Registered Number: 5310128

Telefonica O2 Holdings Limited

Annual Report and Financial Statements

Year ended 31 December 2021

Contents

COMPANY INFORMATION

Directors

Thomas Peter de Albuquerque
Guillermo Martinez Maside
Luis Ángel Prendes Arroyo

Secretary

Prism Cosec Limited

Registered office

Highdown House
Yeoman Way
Working
West Sussex
BN99 3HH

Independent Auditors

PricewaterhouseCoopers LLP
40 Clarendon Road
Watford
Hertfordshire
WD17 1JJ

STRATEGIC REPORT

Telefonica O2 Holdings Limited (the "**Company**") is a member of the Telefónica group of companies (the "**Telefónica Group**"). The immediate parent company is Telefónica, S.A. headquartered in Spain and listed on the Spanish stock exchange.
The Company has one subsidiary, mmO2 Ltd, a company that does not trade and does not have any employees or suppliers and qualifies as a small company under section 382 of the Companies Act 2006.
In accordance with section 402 of the Companies Act 2006, a consolidated set of financial statements has not been prepared as the Company has a single subsidiary that can be exempted for its inclusion in consolidation as its inclusion is not material for the purpose of giving a true and fair view in accordance with section 405 of the Companies Act 2006.

O2 and Virgin Media Joint Venture

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

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

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

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

Business activities

During the year the purpose of the Company was to act as an intermediate holding company within the Telefónica Group, holding a 100% investment in O2 Holdings Limited and its group (**O2 Group**) until 1 June 2021 and for the Joint Venture from 1 June 2021. The Company's main activities during the year were firstly, to continue to maintain operational oversight of the O2 Group and the Joint Venture, in particular the implications of the COVID-19 pandemic and the wider economic uncertainties on the Businesses. Secondly, the Board focused on matters pertaining to the Joint Venture regulatory clearance in addition to the implementation of certain pre-completion matters as contemplated by the in the contribution agreement in readiness for the Joint Venture.

STRATEGIC REPORT (CONTINUED)

Business activities (continued)

Telefónica S.A. manages its operations centrally and therefore the Company's directors do not believe that further key performance indicators for the Company are necessary to enhance the understanding of the development, performance or position of the business of the Company.

Performance and Development

After dividend income of £5,954m (2020: £469m) and the loss on disposal of assets held for sale of (£742m) (2020: £Nil) the Company has generated a profit before tax of £5,235m in 2021 (2020: £469m). Dividends of £2,000m were declared in 2021 (2020: £4,070m). The Company has paid dividends £4,500m (2020: £570m) in cash in the year and the remaining £1,000m (2020: £3,500m) has been deferred. This remaining amount was paid in January 2022.

The net assets of the Company as at 31 December 2021 were £10,508m (2020: £5,861m).

Given that the Company mainly operates as a holding company, the performance of the Company is reliant on the performance of the Joint Venture and the Directors are of the opinion that analysis using key performance indicators is not necessary for understanding the Company's business itself.

Details about the operating performance of the Joint Venture, VMED O2 UK Limited, can be obtained from the company's website https://news.virginmediao2.co.uk/2022-financial-results/q1/; the company's financial statements; and from the financial results releases of the Company's shareholder, Telefónica, S.A.

Principal Risks and uncertainties

The Directors have satisfied themselves that it is not essential for the Company to have a separate risk management system. The principal risks are managed by the directors of Telefonica S.A. at the group level. The Company's principal activity is to act as a holding company and the risks to which the Telefónica Group is exposed includes the principal matters which would impact the risks and uncertainties facing the Company. Details of the Telefónica Group's risks, the potential impact and how they are being mitigated are discussed in the Telefónica Group's consolidated management report which do not form part of this report.

The Joint Venture faces certain risks and uncertainties as set out in the Joint Venture's financial statements which do not form part of this report.

Risks Relating to the Joint Venture transactions

We are exposed to certain risks relating to Joint Venture transactions. These include:

- The expected benefits and synergies from the Joint Venture transactions may not materialise.
- The integration of Virgin Media and O2 will be a significant exercise and could adversely affect the Joint Venture's business.

How the Joint Venture manages this: Through the oversight of Telefónica teams over a collection of activities across the Joint Venture, collectively driven and delivered by its personnel, which, to name a few, include: strategic and operational planning, integration activities, service agreements with the Joint Venture Parents and other relevant parties, operational and commercial delivery.

STRATEGIC REPORT (CONTINUED)

172(1) Statement

We have a responsibility to promote the success of the Company in good faith for the benefit of our ultimate shareholder whilst having regard, at least, to the following matters:

- The likely consequences of any decisions in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationship with suppliers, customers and others;
- The impact of the Company's operation on the community and environment;
- The desire of the Company to maintain high standard of reputation and business conduct; and
- The need to act fairly between shareholders of the Company.

In discharging our responsibilities as directors to the Company, we have adopted the Telefónica Group's governance framework which includes best practice procedures to support the assessment of those matters necessary to make informed decisions in furtherance of the long-term success and sustainability of the Company.

The affairs of the Company are conducted in accordance with the articles of association of the Company. As it is a holding company, the Company does not have any physical location of operations, employees, suppliers (other than its auditor, PricewaterhouseCoopers LLP) or customers and being part of the wider Group, the directors are committed to running the Company's business responsibly and maintaining the highest standards of reputation and business conduct.

The Company's stakeholders are therefore its shareholders and the wider Telefónica Group. The Company has two shareholders, with one shareholder holding one share in a nominee capacity on behalf of Telefónica, S.A. The risk of acting unfairly between shareholders is not a risk that will arise for the Company.

Further detail on Telefónica Group's governance can be found in the Annual Corporate Governance Report within Telefónica, S.A.'s Annual Report at https://www.telefonica.com/en/shareholders-investors/financial-reports/annual-report/.

The Strategic Report was approved by the Board on 16 September 2022.

By Order of the Board

Thomas Peter de Albuquerque
Director

DIRECTORS' REPORT

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

Legal form & Principal Activities

Telefonica O2 Holdings Limited ("**the Company**") is a Private Company limited by shares, incorporated in England and Wales and domiciled in the United Kingdom under the registered number 5310128. The registered office address is Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH. It is a wholly owned subsidiary and the parent company is Telefónica, S.A., a company incorporated in Spain. The Company acts as a holding company for the operations of the Joint Venture, VMED O2 UK Limited; and as a holding company for its subsidiary, mmO2 Limited.

Future Developments

The company continues to perform its activities as a holding company for the Joint Venture. Further details of the O2/Virgin Media Joint Venture arrangement can be found on page 4 of the Strategic report.

Research and development

The company does not undertake any research and development activities.

Structure of branches

The company does not have any branches.

Directors and Secretary

The Directors of the Company who were in office during the year were:

Patricia Cobian (resigned 17 June 2021)
Mark Evans (resigned 17 June 2021)
Thomas Peter de Albuquerque (appointed 17 June 2021)
Guillermo Martinez Maside (appointed 17 June 2021)
Luis Angel Prendes Arroyo (appointed 17 June 2021)

O2 Secretaries Limited held office as company secretary until their resignation on 17 June 2021. Prism Cosec Limited were appointed as company secretary on 15 September 2021.

Directors' liability insurance and indemnity

Telefónica, S.A., the Company's parent company, maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against Directors of companies within the Telefónica Group and the Directors of the Company are covered by this insurance. The insurance was in force throughout the last financial year and is currently in force. The Company also granted an indemnity in the form permitted by the UK Companies Act to its Directors which also remains in force.

DIRECTORS' REPORT (CONTINUED)

UK Employee Engagement Statement

The Company does not have any employees in its own right, however the O2 Group employees are employed by Telefonica UK Limited which solely operates in the UK and its employees are based in the UK with the exception of a small number which are seconded to other group companies from time to time. Details of the VMO2 Group's employee engagement and relationship can be found in VMED O2 UK Holdings Limited Consolidated Annual Report.

Energy and Carbon Report

The Company did not have any energy and carbon footprint during the financial year ended 31 December 2021. However, the Company holds an investment in the Joint Venture with significant energy and carbon footprints, details of which are set out in a separate report; Streamlined Energy and Carbon Statement, part of the VMED O2 UK Limited Consolidated Annual Report.

Stakeholder Statement

The Company does not have any significant stakeholders, however the details of the main stakeholders of the Joint Venture including the engagement and relationship with key stakeholders can be found in the VMED O2 UK Limited Consolidated Annual Report.

Dividends

Dividends of £2,000 million were declared in 2021 (2020: £4,070 million). The company has paid £4,500 million (2020: £570 million) in cash in the year, £1,000 million relating to 2021 and £3,500 million relating to 2020. The remaining £1,000 million (2020: £3,500 million) has been deferred. This remaining amount was paid in January 2022.

Political donations

The Company made no political donations during the year ended 31 December 2021 (2020: £nil).

Financial Risk Management

Details of the Group's approach to financial risk management objectives and policies are set out in the financial statements in Note 17 "Financial instruments and capital management".

Capital structure and rights attached to shares

The details of the Company's capital structure including the rights attached to shares are detailed in Note 15 of the financial statements.

DIRECTORS' REPORT (CONTINUED)

Going Concern

The Company's business activity is to act as an intermediate holding company within the Telefónica Group, holding the investment in the Joint Venture. The financial position of the Company is described in the Strategic Report. In addition, note 18 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk, liquidity risk and interest rate risk.

Statement of disclosure of information to Auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' report was approved by the Board on 16 September 2022.

By Order of the Board

Thomas Peter de Albuquerque
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Statement of Directors' responsibilities was approved by the Board on 16 September 2022.

By Order of the Board

Thomas Peter de Albuquerque
Director

Independent auditors' report to the members of Telefonica O2 Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Telefonica O2 Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Telefonica O2 Holdings Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Telefonica O2 Holdings Limited (continued)

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase income or reduce expenditure. Audit procedures performed by the engagement team included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the those charged with governance about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries, including journal entries with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Telefonica O2 Holdings Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Jaskamal Sarai (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

16 September 2022

Statement of comprehensive income
For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Other income		**22**	-
Loss on disposal of assets held for sale		**(742)**	-
Operating profit (loss)	4	**(720)**	-
Finance income		**1**	-
Dividend income	7	**5,954**	469
Profit before taxation		**5,235**	469
Taxation	8	-	-
Profit after taxation and total comprehensive income for the year		**5,235**	469

The accompanying notes on pages 19 to 30 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2021

	Note	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Investments	11	**10,425**	103
		10,425	103
Current assets			
Assets classified as held for sale	10	-	9,359
Other receivables	12	**22**	2
Cash and cash equivalents	13	**1,291**	17
		1,313	9,378
Current liabilities			
Trade and other payables	14	**(1,230)**	(3,620)
		(1,230)	(3,620)
Net current assets		**83**	5,758
Total assets less current liabilities		**10,508**	5,861
Net assets		**10,508**	5,861
Equity			
Share capital	15	**9**	9
Share premium	15	**1,852**	440
Retained earnings		**8,647**	5,412
Total equity		**10,508**	5,861

The accompanying notes on pages 19 to 30 are an integral part of these financial statements.

These financial statements on pages 15 to 30 were approved by the Board of Directors and authorised for issue on 16 September 2022. They were signed on its behalf by:

Thomas Peter de Albuquerque
Director

Statement of changes in equity
For the year ended 31 December 2021

	Share capital (Note 15) £m	Share premium (Note 15) £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020	9	440	9,013	9,462
Profit for the year	-	-	469	469
Total comprehensive income for the year	**-**	**-**	**469**	**469**
Dividends paid (Note 9)	-	-	(570)	(570)
Dividends unpaid (Note 14)	-	-	(3,500)	(3,500)
Balance at 31 December 2020	**9**	**440**	**5,412**	**5,861**
Profit for the year	-	-	5,235	5,235
Total comprehensive income for the year	**-**	**-**	**5,235**	**5,235**
Dividends paid (Note 9)	-	-	(1,000)	(1,000)
Dividends unpaid (Note 14)	-	-	(1,000)	(1,000)
Share premium issue (Note 15)	-	1,412	-	1,412
Balance at 31 December 2021	**9**	**1,852**	**8,647**	**10,508**

The accompanying notes on pages 19 to 30 are an integral part of these financial statements.

Telefonica O2 Holdings Limited **Registered Number: 5310128**

Statement of cash flows
For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Profit before taxation		**5,235**	**469**
Adjustments to reconcile profit before tax to net cash flows:			
Finance income		(1)	-
Dividend income	7	(5,954)	(469)
Loss on disposal of assets held for sale		742	-
Operating profit before adjustments for working capital changes		**22**	-
(Increase)/decrease in other receivables	12	(20)	4
(Decrease) in other payables	14	(119)	(4)
Net cash flow used in operating activities		**(117)**	-
Dividends received		5,954	469
Acquisition of shares in subsidiary		(1,412)	-
Return of capital on investment in subsidiary		101	-
Price adjustment on acquisition of Joint Venture		(63)	-
Net cash flow generated from investing activities		**4,580**	**469**
Dividends paid		(4,500)	(570)
Proceeds from loan		-	101
Repayment of loan		(101)	-
Issue of ordinary shares		1,412	-
Net cash flow used in financing activities		**(3,189)**	**(469)**
Net increase in cash and cash equivalents		**1,274**	-
Cash and cash equivalents at 1 January		**17**	**17**
Cash and cash equivalents at 31 December		**1,291**	**17**

The accompanying notes on pages 19 to 30 are an integral part of these financial statements.

Notes to the financial statements (continued)
For the year ended 31 December 2021

1. General information

Telefonica O2 Holdings Limited (the "**Company**") is a private company limited by shares and domiciled in the United Kingdom. It is incorporated in England and Wales under the registered company number 5310128. The address of the Company's registered office is Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH. The principal activity of the Company is to act as an intermediate holding company within the Telefónica Group.

The Company holds a 50% share in VMED O2 UK Limited (**the Joint Venture**), which is a 50:50 Joint Venture that was formed on 1 June 2021 between Liberty Global plc. and Telefónica, S.A. Telefonica O2 Holdings Limited is a wholly owned subsidiary of Telefónica S.A.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements have been prepared using historical cost principles.

The principal accounting policies of the Company applied in the preparation of these financial statements are set out below. The IFRS accounting policies have been applied consistently to all periods presented.

2.2 Consolidated financial statements

In accordance with section 402 of the Companies Act 2006, consolidated financial statements have not been prepared as the Company has a single subsidiary, mmO2 Limited, that can be exempted for its inclusion in consolidation as its inclusion is not material for the purpose of giving a true and fair view in accordance with section 405 of the Companies Act 2006.

2.3 Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the 12 month period from the date on which the financial statements were approved thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.4 Functional currency

These financial statements are presented in pounds sterling, which is also the functional currency, because that is the currency of the primary economic environment in which the Company operates.

2. Significant accounting policies (continued)

2.5 Investments

Investments are stated at cost less provision for impairment. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an investment's fair value less costs to sell and value in use.

Investments in subsidiary undertakings and Joint Ventures are tested for impairment indicators annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable.

2.6 Financial income and expense

Financial income principally consists of interest income on Company deposits and gains arising from foreign exchange rate instruments. Financial expense principally consists of interest expense on Company borrowings and losses arising from foreign exchange rate instruments.

2.7 Taxation

Taxation expense for the period comprises current tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.8 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents relate entirely to cash at bank only.

2.9 Financial assets

The Company's financial assets relate to other receivables arising from intercompany transactions and are measured at amortised cost. The Company assesses on a forward looking basis the expected credit losses associated with its trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk or probability of default for balances repayable on demand.

2. Significant accounting policies (continued)

2.10 Dividend income and distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders until paid.

Income is recognised when the Company's rights to receive the payment is established. Dividends received from subsidiary and associate companies are recognised as finance income in the Company's financial statements in the period in which the dividends are declared.

2.11 Assets held for sale

Non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the Group determines the sale to be highly probable: management is committed to a decision to sell and all actions required to complete the sale indicate that it is unlikely that significant changes to the sale will be made or that the decision will be withdrawn. In addition, the asset or disposal group is available for immediate sale in its present condition (subject only to terms that are usual and customary for such transactions) and the sale is expected to be completed within one year from the date of the classification.

2.12 New standards and interpretations not yet adopted

Certain new accounting standards and amendments have been published that are not mandatory for the current reporting period and have not been early adopted by the company as the adoption of the following standards is not expected to have a material impact.

Standard not yet adopted	Annual periods beginning on or after
Amendments to IFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 Cost of Fulfilling a Contract	1 January 2022
Annual Improvements 2018-2020 Cycle	1 January 2022
IFRS 17: Insurance Contracts	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as current or non-current	1 January 2023
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

3. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. A significant change in the facts and circumstances on which these estimates and judgements are based could have a material impact on the Company's earnings and financial position. The estimates and assumptions which are significant to the financial statements are discussed below.

3.1 Impairment of investments - Critical accounting estimate

An impairment exists when the carrying value of an investment exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from forecasts. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as the expected cash inflows and the growth rate used for extrapolation purposes.

3.2 Joint arrangements - Critical accounting judgement

IFRS11 establishes principles for the financial reporting of parties to joint arrangements. It defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Upon formation of the joint arrangement, the Company determined its interest in VMED O2 UK Limited as a Joint Venture. Each Shareholder holds 50% of the issued share capital of VMED O2 UK Limited. The Shareholders Agreement contains customary provisions for the governance of a 50:50 Joint Venture that result in Telefónica S.A. and Liberty Global having joint control over decision making with respect to the Joint Venture.

3.3 Assets held for sale - Critical accounting judgement

As a result of the agreement between Liberty Global and Telefónica to create the Joint Venture in the UK, the Company contributed its entire issued share capital in O2 Holdings Limited to a co-controlled Joint Venture company in consideration for shares in the resulting Joint Venture, VMED O2 UK Limited. Therefore, the associated assets were consequently presented as held for sale as at 31 December 2020. The judgement to classify the investments as held for sale was that they met the criteria for held for sale as outlined in Note 2.11. During 2021 the asset held for sale was disposed of and replaced with an investment in the newly formed VMED O2 UK Limited.

3.4 Initial recognition of investments – Critical accounting estimate

The investment in VMED O2 UK has been recognised at its fair value at the acquisition date. The fair value is determined on the basis of its business plan, including significant judgments when considering significant assumptions such as long-term OIBDA margin, long-term capital expenditure ratio, discount rate and perpetuity growth rate which would be significantly affected by the future trends in the economic, competitive, regulatory and technological environment.

Notes to the financial statements (continued)
For the year ended 31 December 2021

4. Operating loss

Operating loss from continuing activities is stated after charging:

	2021	2020
	£m	£m
Loss on disposal of investments in subsidiaries	742	-

5. Auditors' remuneration

The aggregate fees paid to auditors during the year for audit and other services are analysed below:

	2021	2020
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	185	22

In addition, the Company has incurred £80k (2020: £nil) audit fee for its subsidiary, mmO2 Limited. No non-audit services have been provided to Telefonica O2 Holdings Limited.

6. Directors and employees

No directors are remunerated for their services to the Company. Directors' remuneration, including benefits, are met by other Telefónica Group companies. The number of employees in the company were Nil (2020: Nil).

7. Dividend income

	2021	2020
	£m	£m
Dividends received from O2 Holdings Limited	5,793	469
Dividends received from VMED O2 UK Limited	161	-
Dividend income	**5,954**	**469**

8. Taxation

The tax assessed for the year varied from the amount computed by applying the UK statutory tax rate to profit or loss on ordinary activities before taxation. The differences were attributable to the following factors:

	2021	2020
	£m	£m
Profit before tax from continuing operations	5,235	469
Profit before taxation	**5,235**	469
Profit on ordinary activities multiplied by the rate of UK corporation tax of 19% (2020: 19%)	995	89
Income not taxable for tax purposes	(1,136)	(89)
Expenses not deductible	141	-
Taxation for the year	-	-

Income not taxable relates mainly to dividends received. Expenses not deductible relates mainly to the loss on disposal of assets held for sale.

The statutory 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 (Finance Bill 2021). The increased tax rate had no effect on the company's statement of financial position at 31 December 2021.

9. Dividends declared

	2021	2020
	£m	£m
Dividend – 22.52p (2020: 6.41p) per share	**2,000**	570

Dividends of £2,000m (2020: £570m) were declared in 2021. £1,000m was paid in cash in the year and £1,000m remained outstanding at the year end. This remaining amount was paid in January 2022.

10. Assets held for sale

On 7 May 2020, Telefónica, S.A. and Liberty Global announced that both companies had entered into an agreement together to create a 50:50 Joint Venture in the UK, bringing together the O2 and Virgin Media businesses.

On 1 June 2021, following the receipt of regulatory approval from the Competition and Markets Authority, Telefónica, S.A. and Liberty Global completed on the agreement to combine the O2 and Virgin Media businesses to create a 50:50 Joint Venture in the UK.

Notes to the financial statements (continued)
For the year ended 31 December 2021

10. Assets held for sale (Continued)

Telefonica O2 Holdings Limited, contributed its entire issued share capital in O2 Holdings Limited as consideration for shares in VMED O2 UK Limited the newly created and jointly controlled group. At the same time Liberty Global Group contributed the same for the Virgin Media Group. As a result, the associated assets in O2 Holdings Limited were presented as held for sale as at 31 December 2020 which were subsequently disposed of during 2021.

Assets and liabilities of disposal group classified as held for sale

	2021	2020
Assets classified as held for sale	**£m**	£m
Cost	**9,359**	9,359
Acquisition of shares in subsidiary classified as held-for-sale	**1,412**	-
Disposals	**(10,771)**	-
Net Book Value	**-**	9,359

11. Investments

	2021	2020
	£m	£m
mmO2 Limited	**2**	103
VMED O2 UK Limited	**10,423**	-
	10,425	103

During 2020 the investments relating to O2 Holdings Limited and Telefonica UK Limited were reclassified to assets held for sale, please refer to Note 10.

During the year ended 31 December 2021 the Company received a dividend of £101m from its investment in subsidiary mmO2 Limited. The dividend was used to settle intercompany amounts owed by the Company to mmO2 Limited.

On 1 June 2021, the Company contributed its entire issued share capital in O2 Holdings Limited as consideration for shares in the newly created VMED O2 UK Limited, the Joint Venture. The Company has joint control and a 50% ownership interest. The investment in VMED O2 UK Limited was recognised at its fair value at the date of acquisition, which amounted to £10,360m. Subsequently a price adjustment increased the cost of the investment by £63m.

The fair value calculation for VMED O2 UK at the time of its acquisition was based on a discounted cash flows valuation, using the methods of multiples of comparable companies and multiples of transactions as a cross-check. It also considered the net debt position at the time.

Notes to the financial statements (continued)
For the year ended 31 December 2021

11. Investments (continued)

The valuation emanates from the business plan of the joint venture for the 2021-2023 period that resulted from the aggregation of the individual business plans of O2 and Virgin Media approved by Telefónica and Liberty Global, respectively, extended to 2030 and the synergies plan prepared by the strategy teams of both groups.

The following is a description of the main variables considered in the fair value calculation, according to the primary method:

- Revenues: the valuation scenario assumes growth rates between 0% and 3% over the period, in line with the estimations of analysts and supported in the revenues synergies expected for the transaction.
- EBITDA margin: the forecasted EBITDA was based on the stand-alone plans with a normalized margin in the range of 36% to 40% (post-IFRS 16 and adjusted to consider the impact of annual payments of spectrum licenses once expired).
- Synergies: were considered taking into account management's analysis performed at the individual workstream level and benchmarked with analyst estimates of probability of achievement.
- Long-term capital expenditure ratio: it is expected to be in a range of 16% to 22%, aligned with the historical level of comparable companies.

The discount rate applied to the cash flow projections is the weighted average cost of capital (WACC), the expected return appropriate for the expected risk level.

A modified version of the Capital Asset Pricing Model ("CAPM") was used to estimate the required return on equity. To re-lever the beta it was considered the intrinsic leverage of the joint venture. In addition, it was considered a specific premium or alpha, which includes additional risks.

For the cost of debt, in line with the leverage assumption considered, the bonds issued by the joint venture were analysed and their spreads were compared to a comparable risk free rate (with a similar maturity, in the same currency and issued in the same country; so that there is not distortion due to the risk premia by country). A return after taxes was used because the interests on the financial debt are tax deductible.

In conclusion, the discount rate applied for the valuation is 6.9%.

Perpetuity growth rate: revenues from 2028 are normalized to the perpetuity growth rate (g), considering the analysts' consensus for the companies of the sector in the United Kingdom, contrasting with the estimations of long-term inflation rates and with the assumptions made by companies of the sector in their impairment tests. The perpetuity growth rate considered is 1.0%.

In the year ended 31 December 2021 there were no indicators of impairment and no impairment loss recognised by the Company.

Notes to the financial statements (continued)
For the year ended 31 December 2021

12. Other receivables

	2021 £m	2020 £m
Amounts owed by group and related undertakings	-	2
Amounts owed by the Joint Venture	**22**	-
	22	2

Amounts owed by the Joint Venture represent receivables due from VMED O2 UK Limited.

All intercompany balances are interest free and repayable on demand.

13. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank	**1,291**	17

Cash and cash equivalents represent balances held with Telfisa Global BV, a related party.

14. Trade and other payables

	2021 £m	2020 £m
Dividends payable	**1,000**	3,500
Short term loan payable to subsidiary undertaking	-	101
Amounts owed to group and related undertakings	-	19
Amounts owed to the Joint Venture	**214**	-
Other payables	**16**	-
	1,230	3,620

15. Share capital and reserves

Share capital	2021 Number of shares	2021 £m	2020 Number of shares	2020 £m
Called up, allotted and fully paid				
Ordinary shares of 0.1 pence each	8,882,223,780	9	8,880,812,164	9

The Company has one class of issued share capital, comprising ordinary shares of 0.1 pence each. Subject to the Company's articles of association, and applicable law, the Company's ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any right of redemption.

In May 2021 1,411,616 ordinary shares of £0.001 each were issued to Telefónica, S.A. at £1,000 per share.

Share premium

The share premium account represents the premium on shares issued. The reserve is non-distributable.

Share premium	2021 Number of shares	2021 £m	2020 Number of shares	2020 £m
Share premium	8,882,223,780	**1,852**	8,880,812,164	440

16. Subsidiary undertakings and joint arrangements

A complete list of the Company's subsidiary undertakings and joint arrangements at 31 December 2021 is detailed below.

Name	Country of incorporation and operation	Nature of business	Portion of ordinary shares held
VMED O2 UK Limited Registered office: Griffin House, 161 Hammersmith Road, London, United Kingdom, W6 8BS	England and Wales	Telecoms	50 (Joint Venture)
mmO2 Limited Registered office: Highdown House, Yeoman Way, Worthing, West Sussex, United Kingdom, BN99 3HH	England and Wales	Active non trading company	100

Notes to the financial statements (continued)
For the year ended 31 December 2021

17. Financial instruments and capital management

Financial risk factors and management

The Company's principal financial liabilities comprise intercompany trade and other payables. The purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as intercompany receivables and cash. The principal financial risks of the Company and how the Company manages these risks are discussed below:

Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

(i) Risk management

The Company's principal credit risks are attributable to its other financial assets which mostly comprise intercompany receivables and cash and cash equivalents. Credit risk is managed on a Telefónica Group basis.

(ii) Intercompany receivables

Intercompany receivables are considered to have a low credit risk and no loss allowance is recognised. Management consider 'low credit risk' to be when they have a low risk of default and the issuer has a strong capacity to meet is contractual cash flow obligations in the near term or on demand.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.

Management of the Company's liquidity risk is reduced through being a part of the larger Telefónica Group.

Market risk

(i) Foreign currency risk

The Company also has a small amount of transactional exposure. Such exposure arises from cash accounts with Telfisa bank accounts.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk arises primarily from the effects of movements in interest rates on the interest received on cash and cash equivalents. The majority of the Company's cash and cash equivalents are deposited with a central Telefónica group company that pays interest at variable market rates.

18. Capital Management

The Company's capital comprises share capital and retained earnings. The Company's objectives when managing capital are to safeguard the Company's ability to continue to operate as a going concern, to maintain optimal capital structure commensurate with risk and return and to reduce the cost of capital.
In order to maintain or adjust the capital structure, the Company may pay dividends to its shareholder, return capital to its shareholder, issue new shares or sell assets to reduce debt or draw down more debt.

19. Parent company and controlling party

The Company's immediate & ultimate parent company and controlling party is Telefónica, S.A., a company incorporated in Spain, which prepares consolidated financial statements. Consolidated financial statements of Telefónica, S.A. may be obtained in its website at www.telefonica.com or from its registered address, Gran Vía, 28, Madrid, Spain.