, Berkshire, RG7 4SA
(e) 24 - 25 The Shard, 32 London Bridge Street, London SE1 9SG
(f) 260 Bath Road, Slough, Berkshire, SL1 4DX
(g) One London Wall, 6th Floor, London EC2Y 5EB
(h) 13-18 City Quay, Dublin, Dublin 2, D02 ED70
(i) Shire Park, Welwyn Garden City, Hertfordshire, AL7 1GA
(j) Unit 3, Blackstaff Road, Kennedy Way Industrial Estate, Belfast, BT11 9AP
(k) The Ca'D'Ore, 45 Gordon Street, Glasgow, G1 3PE
(l) 1 South Gyle Crescent Lane, Edinburgh, EH12 9EG

30. Parent Undertaking and Controlling Party

The Company’s immediate and ultimate parent undertaking is VMED O2 UK Limited.

31. Subsequent Events

In March 2023, we entered into a $750.0 million sustainability linked term loan facility (**Term Loan Y**). Term Loan Y matures on 31 March 2031 and bears interest at a rate of the Secured Overnight Financing Rate (SOFR) plus 3.25% (subject to adjustment based on the achievement or otherwise of certain ESG metrics). The proceeds from Term Loan Y were used to repay £220 million of the outstanding principal amount under Term Loan X. The remaining proceeds were used for general corporate purposes (including the repayment of the existing debt).

In March 2023, we also made a further draw down of £325.0m of Term Loan X. This was used for general corporate purposes.

The certain ESG metrics linked to carbon emissions were re-baselined at the time of financing Term Loan Y. Changes were made in order to improve (i) accuracy of electricity consumption estimation for masts operating on third party sites and this was backdated to 2020 and (ii) the residual electricity grid mix emissions factor is now used for non-renewable electricity consumption.

32. Alternative Performance Measures

VMED O2 use various non-IFRS financial measures to evaluate growth trends, assess operational performance and monitor cash performance. We consider that these measures enable investors to understand the ongoing operations of the business. They are used by management to monitor financial performance as it is considered to aid comparability of the financial performance from year to year.

These APMs should not be viewed as a complete picture of VMED O2’s financial performance which is presented in the reported results. The exclusion of certain items may result in a more favourable view when costs such as depreciation and amortisation, costs to capture, restructuring and other operating expenses are excluded. These measures may not be comparable when reviewing similar measures reported by other companies.

Adjusted EBITDA

Adjusted EBITDA is the primary measure used by our chief operating decision maker to evaluate operating performance and is also a key factor that is used by our internal decision makers to (i) determine how to allocate resources and (ii) evaluate the effectiveness of our management for the purposes of annual and other incentive compensation plans. Adjusted EBITDA is defined as profit (loss) from continuing operations before net income tax (expense) benefit, other non-operating income or expenses, share of results of investments accounted for by the equity method, net finance income (costs), depreciation and amortisation, share-based compensation, impairment, restructuring and other operating items and CTC operating expenses. Share-based compensation for the purposes of calculating Adjusted EBITDA also includes awards granted to VMED O2 employees that are settled with Liberty Global or Telefónica shares. CTC generally include incremental, third-party operating costs that are directly associated with integration activities, restructuring activities and certain other costs associated with aligning our business processes to derive synergies. See the 'Financial Review' section for a reconciliation to the closest equivalent statutory measure, operating profit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2022 CONTINUED

	Year ended 31 December 2022 in millions
Operating profit	£ 196.9
Restructuring and other operating expenses	62.6
Share-based compensation expense	43.6
Depreciation and amortisation	3,553.9
Costs to capture (**CTC**)	74.6
Adjusted EBITDA	**£ 3,931.6**

Transaction Adjusted Revenue and Transaction Adjusted EBITDA

Transaction Adjusted Revenue and Transaction Adjusted EBITDA are defined as revenue and Adjusted EBITDA normalised for certain adjustments, which have been made to more accurately represent the performance of the underlying operations. These adjustments reflect the fair value measurement required, in connection with the completion of the joint venture, whereby the opening balance sheet of the combined business was reported at its estimated fair value, resulting in the adjustment of certain deferred revenue, primarily installation, and deferred commission and install cost balances, which would have otherwise been released and recognised as revenue and operating costs respectively. We believe this is a key metric to understand VMED O2's growth, as it allows for a more meaningful comparison of trends from period to period. See the 'Financial Review' section for a reconciliation to the closest equivalent statutory measures, revenue and operating income respectively.

	Year ended 31 December 2022 in millions
Revenue	£ 10,360.0
Deferred revenue – Transaction Adjustments	21.9
Transaction Adjusted Revenue	**£ 10,381.9**

	Year ended 31 December 2022 in millions
Adjusted EBITDA (see above for reconciliation to nearest statutory measure)	£ 3,931.6
Deferred revenue – Transaction Adjustments	21.9
Deferred commissions and install cost - Transaction Adjustments	(48.1)
Transaction Adjusted EBITDA	**£ 3,905.4**

Adjusted Free Cash Flow

Adjusted Free Cash Flow is defined as the net cash provided by our operating activities, plus expenses financed by an intermediary, less (i) capital expenditures, as reported in our consolidated statements of cash flows, (ii) principal payments on amounts financed by vendors and intermediaries and (iii) principal payments on certain finance leases.

We believe that our presentation of Adjusted Free Cash Flow, which is a non-GAAP measure, provides useful information to our investors because this measure can be used to gauge our ability to service debt and fund new investment opportunities. Adjusted Free Cash Flow should not be understood to represent our ability to fund discretionary amounts, as we have various mandatory and contractual obligations, including debt repayments, which are not deducted to arrive at this amount. Investors should view Adjusted Free Cash Flow as a supplement to, and not a substitute for, IFRS measures of liquidity included in our consolidated statements of cash flows.

	Year ended 31 December 2022 in millions
Net cash provided by operating activities	£ 2,953.5
Capital expenditures, net	(1,522.2)
Expenses financed by an intermediary	1,765.8
Principal payments on amounts funded by vendors and intermediaries	(2,333.6)
Principal payments on leases	(197.5)
Adjusted Free Cash Flow	**£ 666.0**