Hutchison 3G UK Limited

Company Number 03885486

Annual Report and Financial Statements

For the Year Ended 31 December 2021

Hutchison 3G UK Limited

Registered Number	03885486
Directors	Victor T K Li Canning Fok Frank Sixt Dominic Lai Edith Shih Christian Salbaing David Dyson Robert Finnegan Elaine Carey Clemence Cheng
Independent Auditors	PricewaterhouseCoopers LLP 3 Forbury Place 23 Forbury Road Reading Berkshire RG1 3JH
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Strategic Report for the year ended 31 December 2021

The directors present their Strategic Report on Hutchison 3G UK Limited (the "Company") for the year ended 31 December 2021.

(a) Business review and future developments

The Company is an indirect wholly owned subsidiary of the ultimate parent company CK Hutchison Holdings Limited (together with its subsidiaries "CKHH Group"), a limited liability Cayman Islands company registered and listed in Hong Kong.

The Company, which trades under the name "Three", is engaged in the provision of mobile communications, entertainment and information services in the UK.

The net assets of the Company increased to £8,474 million (2020: £7,063 million). Major movements include an increase in intangibles of £440 million mainly due to the acquisition of Spectrum licenses, an increase in debtors of £1,644 million driven by an increase in group balances related to TowerCo transaction (note 15), an increase in deferred tax assets of £210 million driven by an increase in future tax rates offset by an increase in creditors of £915million driven by deposits from a group company (note 21). Significant sources of liquidity for the Company are the cash generated from trading activities. During the year, the Company continued to invest in its network to support its long-term strategic aims, with a total tangible fixed asset expenditure of £287 million (2020: £445 million).

The Company delivered an adjusted EBITDA of £1,725 million (which includes a gain on sale of non-current assets of £1,078 million as disclosed in Note 5) for the year ended 31 December 2021 (2020: £176 million). EBITDA shows improvement on 2020 as the business begins to recover from the impacts of COVID-19. Margin increased through contract customer base growth. This was coupled with cost savings mainly through contractual efficiencies.

During the year, the Company received COVID-19 related support from the UK government, comprising business rates relief and furlough payments. This helped the Company minimise store closures and job losses during the pandemic.

Turnover has increased year on year, up 4% from £2,220 million in 2020 to £2,311 million in 2021, largely driven by an increase in handset revenue. Customer service revenue also increased, driven by customer volume increases across Wholesale, Business and our SMARTY sub-brand.

The active customer base of the Company closed at 9.7 million at 31 December 2021 (2020: 9.7 million). COVID-19 continued to impact the Company and the whole industry in 2021. There were nationwide lockdowns in the first half of the year and noticeably lower footfall across the whole year. The prepaid customer base was down by 26% and during COVID-19 nationwide restrictions, prepay usage was lower than typically seen. Once lockdowns were lifted, the customers became more active but are yet to return to pre-pandemic levels. The postpaid customer base grew by 7% despite the closure of retail stores as a result of COVID-19 restrictions. More emphasis was placed on sales through alternative digital and indirect channels. We have continued to observe a reduction in roaming revenue against expectations during the peak holiday periods due to global travel restrictions. Looking forward to 2022, with the UK's vaccination programme in a strong place and government restrictions easing we expect that customer sentiments will begin to return to normal.

The strength of business market and SMARTY propositions has further supported customer growth. The Business proposition has continued to develop in 2021 and aims to significantly grow market share across all business segments over the next 5 years. The customer base has increased from 2020 to 2021 through increased sales coverage and market leading propositions. Its transformational IT platform will enable a better customer offering and experience. This investment in people and systems lays the foundations for future growth and scale. SMARTY continued to grow with margin more than doubling year on year, driven by continued strong net additions performance. The digitally based platform and competitive proposition has proved to be key to growing and maintaining a loyal customer base. Market competition remains heightened across mobile network operators and mobile virtual network operators ("MVNO"), however the Company's momentum in 2021 was strong and with its multi-brand strategy and MVNO we will continue to gain market share.

Strategic Report for the year ended 31 December 2021 (continued)

(a) Business review and future developments (continued)

Investment in the network remains a key priority. The market-leading 5G spectrum portfolio, which gives the Company a competitive edge, and the continuous 5G rollout plan differentiates Three compared from rest of the market. Throughout 2021, the Company has been rolling out 5G technology across the network, scaling its cloud-based core network and enhancing the 4G network to support continuous coverage improvements. Our 5G network is consistently outperforming our competitors (Ookla Speedtest) and the 3UK Home product offers customers a range of choices for more flexible and simpler home broadband solutions. The growing level of investment in the network will help to improve experiences for customers nationwide as well as delivering in-home fixed wireless broadband solutions which match or exceed those available on fixed-line technologies. For mobile users, this means a lag free, fast 5G experience that is starting to be accessed as 5G enabled handsets become more readily available in the UK market.

Our digital transformation programme continues to progress, with the business and its partners working to enable the platform for new customers offerings and enhanced experiences. Our partnership with Amdocs to upgrade the billing system will support the enhancement of IT infrastructure allowing the business to be more flexible, dynamic and efficient, leading to revenue growth opportunities. Once the new billing system is functional, customers will be migrated from legacy infrastructure which will no longer be required leading to cost savings.

The Company is focused on satisfying customer needs with its products, network performance and customer service. We refreshed our brand in 2021 to broaden our appeal and extend our reach. We have launched and continued to build on our loyalty program, which offers customers discounts, experiences and tickets to enrich their experience with Three. We continued our partnership with Chelsea Football Club. With the Three brand presence on football shirts and various advertising media, brand reach and awareness has grown. Subsequent to the year end, in light of the government's announced sanctions on certain individuals and organisations connected to Russia, the Company requested Chelsea Football Club temporarily suspend the Company's sponsorship of the club, including removal of Three brand from shirts and around the stadium until further notice. Since Chelsea's ownership changed in June 2022, normal sponsorship terms have been reinstated.

In the MVNO market, Three's partnership with Dixons Carphone also continues its growth, There have been some changes in contractual arrangements with ID Mobile, but wholesale services between the Company and Dixons are unaffected.

In November 2020, CK Hutchison Networks Europe Investments S.à.r.l., an indirect wholly owned subsidiary of CKHH and a follow subsidiary of the Company, had agreed to sell and certain subsidiaries of Cellnex Telecom, S.A. ("Cellnex", together with its subsidiaries, the "Cellnex Group") had agreed to purchase the CKHH Group's interests in certain telecommunications network infrastructure assets supporting the CKHH Group's mobile telecommunications businesses in, amongst others, the UK (the "UK Transaction"). As a component of the UK Transaction, CKHH has agreed to sell its interests in, and Cellnex has agreed to purchase, CK Hutchison Networks (UK) Limited ("TowerCo", a fellow subsidiary of the Company). Should completion occurs, the legal ownership of TowerCo will transfer to Cellnex.

As at the reporting date (31 December 2021), the deal was under review by the Competition and Markets Authority ("CMA"), and as at the date of the signing of these financial statements, a deal has been agreed with Cellnex, however, as at the date of these accounts, no control of TowerCo has yet been passed to Cellnex, and will not do until the deal has been finalised. Further information on this review is included in the 'Post Balance Sheet Events' section of the Directors Report (page 24). For details of the transactions of the CKHH Group including the one relating to its mobile businesses in the UK, please refer to CKHH's announcement published on its website https://doc.irasia.com/listco/hk/ckh/announcement/a238828-e_announcement_final_.pdf.

Strategic Report for the year ended 31 December 2021 (continued)

(a) Business review and future developments (continued)

On the 30 April 2021, TowerCo acquired certain passive network assets from the Company, as well as leases in relation to these assets for a total consideration of £1,130.5 million and a net book value of £52.3 million. The consideration remains outstanding at the period end and attracts interest of 0.85% as set out in the purchase agreement. This gave rise to a gain of £1,078.2 million which has been recognised as a profit on sale of fixed assets in the other operating income line of the statement of comprehensive income. On the date of the transaction the Company and Towerco were companies under common control of CKHH. The transaction represents an internal transfer of the unilateral sites of the Company to TowerCo, in readiness of Towerco being in scope of the transaction with Cellnex, should it be approved by the CMA. The gain on the disposal is based on the potential market value of the assets. This is a factor of their estimated replacement cost, plus the time to obtain construction permits and build the large volume of transferred sites. The sites which were transferred by the Company to the TowerCo in April 2021 continued to be used by the Company on the sale and service back basis with service cost per site payable to the TowerCo.

In December 2021, the Company underwent a capital reduction exercise by special resolution, reducing its share premium by £10.7 billion and increasing its distributable reserves, included in accumulated profits, by the same amount, with an objective of making dividend distributions up to its parent company in the future

Key performance indicators

The key performance indicators used for internal performance, which are relevant to the understanding of the Company's performance by a user of these financial statements, are set out below:

For the year ended 31 December	2021	2020	Variance %
Turnover	£2,311m	£2,220m	4%
Adjusted EBIT [(4)]	£1,225m	£176m	596%
Adjusted EBITDA [(4)]	£1,725m	£648m	166%
Registered customer base ('000)	13,148	13,143	0%
- of which prepaid	4,956	5,524	-10%
- of which postpaid	8,192	7,619	8%
Active customer base ('000) [(1)]	9,690	9,706	-0%
- of which prepaid	1,614	2,191	-26%
- of which postpaid	8,076	7,515	7%
Contract customers as a percentage of the total registered customer base	62%	58%	
Contract customers' contribution to the net customer service revenue base	89%	88%	
Active customers as a percentage of the total registered customer base	74%	74%	
Active contract customers as a percentage of the total contract registered customer base	99%	99%	
12-month trailing blended Average Revenue per Active User ("ARPU") [(2)]	£18.69	£17.95	
12-month trailing Net Average Margin per Active User ("Net AMPU") [(3)]			
- Prepaid	£5.44	£3.76	
- Postpaid	£12.90	£13.65	
- Blended	£11.53	£11.12	
Average number of employees (note 9)	4,487	4,576	

(b) Business review and future developments (continued)

Key performance indicators (continued)

Note 1: An active customer is one that has generated revenue from an outgoing call, incoming call or data service in the preceding three months.
Note 2: ARPU equals total monthly revenue, including incoming mobile termination revenue and contributions for a handset/device in postpaid contract bundled plans, divided by the average number of active customers during the year.
Note 3: Net AMPU equals total monthly revenue, including incoming mobile termination revenue but excluding contributions for a handset/device in postpaid contract bundled plans, less direct variable costs (including interconnection charges and roaming costs) (i.e., net service margin), divided by the average number of active customers during the year.
Note 4: Adjusted EBITDA represents Earnings before Interest, Tax, Depreciation and Amortisation and is computed as operating profit with adding back depreciation, depreciation on right-to-use asset and amortisation on intangible assets charges as disclosed in note 6 to these financial statements. Adjusted EBIT represents Earnings before interest and tax. Exceptional items are also excluded from the Adjusted EBITDA and Adjusted EBIT. The adjusted EBITDA also includes a gain on sale of non-current assets of £1,078 million as disclosed in Note 5. We note the adjusted EBITDA measure has been amended from the prior year to no longer include amortisation on contract related costs. Adjusted EBITDA is considered to be an appropriate indicator of the Company's performance considering the structure and operating model of the Company.

(b) Principal risks and uncertainties

The management of the business and the execution of its strategy are subject to several risks and uncertainties faced by the Company. The key ones include maintaining stability of the network, protecting customer and Company information, managing change and the external macroeconomic environment. The key risks, and the activities in place to manage them, are monitored on a regular basis.

Strategic Risks

The Company notes the UK government's focus on delivering targets against the climate change initiative and has carried out an independent review to identify key sustainability areas for the Company. An ongoing exercise is identifying risks in these areas which is an iterative process. Working with CKHH, the Company has identified opportunities to reduce its carbon footprint and is now in the process of developing science based targets for these measures. A dedicated Green Team has been established to support and facilitate these activities. In 2021, the sustainability initiatives of the Company included relocation of the Company's office to Green Park in Reading that is built to the BREEAM excellent standard with key features including electric vehicle charging points, renewable electricity generation through solar panels and LED lighting. In its wider real estate, data centres and retail stores, where the Company is responsible for waste collections, the waste is diverted from landfill to recycling or energy generation. A uniform recovery process has also been implemented whereby unwanted uniforms are collected and used for energy generation. In supply chain, the Company is working with companies that offer accessories with an environmental sustainability focus for iPhone 13 and reusable pallet toppers have been put in use to reduce the use of plastic shrink wrap. Initiatives in trial or planning stage include FSC certified cardboard boxes for device shipment to reduce the use of plastic bags, use of electric delivery vehicles for shipments, replacement of old equipment with more energy efficient equipment in data centres and introducing sustainability considerations in procurement.

The Company is also subject to the Streamlined Energy and Carbon Reporting ("SECR"), which is included in the Directors' Report on pages 21-22. This is in addition to the Environmental, Social and Governance ("ESG") reporting for CKHH, which is already performed to support disclosures made by CKHH. The ESG guide is applied under Appendix 27 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited. The submission is included in the CKHH published Annual Reports which can be found on: https://www.ckh.com.hk/en/ir/annual.php.

Compliance Risks

The Company continues to monitor and respond to changes in the regulatory landscape. The Company is subject to and governed by local and international regulation. Its ambition is to grow and expand into new market segments, which have their own specific regulatory requirements, such as the Senior Manager and Certification Regime ("SMCR"). The Company has appropriately skilled and trained personnel, and responsibilities and accountabilities are understood by all impacted. It actively adapts processes to ensure compliance with regulation.

Strategic Report for the year ended 31 December 2021(continued)

(b) Principal risks and uncertainties (continued)

Compliance Risks (continued)

The Telecommunications (Security Act 2021) allows the government to identify a company as a "designated vendor" and then if it considers it "necessary in the interests of national security", to impose by direction requirements on named companies with respect to their use of goods/services sold by that designated vendor. The government recently consulted on its Designated Vendor Direction ("DVD") which will be issued to public communications providers (PCPs) and which, in summary, will require the overall phasing out and ultimate termination of Huawei's involvement in 5G networks in the UK by certain dates. The draft DVD includes a cap on the use of Huawei equipment of 35% in PCPs' 5G access networks as well as cap of 35% of forecasted network traffic passing through Huawei equipment in PCPs' 5G access networks, to be achieved by 31 July 2023. Current expectations are that the DVD will come into force in the beginning of next year and the Company has established programmes to meet the compliance obligations contained within it.

The Company has engaged a second supplier, Ericsson, in respect of its 5G network to ensure full compliance in time for when the restrictions apply. The contract with Ericsson is an umbrella contract enabling accommodations for any future scope of work. The agreement with Huawei had already been amended in December 2020 to comply with these regulations. The contract with Ericsson is designed to coexist with the amended Huawei contract, if required to. The Company has not anticipated that these regulatory changes will cause any significant delay to its 5G strategy in the long term. The Company does not consider any of its other suppliers to pose a similar concern.

Subsequent to the year end, the UK government has imposed sanctions on dealing with certain entities and individuals connected to Russia. The Company continues to be in compliance with these regulations. Please refer to note 27 for details of post balance sheet events.

Operational Risks

The Company has identified risks within data security, privacy, and resilience. These remain key priorities as the Company continues to transition its infrastructure. Risks are actively managed to ensure cyber security controls are in place and systems are compliant. The Company is currently undergoing major transformation, both technically and strategically. This transformation has increased the Company's risk exposure, which is being carefully managed to ensure strategic and regulatory requirements are met, and the vision is delivered. The Company is adopting an agile approach to the delivery of the transformation programme and is managing the pace of change through scheduled business milestones. Legacy systems are being decommissioned and the Company is closely monitoring its cyber estate to ensure optimum security. The Company engages with security agencies to understand and implement changes to the Company's UK critical infrastructure. It remains alert and monitors security risks and its control environment to effectively manage its exposure to cyber-attacks and data breaches.

The Company has identified opportunities to improve the management of third-party suppliers including strengthening its governance and performance management. The Company is in the process of finalising a partner governance framework to strengthen due diligence and relationship management. This will include monitoring partners who support the sale of regulated products which introduces additional regulatory compliance requirements.

(b) Financial risk management

The Company's major non-derivative financial instruments include cash and debtors/creditors that arise directly from its operations. The Company does not invest in financial products, including hedge funds or similar vehicles, with significant underlying leverage or derivative exposure.

(c) Financial risk management (continued)

(a) Price risk and currency risk

The Company's treasury function sets financial risk management policies in accordance with the CKHH Group's policies and procedures as approved by its directors.

The Company is primarily exposed to price and currency risk on the purchase of handsets, network equipment, purchased spectrum and outsourced expenses which are US dollar, Euro and Indian rupee denominated transactions. Exposure to movements in exchange rates on individual transactions directly relating to the underlying business is minimised using forward foreign exchange contracts.

The Company's treasury policies are designed to mitigate the impact of fluctuations in exchange rates and to minimise the Company's financial risk.

The Company uses derivatives, principally forward currency contracts, as appropriate for risk management purposes and not for speculative purposes.

(b) Credit risk

Financial instruments which potentially subject the Company to concentration of credit risk with a specific counterparty consist principally of cash. Management believes the concentration of credit risk associated with the Company's cash and liquid resources is mitigated by the fact that these amounts are placed in what management believe to be high quality financial institutions.

The Company is exposed to its customers defaulting on the payment of their debts. The Company mitigates this risk by performing credit assessments on all of its contract customers prior to customer acceptance and the transfer of credit risk to counterparties through sale of certain contract assets. No credit is given to prepaid customers. Concentration of credit risk with respect to trade debtors is considered limited given that the Company's customer base is large and unrelated.

(c) Liquidity and cashflow risk

The Company is generating sufficient cash flows to meet its debts as and when they become due. In order to manage liquidity to ensure sufficient funds are available for ongoing operations and future developments, the Company may borrow from CKHH Group.

Following the decision to discontinue using London Interbank Offered rate (LIBOR) as an interest reference rate, the Company has been working with CKHH and have agreed in principle that LIBOR benchmark will be replaced with Sterling Overnight Index Average (SONIA) as a group wide exercise in the UK on UK companies' borrowing, all of which are inter-group loans. The agreements are being drafted to this affect. The addition of a SONIA based average to our existing fixed interest measure, is not expected to have a material impact on our borrowing costs.

(d) Investment risk

The Company has significant investments in its subsidiary undertakings. These investments are reviewed for impairment on an annual basis, when there is an indication that they may be impaired. If such an indication exists, the recoverable amount of the investment is estimated in order to determine the extent of the impairment loss, if any.

Strategic Report for the year ended 31 December 2021 (continued)

(d) Statement by the directors in performance of their statutory duties in accordance with Section 172 of the Companies Act 2006

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172(1) requires a director to have regard, amongst other matters, to:

- The likely consequences of any decisions in the long-term – please refer to the Strategic Report on pages 3-5 for our business review and future developments and the Directors' Report on pages 10-25 which explain our Purpose and Leadership and covers how decisions are made in the long-term interests of the Company.
- The interests of the Company's employees – please refer to the Directors' Report on pages 18-20 for Principle 6 of the Wates Codes of Corporate Governance, which covers how the Board supports an effective relationship with employees.
- The need to foster the Company's business relationships with suppliers, customers and others – please refer to the Directors' Report on pages 17-19 for Principle 6 of the Wates Codes of Corporate Governance, which covers how the Board fosters an effective relationship with business stakeholders. The impact of the Company's operations on the community and environment – please refer to the Directors' Report on pages 20-22 for Principle 6 of the Wates Codes of Corporate Governance, which covers how the Board promotes an effective relationship with the wider community and assesses the Company's impact on the environment.
- The desirability of the Company maintaining a reputation for high standards of business conduct – please refer to the Directors' Report on pages 12-15 for Principle 1 through 3 of the Wates Codes of Corporate Governance.
- The need to act fairly between members of the Company. As the Board of directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan.

In discharging our Section 172 duties, we have regard to the factors set out above. We also have regard to other factors which we consider relevant to decision making, such as the interests and views of the stakeholders. We acknowledge that every decision we make will not necessarily result in a positive outcome for all, but we consider the Company's purpose, vision and values together with its strategic priorities and have a process in place to ensure consistent decision making.

As part of being a member of a large multinational group, we delegate authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies.

On behalf of the Board

Robert Finnegan
Director
29 September 2022

Directors' Report for the year ended 31 December 2021

The directors present their report and the audited financial statements of Hutchison 3G UK Limited (the "Company") with registered number 03885486 for the year ended 31 December 2021.

Directors

The directors who held office during the year and up to the date of signing of the financial statements are as follows:

Victor T K Li	Christian Salbaing
Canning Fok	David Dyson
Frank Sixt	Clemence Cheng
Dominic Lai	Robert Finnegan
Edith Shih	Elaine Carey

Directors' indemnities

The Company has granted third-party indemnities to the above directors, capped at an individual limit of US$20 million for any one claim and in the annual aggregate inclusive of costs and expenses, in relation to certain losses and liabilities which they may incur in the course of acting as directors of the Company or of one or more of its subsidiaries.

The indemnities are categorised as qualifying third-party indemnities for the purposes of the Companies Act 2006 and will continue in force for the benefit of directors for as long as they remain in their positions. The third-party indemnity was in force during the financial year and also at the date of approval of the financial statements.

Employees

Consultation with employees or their representatives occurs with the aim of ensuring that their views are taken into account when decisions are made that may impact their interests. It also ensures that all employees are aware of the financial and economic performance of their business units and the Company as a whole. Communication with employees continues through the intranet, newsletters, workshops and briefing groups. The Company also encourages employee engagement in company performance through bonus schemes.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues, and the appropriate training is arranged. It is the policy of the Company that the training, career development, and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

For more details, please refer to pages 18-20 for our commentary on Wates Corporate Governance for workforce.

Future developments

Please refer to the Strategic Report on pages 3-5 for the Company's business review and future developments.

Financial risk management

Please refer to the 'Financial risk management' section on pages 7-8 of the Strategic Report for the Company's financial risk management policies.

Dividend

The directors do not recommend the payment of a dividend for the year (2020: nil).

Research and development

The research and development activities undertaken by the Company cover network transformation, cloud infrastructure development, application development and data science.

Wates Corporate Governance Report

The Company is an indirect wholly owned subsidiary of CK Hutchison Holdings Limited ("CKHH", and together with its subsidiaries, the "CKHH Group"), a company whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited.

The Company is engaged in the provision of mobile communications services in the UK. From its inception, the Company as part of the CKHH Group strives to attain and maintain high standards of corporate governance. It believes that an effective corporate governance framework is fundamental to promoting and safeguarding the interests of shareholders and other stakeholders and enhancing shareholder value.

For the year ended 31 December 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has adopted the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles").

Principle 1 - Purpose and Leadership

The principal objective of the Company is aligned with the strategic goal of the CKHH Group to enhance long-term total return for its shareholders. To achieve this objective, the Company focuses on achieving recurring and sustainable cash flow and earnings growth and maintaining the Company's financial strength and stability.

The Company seeks to meet its objectives through the execution of its strategic initiatives, primarily focused on the network and the business operating model transformation which together will provide the necessary platform for scaling the business. The Company's goal is to grow the business and provide better connectivity, every day, for every customer. The Company believes it will do this by having a trusted, reliable network that matches the best, providing richer experiences that make customer's lives better and always driven by satisfying customer's needs. Part of this has been achieved with the launch of the world's first 5G-ready fully integrated cloud core network which supports growing the subscriber base. The Company is also in the process of transforming the business operating model. The Company will simplify, improve and expand customer experiences, while being agile and able to bring new opportunities to the market, enabling the Company to remain relevant in an ever-changing industry. The performance in the current year against the Company's goals is detailed in the 'Business Review and future developments' in our Strategic Report on pages 4-6.

Wates Corporate Governance Report (continued)

Principle 1 - Purpose and Leadership (continued)

The board of the directors (the "Board") is appointed by CKHH, the ultimate parent entity. The views of shareholders are clearly communicated through various channels. Whilst the Board is responsible for the overall direction and management of the Company, to ensure effective day-to-day management of the Company, it has delegated signing authority to certain senior officers and employees which is generally based on financial thresholds. In addition, to maintain an appropriate level of control over strategic and certain other activities, the Board has identified certain matters that can only be approved by themselves. The Board regularly reviews the signing authority and list of matters reserved for Board approval to ensure their appropriateness.

The Executive Leadership Team ("ELT") and members of the Board meet regularly to discuss and review strategies, performance, business plans, budgets, and risk profiles of the Company. Whilst the Board is charged with the task of promoting the long-term success of the Company and making decisions in the best interests of the Company with due regard to sustainability considerations, the ELT is accountable for the conduct and performance of the Company within the agreed strategies. The Board together with the ELT instil and uphold the Company's objectives and strategies through the day-to-day operations and management of the Company.

The purpose and strategy are shared with the general Company population via publications on the intranet, keynote speeches from the Company's ELT members and from senior leadership teams. Further, they are communicated across the business by different means and at different levels of detail dependant on the audience and needs of an individual's role. A decision-making framework exists outlining the forum which sets out the strategy and purpose, those empowered to execute the strategy and those who are informed on the progress of execution against the plan. The process is managed through the operation of multiple forums which act as governance whose remit is to ensure that the collective plan aligns with the overall Company strategy. The forums are made up of ELT members, some of whom are part of the Board, and senior level personnel from across the key directorate groups.

Corporate culture in the Company clearly sets out the desired behaviours within Our Values, which are we focus on the customer, we work as one team, we go above the expected, we appreciate each other and we take responsibility.

The Board and ELT recognise the importance of its role in setting the tone and embedding the behaviours in the corporate culture and values. The ELT team holds regular sessions to identify the behaviours the Board wants to observe in themselves and senior leaders across the business that will demonstrate the Company's values, which is regularly reviewed using external insight and self-reflection. Insight from the employee engagement surveys provides measures against the Company's values and is used as the key indicator of progress against cultural change ambitions.

The Company's people strategy outlines the key initiatives which underpin our goals to attract, develop and retain the best, inspire an engaging, inclusive, high performance culture and champion a future-ready organisation. The key performance indicators identified are measured through several mechanisms including the employee engagement survey, exit interviews, employee feedback sessions as well as through external benchmarking via Qualtrics and Glassdoor.

Wates Corporate Governance Report (continued)

Principle 1 - Purpose and Leadership (continued)

The ELT leads on establishing transparent policies in relation to raising concerns about misconduct and unethical practices and embeds this education and awareness through annual mandatory training modules which include Diversity, Inclusion and Belonging, prevention of financial crime, Competition Law, General Data Protection Regulation, and Health and Safety in the workplace. Three are subject to the Financial Conduct Authority (FCA) regulations in respect of financial services activities we carry out, mainly payments. These regulations include the FCA's Senior Manager and Certification Regime ("SMCR") and the Conduct Rules for which the Company launched SMCR training in 2021. To ensure our employees understand these standards and their obligations, SMCR training is provided to all employees when they join the business as part of their onboarding process.

Principle 2 - Board Composition

As at 31 December 2021, the Board comprised ten directors including three alternate directors. In alignment with the board diversity policy of CKHH, the statutory directors in the Board have a diverse set of skills and expertise which include business management, strategic planning and risk management, financial reporting, legal and regulatory framework and industry knowledge/expertise.

The positions of the Chairman and Chief Executive are being held by different individuals. The Chairman leads the Board and is responsible for its overall effectiveness, promoting open debates and facilitating constructive discussion. The Board, which comprises experienced professionals and the management of the CKHH Group, collectively demonstrates a high-level of understanding relevant to the business needs of the Company and stakeholder interests. The Board considers its current size and composition constitutes an effective Board appropriate to meet the strategic needs and challenges of the Company and ensures effective decision-making. The Company has not appointed any independent non-executive directors on the Board but is mindful of reviewing the need and making appropriate appointments as and when warranted.

The Company arranges and provides learning and development training such as bespoke training modules, seminars, webcasts and relevant reading materials to directors. These help to ensure that they are apprised of the latest changes in the commercial (including industry-specific and innovative changes), legal and regulatory environment in which the Company conducts its businesses and to refresh their knowledge and skills on the roles, functions and duties of a company director. Attendance at external forums or briefing sessions (including delivery of speeches) on relevant topics is also considered development.

The Board performance is assessed through the use of evaluation questionnaires. The results of these are reviewed by the Board with the objective of ensuring that the Board acts effectively in fulfilling the duties and responsibilities expected of it.

The Board validates the Company strategy and oversees overall commercial performance.

Business level operation and decision making is the responsibility of the ELT, which also covers the obligations and standards set out in the Code of Corporate Governance.

As at 31 December 2021, the ELT comprised the Chief Executive Officer (CEO) and six functional directors who represent all business directorates, including Chief Commercial Officer, Chief Financial Officer, Chief Technical Officer, Chief People Officer, General Counsel & Regulatory Affairs Director and the Managing Director of Business. Subsequent to the year end, Chief Portfolio Officer was also added to the ELT.

Wates Corporate Governance Report (continued)

Principle 3 - Director Responsibilities

The Board, each director and the ELT have a clear understanding of their accountability and responsibilities. The Board is committed to achieving and maintaining the high standards of corporate governance structure, policies and practices of the CKHH Group, taking into account the business and regulatory frameworks within which the Company operates. Business plans and budgets are prepared annually by management of the Company and then subject to review and approval by the Board and the senior management team of CKHH as part of CKHH's five-year corporate planning cycle. The ELT and senior managers of the Company are also responsible for preparing monthly management reports on the financial results and key operating statistics of the Company. Monthly meetings are held with the senior management team of CKHH to review these reports, business performance against budgets, forecasts, significant business risks sensitivities and the strategies of the Company.

The Board as a whole is responsible for promoting the long-term success of the Company and making decisions in the best interests of the Company in line with the agreed business plans and strategies. Information and other updates relating to the performance, business activities and development of the Company is provided to Directors, throughout the year by management of the Company. In meeting its responsibilities, the Board seeks to inculcate risk awareness across the Company's business operation and has put in place policies and procedures, including parameters of delegated authorities, which provide a framework for the identification, reporting and management of risks.

The directors participate in the deliberation and approval of operational matters of the Company by way of written resolutions with supporting explanatory materials, supplemented by additional verbal and/or written information from the Company Secretary or other executives as and when required. Pursuant to the Articles of Association of the Company, a director who is interested in an actual or proposed transaction or arrangement with the Company is to be counted as participating in the decision-making process for quorum and voting purposes, subject to the disclosure as is required by the Companies Act 2006 and the Articles of Association of the Company. In addition, directors have full access to information on the Company and independent professional advice at all times whenever deemed necessary and they are at liberty to propose appropriate matters for inclusion in Board agendas or the monthly meetings explained above.

The Board considers that all of these robust corporate governance and internal control frameworks and Company leadership, working together, promote effective stewardship to deliver long-term value for the Company and its shareholders as a whole.

The CEO is responsible for the careful consideration of the structure, size, diversity profile and skills makeup of the ELT, and the progress in achieving the strategic needs and challenges of the organisations as well as meeting the diversity objectives of the Company.

The ELT runs regular reflection sessions where they evaluate the effectiveness and productivity of the ELT meetings and its members.

The ELT meets monthly with the Chairman to review financial and commercial performance and align on strategy. A fully comprehensive monthly report is issued which provides detail of the Company performance and strategy which is typically presented face to face, via video conference or in-person, to allow for constructive dialogue.

Wates Corporate Governance Report (continued)

Principle 3 - Director Responsibilities (continued)

Upon appointment to the ELT, members of the ELT participate in an onboarding programme which includes an orientation of the Company's business and are provided with a detailed induction to the Group's businesses, strategic direction and governance practice by senior executives.

The Board and the ELT is supported by two permanent activities: (1) the Weekly Operations Meeting where the business performance both operationally and financially is reviewed; and (2) monthly meeting of the local Risk and Compliance Management Board, where the key business risks are reviewed and actioned upon. Other board committees are established by the Board as and when warranted to take charge of specific tasks. There is an Audit Committee which is based at CKHH, reviews reports and provides input as and where appropriate to ensure effective risk management is in place.

Principle 4 - Opportunity and Risk

The Company is committed to the long-term sustainability of its business by regularly reviewing its business models and practises to identify opportunities for improving its performance and creating value for stakeholders.

The Company, as part of the CKHH Group, adopts an Enterprise Risk Management (ERM) framework which is consistent with the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework. The framework facilitates a systematic approach to identifying, assessing, managing, monitoring and reporting risks within the Company, whether strategic, financial, operational or compliance related. Risk management is an integral part of the day-to-day operations and management of the Company. There is ongoing dialogue amongst the ELT about the current and emerging risks, their impact and mitigation measures. Relevant risk information including key mitigation measures and action plans are recorded in a separate risk register maintained for and by each function of the business and key risks are periodically escalated to ELT members to facilitate the ongoing review and tracking of progress by the management team of the Company and the Board. The principal risks and uncertainties relevant to the management of the Company's strategy are in the Company's Strategic Report on pages 6-8.

On a half-yearly basis, the Company is required to formally identify, assess and report on the significant risks its business faces. The details of key individual risks, existing mitigations, further action plans and progress against actions are collated on a separate risk register and risk categories are plotted on a risk heat map to show the Company's risk profile as at half year. This is presented to and confirmed by the ELT (and the members of the Board who are part of the ELT) and then is presented to the Audit Committee of CKHH. The Audit Committee, on behalf of the board of CKHH, reviews the Risk Management Report and provides input as appropriate so as to ensure effective risk management is in place across the CKHH Group and the Company.

Principle 5 - Remuneration

Following the remuneration policy of the CKHH Group, the remuneration of the Board (other than those representing CKHH) and senior executives of the Company is determined with reference to their expertise and experience in the industry, the performance and profitability of the Company as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Most employees also participate in annual bonus arrangements which are determined in accordance with the performance of the Company and individual performance ratings. The Board considers that the remuneration structure of the Company aligns with the Company's objectives, values and strategies to support long-term sustainable success.

Wates Corporate Governance Report (continued)

Principle 5 - Remuneration (continued)

The remuneration of the ELT and the directors of the Board is set by the CKHH Remuneration Committee (the "Rem Co"). The remuneration of all senior executives of the Company is agreed with the Rem Co. For the rest of the employees, remuneration is agreed by the line manager and approved by two levels up from the line manager, but if outside of pay ranges, it will be approved by the ELT leader of the function.

For senior executive management and the ELT, the Company benchmarks remuneration each January against the market using both, Willis Towers Watson and one of the big four FTSE250, or equivalent, benchmarks and also internal peer to peer comparisons.

The annual bonus is determined based on the Company's performance for the year and individual awards are based on company and individual performance.

The ultimate decision for ELT remuneration and bonus payments rests with the Rem Co which also approves the overall salary review and bonus pot for the whole workforce.

This Rem Co meets towards the end of each year to determine the remuneration package of directors and senior management of the Company. The responsibilities of the Rem Co are to assist CKHH in the administration of a fair and transparent procedure for setting remuneration policies for all the directors in the Board, ELT and senior executive management. Prior to the end of the year, the Rem Co reviewed and approved the year-end bonus for all Company employees and the 2022 remuneration package of the ELT.

Principle 6 - Stakeholder Relationships and Engagement

The Board promotes engagement and communications with stakeholders. With support from the Board, the Company fosters and maintains ongoing dialogues with its key stakeholders, including employees, shareholders and investors, customers, business partners, suppliers, regulators, government, community groups and media partners. The Company actively encourages employees to express their views and has established various channels such as regular seminars and forums to facilitate communication with, and seek views from, employees. The Company also regularly collects views from other stakeholders through a variety of channels, such as through the employee engagement survey and customer feedback panels.

The Company is committed to achieving and maintaining high standards of openness, probity and accountability. The whistle-blowing policy and mechanisms allow the employees of the Company and those who deal with the Company (e.g. customers and suppliers) to report to the Company with confidence any suspected impropriety, misconduct or malpractice concerning the Company. Cases reported are followed up independently and reported by the internal audit function of CKHH to the Audit Committee and executive management of CKHH.

The Company has adopted a proactive approach to social, economic and environmental responsibilities. The Company takes pride in serving the community through its businesses and other initiatives. Please see below for more information.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Customers

The Company has over 9 million active customers to whom it provides connectivity services across a range of pricing and payment options to meet their individual needs. The Company also deals with a further 1.7 million customers through relationships with mobile virtual network operators helping to expand the range and choice of providers in the marketplace.

Understanding customers is crucial to the success of the business. Long-term strategies are underpinned by robust, nationally representative quantitative insight, putting the customer at the heart of the Company.

The Company runs a continuous, agile product co-creation programme, speaking to customers to develop relevant new services and optimise the customer experience through customer usability testing. The extensive customer trials ensure the Company gets it right before launching mass market.

Engagements with customers:

Develop new products

This year, the Company has been strengthening its 5G products for both broadband and mobile phone users.

Customer labs

The Customer Lab is a community of 300 Three customers which enables the Company to elicit ongoing consumer insight.

Regulators and government

The Company engages on a regular basis with government, politicians and regulators to communicate the benefits of the digital connectivity that the Company provides. The Company also works with them to understand how changes to policy frameworks can help enhance the service provided to UK consumers and businesses.

Engagement includes meetings with government ministers, regulators, policy-makers, consumer groups, think tanks, members of parliament, councillors and other political organisations and public bodies. There are also formal interactions including information requests and responses to policy consultations.

Enabling 5G rollout and enhancing connectivity in the UK

The Company has been engaging with government and stakeholders to bring about much needed reforms to the planning process and the electronic communications code, which governs our relationship with our landlords. These reforms are essential for rolling out 5G and the shared rural network programme, which is a joint partnership between government and industry to deliver 4G coverage to 95% of the UK geography by 2025.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Suppliers

The Company works with around 850 suppliers and spends hundreds of millions of pounds with them every year. The Company's partners and suppliers are vital and help to meet the ever-changing needs of customers. The Company recognises that partners contribute to culture and include them in social and other activities to ensure that they feel part of the Company. The Company is currently implementing advanced analytics tooling with integrated and independent validation capabilities to ensure that any risks or non-compliances are identified and managed proactively.

Regular briefings – The Company holds regular briefing sessions with its key partners, so they understand and embrace the Company's culture and strategy and understand its objectives.

Partnerships – The Company embraces deep working partnerships with its technology and service providers. Employees of partners work side by side with the Company's employees to ensure that the organisations are aligned.

Risk Management – The Company regularly analyses supply risks in relation to market or political change to ensure business continuity. The Company works with Regulators and government bodies to ensure its supply partnerships remain compliant at all times with current and new regulations.

Supplier Code of Conduct – All suppliers must adhere to a Code of Conduct which governs social, ethical, environmental and legal requirements.

People

The Company's most valuable asset is the workforce. The success of the Company is inextricably linked to how engaged the workforce is with the Company's strategy, how motivated they are and how happy they are inside and outside of work. A key part of the Company's strategy is to have a fully engaged workforce and create an inclusive, engaging and ambitious people culture.

Engagement with people

To enable two-way dialogue with its employees, the Company has an employee forum with representatives from each head office function and each area of the retail estate. Meetings are held at least 4 times a year with a member of the ELT. In addition, the employee forum representatives hold "Tell us" sessions in their functions and feedback from these is given to the senior management of the function. The Company's values underpin workforce practices, such as performance management, assessment for recruitment and talent management of existing employees. There is also a recognition scheme which rewards employees displaying behaviours in line with our values. If employees have any concerns these can be raised via the Company's whistle-blowing policy which includes a confidential external phone line. Each function has a quarterly update around the financial and economic factors affecting the performance of the Company presented by the function's respective ELT member.

Directors' Report for the year ended 31 December 2021 (continued)

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Wellbeing

The Company promotes an environment that supports positive wellbeing to enable all employees to feel their best at work. Three has a network of 'Time to Talk reps' who are trained mental health first aiders to spot and help the people in need. Other initiatives include free subscription to Headspace mindfulness app, access to Digital GPs, a Company funded private medical offering for every employee, a financial education platform and additional leave to attend special life moments like school sports days. We run various wellbeing events, talks and courses throughout the year focused on mental, physical, social and financial health. We also promote healthy working practices with policies and guides to ensure people take regular breaks and can disconnect from work.

Employee Forum

The Employee Forum meets on a regular basis and has direct representation through ELT and indirect representation with the Board to raise issues that are important to the workforce.

Employee Engagement survey

The Company regularly surveys employees anonymously, so they can provide feedback on what is working well and what is not. The survey is made available to every employee of the Company at least twice a year and consists of a number of questions in relation to an employee's life at the Company such as development or wellbeing. A high volume of these questions are benchmarked against other businesses. The survey measures engagement through five specific questions which can be benchmarked against a best in class performance. We also utilise surveys to measure employee experience at key moments in the employee lifecycle or for key change projects i.e. joining or leaving Three or to gain insight about future of work and flexible working. The insight from these surveys helps us to shape improvements and new initiatives.

Diversity, Inclusion & Belonging

The Company strives for Diversity, Inclusion and Belonging ("DIB") in every aspect of the Company's culture – from how things are done to the very values embodied. The Company believes building its diversity and sense of inclusion and belonging will help create a high performance driven people culture.

The Company is working with the National Centre for Diversity (NCD) through their Investors in Diversity programme, on several key areas to promote diversity, inclusion and belonging. This consists of taking part in an annual diagnostic survey to show continuous improvement against their set of standards, as well as benchmark best practise from other companies.

The first of these surveys took place in September 2020 and the insights helped create a roadmap for 2021. The second survey took place in December 2021 and significant improvements were reported against all areas. NCD have recommended that Three UK are awarded 'Investors in Diversity' status to recognise our achievements – this is currently going through an external validation process before being confirmed.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

We have a DIB steering committee in place, which is made up of 12 diverse volunteers who have been selected as passionate, enthusiastic and experienced individuals who represent employees' voices from across the Company. They are responsible for setting the direction of the DIB agenda at the Company and what the key priorities will be. This is reviewed and approved by the ELT. The steering committee meet monthly and work closely with our employee resource groups; Women at Three, Pride at Three, Accessibility at Three and Ethnic & Cultural Diversity at Three, to offer employees a range of events throughout the year related to DIB.

In January 2022 we launched DIB training for all employees, which will be completed annually henceforth. In 2021, we improved the amount of voluntary personal data we hold in regard to our employees age, disability, gender, race, religion, gender identity, marital status, parental status and sexual orientation. The process included consideration of General Data Protection Regulation risks and compliance with regulations through the use of already enforced policies on employee personal data.

<u>**Community and environment**</u>

The Company believes that companies have a responsibility to positively impact the society in which they operate. Through another unprecedented year, the Company looked to engage with a large number of people and groups to ensure they can keep connected whilst ensuring they are using technology in a way that supports people to make their lives better.

Some of the initiatives this year included:

Keeping connected through COVID-19

To help some of the most vulnerable, and their families, the Company continued to work with several charities throughout the country to supply equipment and access to a digital connection.

The Company has worked with the government to meet the challenges of the COVID-19 outbreak by supporting government initiatives and users of its network in the following ways:

- Free access to the National Health Service ("NHS") website and 111 non-emergency help line;
- Free access to the new dedicated NHS Test & Trace 119 help line;
- Worked with the Ministry of Justice to allow free access to several victim support and domestic abuse support services;
- Worked with the Department for Education to provide the most disadvantaged children across England with unlimited data to allow them to continue with their education online when schools are closed;
- Worked with the Oak National Academy to zero-rate access to their site, so that using the site will not count towards a customer's data allowance;
- Worked with the UK government to send a 'Get Boosted Now' SMS to all customers on Boxing Day; and
- Through a Benevolence Fund scheme, the Company was able to donate over 1,200 tablets, phones, SIMs and mobile broadband devices to 49 charities for the vulnerable, charities for children, schools and education providers, care homes and NHS Trusts.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Samaritans

The Company joined forces with Samaritans with an aim to connect 1 million people to emotional support over a three-year partnership. Using the Company's technology, retail stores and expertise, it is hoped it will allow more people to access emotional support, 24/7, 365 days a year.

In March 2021, the Company launched its 'Better Phone Friend' campaign to highlight the importance of listening whilst promoting the Samaritans SHUSH listening tips. In July 2021, the Company was the headline sponsor of Samarathon, Samaritans' flagship fundraising event, where participants are encouraged to get active and run, jog or walk 26 miles over the month. There has also been a number of fundraising events where the company encouraged employee participation which included the London Marathon, Great North Run and Reading Half Marathon.

Discovery

Due to the ongoing impact of COVID-19, the Company's discovery programme which delivers free digital skills training courses to communities, businesses and individuals that are digitally excluded from society, continued to deliver training sessions online as well as in person where restrictions allowed. Online sessions included getting started with Instagram, sending your first tweet, starting a blog, tips for taking photographs and navigating new software updates.

The sessions empower and educate people of all ages and abilities to develop some of the core skills needed for a digital world. From digital job hunting and security, to vlogging and coding, the Company now offers over 40 different courses, which will continue to evolve as new technology gains ground.

Environment

We're committed to limiting the effect we have on the environment, including:

- Protecting the environment from harm and limiting the effect that our business operations have on the local and global environment;
- Measuring our carbon emissions and setting a carbon reduction strategy to further reduce our carbon emissions;
- Regularly reviewing operations and arrangements to identify opportunities to reduce waste streams and promote opportunities to reuse and recycle materials; and
- Engaging with and encouraging our people, partners and suppliers to reduce their environmental impact.

As part of CK Hutchison Group Telecom Holdings Limited's group comapnies, we are in the process of setting a net zero target.

Over 80% of the Company's energy in 2021 was part of a renewable electricity supply contract. In October 2019 Three UK signed a 100% renewable electricity contract for UK electricity supplies where the Company were responsible for purchasing the electricity directly from a supplier. Please note, for some of our buildings (including stores and network) we do not appoint the energy supplier directly so we are liaising with stakeholders regarding renewable electricity usage at these sites.

In 2021, we formed our very own sustainability group – the Green Team. It is an employee forum with champions in each of our business areas and locations who help to shape our green initiatives and establish best practices.

Principle 6 - Stakeholder Relationships and Engagement (continued)

In 2021, our transition commenced from office premises in Reading and Maidenhead to a new building at Green Park – a business park in Reading within 195 acres of landscaped grounds – the largest of its kind in the UK. The new office at Green Park achieved a BREEAM New Construction (2014) rating of excellent. The solar photovoltaic panel system is expected to generate c.17,400 kWh of renewable energy per year. The new office also has PIR controlled LED lighting and electric vehicle charging points for staff and visitors. In addition to excellent thermal efficiency the building includes an intelligent building management system (e.g. BMS) controlling heating, ventilation and cooling. Waste is segregated (with bins for general, dry mixed recycling, cardboard and food waste) and is collected from site and weighed using Radio Frequency Identification Chips. We have a zero waste to landfill strategy in place at Green Park.

We are also on a mission to reduce single use plastics across the business. We are improving returns packaging, removing plastic wrap on pallets, and changing the way we do things, so we don't need plastic bags.

Streamlined Energy and Carbon Reporting

In line with The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, this is the Company's reporting to disclose greenhouse gas emissions, energy consumption and energy efficiency actions.

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for mobile combustion operations, such as company vehicle fleets, and on-site generators. Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations. Scope 3 consumption and emissions relate to emissions resulting from sources not directly owned by the reporting company. For the Company, this is related to grey fleet (business travel undertaken in employee-owned vehicles) only.

The total consumption in Kilowatt-hour (kWh) and emission in tonnes (tCO_2e) figures for energy supplies reportable by the Company are as follows:

Utility and Scope	2021 Consumption (kWh)	2021 Consumption (tCO_2e)	2020 Consumption (kWh)	2020 Consumption (tCO_2e)
Grid-Supplied Electricity (Scope 2)	377,011,703	80,050.89	348,893,274	81,340.98
Gaseous and other fuels (Scope 1)	3,215,983	589.04	3,412,627	627.48
Mobile Combustion (Scope 1)	3,471,699	792.39	3,601,184	866.28
Mobile Combustion (Scope 3)	444,973	103.97	631,414	148.71
Total	384,144,358	81,536.29	356,538,499	82,983.46

An intensity metric of tCO_2e per Petabyte data used has been applied for the annual total emissions of the Company. The result of this analysis is as follows. The decrease is largely due to the energy efficient measures across the business.

Streamlined Energy and Carbon Reporting (continued)

Intensity Metric	2021	2020
tCO_2e / PB data	46.07	60.46

Following enhanced scrutiny of data in 2021, further clarity on our energy usage and carbon emissions is now available. As a result, the Company has adjusted previously reported 2020 Scope 1 tCO_2e from 1,386.02 to 1,493.76 and scope 2 tCO_2e from 78,844.89 to 81,340.98. Consequently, intensity measure of tCO_2e/PB data has been adjusted from 59.45 to 60.46.

Energy Efficiency Improvements

The Company has been working with portions of the supply chain, in particular where energy intensive business processes are housed, in an effort to quantify fully the emissions resulting from these activities and understand how we can improve the accuracy. This has been a successful endeavour in the main and has resulted in total emissions for the business increasing in accuracy. It has also highlighted where the Company's are able to work with landlords and other third parties to encourage renewable procurement for those supplies outside of the Company's control, and this will be evidenced in further market-based reporting undertaken by the business having a significant increase in accuracy of reported emissions. Further sustainability initiatives are discussed under Strategic Risks on Page 6 of the Strategic Report.

Reporting Methodology

Scope 1 and 2 consumption and CO_2e emission data has been calculated in line with the 2019 UK government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and $kgCO_2e$ emissions factors relevant for reporting year from 1 January 2021 to 31 December 2021:

Database 2021, Version 1.0.

Estimations undertaken to cover missing billing periods for properties directly invoiced to the Company were calculated on a kWh/day pro-rata basis at meter level.

For properties where the Company is indirectly responsible for utilities (i.e. via a landlord or service charge), a median consumption for properties with similar operations was calculated at meter level and applied to the properties with no available data.

These full year estimations were applied to 11 electricity and 2 gas supplies for the Company. These estimations equated to 0.9% of reported consumption.

Intensity metrics have been calculated utilising the 2021 reportable figures for the following metrics, and tCO_2e for both individual sources and total emissions were then divided by this figure to determine the tCO_2e per metric:

- Petabyte of data usage (PB data) 1,770 PB (2020: 1,352 PB Data)

Directors' Report for the year ended 31 December 2021 (continued)

Post balance sheet events

In March 2022, CMA has granted approval of the UK Transaction between CKHH Group and Cellnex Group subject to Cellnex disposing of certain other assets to maintain competition in the market. Should Completion occurs, the legal ownership of TowerCo will be passed to the Cellnex Group but the Company will continue to have operational use of its sites and assets under a master services agreement. As at the date of signing these accounts, no control of TowerCo has passed to Cellnex.

Following the conflict arising between Russia and Ukraine in March 2022, the Company removed roaming charges anywhere in Ukraine and charges associated with calls and texts from the UK to Ukraine will be credited back to customers' accounts. The Company has also announced a connectivity support package for refugees arriving in the UK comprising of a free 30-day preloaded Pay as You Go SIM card, which is available to any incoming refugees from the conflict in Ukraine, including unlimited domestic calls, text and data for use within the UK. These preloaded SIMs are available for free to all refugees from the conflict in Ukraine now in the UK via Three's 311 stores. Further, considering the government's recently announced sanctions, the Company had requested Chelsea Football Club temporarily suspend the Company's sponsorship of the club, including removal of the Three brand from shirts and around the stadium until further notice. Given the sale of Chelsea Football Club in May 2022, this temporary suspension has been removed and the commercial relationship with Chelsea has now been restored. The Company expects no material impact on the business due to the conflict.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.
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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).
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 United Kingdom Accounting Standards, comprising FRS 101 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 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 also 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' Report for the year ended 31 December 2021 (continued)

Directors' confirmations

In the case of each director in office at the date this 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.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to be reappointed and are deemed to be reappointed as auditors unless otherwise resolved by the directors or the sole member of the Company.

On behalf of the Board

Robert Finnegan
Director
29 September 2022

Independent auditors' report to the members of Hutchison 3G UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Hutchison 3G UK 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 for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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 and Statement of Changes in Equity 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 Hutchison 3G UK Limited (continued)

Report on the financial statements (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 in respect of the financial statements, 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 Hutchison 3G UK Limited (continued)

Responsibilities for the financial statements and the audit (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 the Ofcom regulations relevant to the UK telecommunications industry, 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 and tax laws relevant to the Company's operations. 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 the manipulation of financial reporting so as to enhance the financial performance of the Company, which could lead to improved management remuneration. Based on our fraud risk assessment we concluded that the manipulation of financial reporting could take place either through the posting of fraudulent manual journal entries outside of the standard transactional flow, or through taking significant one-off credits to the statement of comprehensive income where the accounting treatment is inherently judgemental. Audit procedures performed by the engagement team included:

- Enquiries with management, those charged with governance, the entity's in-house legal team and staff within the tax function to understand any actual or potential litigation and claims, and any instances of non-compliance with laws and regulations.
- Reviewing minutes of meetings of those charged with governance and reviewing any reports issued by the group's internal audit function that were relevant to the Company.
- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, testing significant accounting estimates and judgements and evaluating the business rationale of significant contracts and transactions entered into by the Company during the year.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

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.

Independent auditors' report to the members of Hutchison 3G UK Limited (continued)

Responsibilities for the financial statements and the audit (continued)

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.

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.

Christopher Boreham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
30 September 2022

Hutchison 3G UK Limited

Statement of Comprehensive Income for the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	4	**2,311,396**	2,220,353
Other operating income	5	**1,125,165**	4,435
Operating costs	6	**(2,211,182)**	(2,049,055)
Operating profit		**1,225,379**	175,733
Interest receivable and similar income	10	**6,857**	839
Interest payable and similar expenses	11	**(27,182)**	(27,711)
Profit before taxation		**1,205,054**	148,861
Tax on profit	12	**206,590**	46,350
Profit for the financial year		**1,411,644**	195,211
Other comprehensive income		**-**	-
Total comprehensive income		**1,411,644**	195,211

The results relate to activities which are continuing.

The notes on pages 34 to 64 form an integral part of the financial statements.

Hutchison 3G UK Limited

Registered number 03885486

Statement of Financial Position as at 31 December 2021

	Note	2021	2020
		£000	£000
Fixed assets			
Intangible assets	13	**4,105,534**	3,665,309
Right-of-use assets	14	**713,024**	590,469
Tangible assets	15	**1,839,902**	1,843,980
Investments - shares in subsidiaries	16	**292,519**	292,519
Investments - participating interests	17	**-**	-
		6,950,979	6,392,277
Current assets			
Stocks	18	**50,917**	61,246
Debtors *(including £70m (2020: £69m) due after one year)*	19	**3,157,031**	1,513,405
Deferred tax asset	20	**1,057,412**	846,869
Cash at bank and in hand		**57,984**	82,773
		4,323,344	2,504,293
Creditors: amounts falling due within one year	21	**(2,040,275)**	(1,124,739)
Net current assets		**2,283,069**	1,379,554
Total assets less current liabilities		**9,234,048**	7,771,831
Creditors: amounts falling due after more than one year	22	**(722,516)**	(666,309)
Provisions for liabilities	23	**(37,104)**	(42,738)
Net assets		**8,474,428**	7,062,784
Capital and reserves			
Called up share capital	24	**-**	-
Share premium	24	**1,000,000**	11,657,050
Merger reserve		**(36,158)**	(36,158)
Accumulated profits / (losses)		**7,510,586**	(4,558,108)
Total shareholder's funds		**8,474,428**	7,062,784

The notes on pages 34 to 64 form an integral part of the financial statements.

The financial statements on pages 31 to 64 were approved by the Board of Directors on 27 September 2022 and were signed on its behalf by:

Robert Finnegan
Director
29September2022

Hutchison 3G UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2021

	Note	Called-up share capital £000	Share premium £000	Merger reserve £000	Accumulated (Losses)/ Profits £000	Total shareholder's funds £000
At 1 January 2020		-	11,657,050	(36,158)	(4,753,319)	6,867,573
Profit for the financial year		-	-	-	195,211	195,211
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	195,211	195,211
At 31 December 2020	24	-	11,657,050	(36,158)	(4,558,108)	7,062,784
Profit for the financial year		-	-	-	1,411,644	1,411,644
Capital reduction	24	-	(10,657,050)	-	10,657,050	-
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	(10,657,050)	-	12,068,694	1,411,644
At 31 December 2021	**24**	**-**	**1,000,000**	**(36,158)**	**7,510,586**	**8,474,428**

1 General information

Hutchison 3G UK Limited (the "Company") is a private limited company, incorporated and domiciled in the UK having its registered office at 450 Longwater Avenue, Green Park, Reading, Berkshire RG2 6GF. The Company, which trades under the name "Three", is engaged in the provision of mobile communications, entertainment and information services in the UK.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

2 Significant accounting policies

(a) Basis of preparation

The Company has taken advantage of the exemption under s401 of the Companies Act 2006 not to prepare consolidated financial statements as it is an indirect wholly owned subsidiary of CK Hutchison Holdings Limited ("CKHH"), a company listed on The Stock Exchange of Hong Kong Limited, which prepares consolidated financial statements. The Company is included in the consolidation of CKHH and the consolidated financial statements of CKHH are publicly available.

These financial statements have been prepared in accordance with UK Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 under the historical cost convention. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") as adopted in the UK. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards) but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company Financial Statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

Accounting policies have been applied consistently, other than where new policies have been adopted.

The Company is a qualifying entity for the purpose of FRS 101 and Note 28 gives details of the Company's ultimate parent company and where its consolidated financial statements may be obtained from.

The disclosure exemptions adopted by the Company in accordance with FRS 101 are the requirements of:

- IFRS 7 'Financial instruments: disclosures';
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities),
- The second sentence of Paragraph 110, Paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from contracts with customers',
- Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of:
  (i) paragraph 79(a)(iv) of IAS 1;
  (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment', and
  (iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period);

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

- The following paragraphs of IAS 1 'Presentation of financial statements':
  – 10(d) (statement of cash flows);
  – 16 (statement of compliance with all IFRS);
  – 38A (requirement for minimum of two primary statements, including cash flow statements);
  – 38B-D (additional comparative information);
  – 111 (cash flow statement information);
  – 134-136 (capital management disclosures);
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24 'Related party disclosures' (key management compensation);
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(e) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'; and
- Paragraph 52 of IFRS 16 `Leases`

The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business. The directors believe that the adoption of the going concern basis in the preparation of the financial statements is appropriate as the Company is forecasted to be profitable and cash generative for the foreseeable future.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Revenue recognition

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

Revenue represents amounts earned for services rendered and for the sale of mobile and related devices, net of value-added tax assessed as payable on taxable supplies and discounts. Revenue from mobile communication services comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging and the provision of other mobile telecommunications services, including data services and information provision. Products and services may be sold separately or in a bundled transaction.

For bundled transactions under contracts comprising the provision of mobile telecommunications services and sale of a device, the Company accounts for these separately if they are distinct. A product or service is distinct if they are separately identifiable from other items in the bundled package and if the customer can benefit from it. The revenue recognised is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on observable prices of the mobile device provided and the mobile communication services rendered in similar circumstances to similar customers. Where amounts due arising out of revenue transaction are due after a period greater than one year, an assessment of financing components is made to determine if it is significant and would require an adjustment to the consideration. No significant financing components have been identified in transactions undertaken in the periods presented in these financial statements.

2 Significant accounting policies (continued)

(b) Revenue recognition (continued)

The nature and timing of satisfaction of performance obligations is as below:

Mobile devices: The Company recognises the revenue when the customer signs up to a contract which is usually the same time when the customer take possession of the device and the connection is activated. This is billed to customers as part of the monthly billing cycle and collected as invoices fall due.

Mobile telecommunication services: Mobile telecommunication services include voice, SMS and data services. The Company recognises revenue over time as the services are rendered. This is billed to customers as part of the monthly billing cycle and collected as invoices fall due.

Monthly recurring charges and additional airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each period is accrued, and unearned monthly access charges relating to periods after each accounting period are deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Manufacturer warranties are typically offered on mobile devices for a fixed period. Where the customer does not have the option to purchase a warranty separately, then the Company does not account for it as a separate performance obligation and continues to account for the warranty in accordance with IAS 37. If a customer chose to take out an extended warranty cover on their mobile device and this is priced separately, it will constitute as a separate performance obligation and accounted for accordingly.

For expected refunds, the Company reduces revenue by the amount of expected returns and records it as other creditors.

Revenue from wholesale contracts is recognised when services against the contract are delivered satisfying the performance obligation. The balance is settled on a net basis.

Revenue and costs from interconnection fees are recognised at the time the services are performed. The balances with some operators are settled on a net basis.

Revenue from indirect channels primarily includes operations where devices are provided by the third-party provider. In such instances, the Company is not the principal for such devices and therefore only recognised revenue is in respect of services rendered where the Company is principal.

(c) Operating costs

Operating costs include customer acquisition and retention costs and other costs of sales.

The customer acquisition and retention costs include net equipment cost, net commissions, direct marketing costs and own retail store costs.

Other costs of sales include network, interconnect and roaming costs.

Costs that can be directly assigned to revenue generated by the Company are recognised in the period to which the revenue relates to.

2 Significant accounting policies (continued)

(c) Operating costs (continued)

Costs that can only be indirectly assigned to revenue or other economic benefits obtained are recognised in the period to which they relate.

(d) Pension costs

The Company contributes to a defined contribution personal pension plan in respect of its employees. Pension costs are charged to the Statement of Comprehensive Income in the year to which the contributions relate. The Company has no further payment obligations once the contributions have been paid.

(e) Interest payable and similar charges

Interest payable and similar charges that are directly attributable to the construction of a tangible fixed asset are capitalised as part of the cost of the relevant asset and depreciated over the asset's life. The capitalisation rate in any given period is based on the weighted average of the rates incurred on the Company's borrowings outstanding during the period. Capitalisation of interest ceases when substantially all the activities necessary to get the tangible fixed asset ready for use are complete.

Other finance costs are charged to the Statement of Comprehensive Income on an accrual basis.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

(g) Intangible assets and amortisation

UMTS, 4G and 5G licenses

Licences are stated at cost less accumulated amortisation and impairment charge. The cost of Universal Mobile Telecommunication System ("UMTS"), 4G and 5G licences comprises upfront payments made for acquiring the licences and acquisition costs capitalised.

The UMTS, 4G and 5G licences are considered to have indefinite lives, however they are subject to an annual fee (see Note 13). The initial cost of the license is capitalised and is reviewed annually for impairment (see Note 3). The annual fee is recognised as an expense as incurred.

Software and other licenses

Software licences and other similar licences are stated at cost and amortised on a straight-line basis over the respective licence terms. These licences range in useful economic life from 3 years to 10 years.

Access rights

Where the Company obtains the right to use, at no cost, 3G or 4G capabilities across cell sites in the UK, which had not been previously accessible to the Company, this right is considered to be an intangible asset and is valued using a replacement cost model. Amortisation commences when the access rights are available for use over the life of the right of access based on the expected usage of the asset. The access right is considered available for use when the underlying asset (e.g. Site) is identified and unrestricted access is granted. These right to use assets range in useful economic life of up to 10 years on a straight line basis.

2 Significant accounting policies (continued)

(h) Tangible assets and depreciation

Tangible fixed assets are stated at cost of acquisition or at construction cost, less accumulated depreciation and impairment charges. The cost of fixed assets includes only those costs directly attributable to bringing the asset into working condition for its intended use, including direct staff costs and any associated finance costs.

Where the Company enters into an agreement for the non-monetary exchange of tangible fixed assets, and the commercial substance requirements of IAS 16.24-26, BC17-BC24 are met, the acquired asset will be recognised at fair value and the outgoing asset derecognised at net book value with any difference recorded as a gain or loss on disposal.

Tangible fixed assets are depreciated to their expected recoverable amounts on a straight-line basis over their estimated useful lives from the time they are brought into use at the following rates:

Leasehold improvements	over the lease term or the useful life if shorter
Plant, equipment and other assets	10% - 33.3% per annum
Network infrastructure	2.5% - 33.3% per annum

Included in network infrastructure are estimated costs, measured at present value, to restore the cell sites to their original state on the relocation of the cell site equipment in accordance with the lease agreement.

Payments on account and assets in the course of construction are not depreciated. The useful economic lives of tangible fixed assets are reviewed at the end of each year and the lives are revised if expectations are significantly different from previous estimates. In determining the useful economic lives, the expected use of the assets by the Company is taken into consideration, including the upgrade, replacement and repair and maintenance programmes of the Company and the expected economic or technological obsolescence of the assets including the Company's ability to extend and/or renew related operating agreements.

If the useful economic lives of any tangible fixed assets are revised, the carrying amounts of the tangible fixed assets at the date of revision are then depreciated over the revised remaining useful economic lives.

Compensation from third parties for fixed assets that have been impaired, lost or exchanged is included in the Statement of Comprehensive Income when the compensation becomes receivable. Where the compensation is in the form of non-monetary assets, it is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident, in which case it is measured at the fair value of the asset received.

(i) Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation or depreciation. Such assets and intangibles with indefinite useful economic life are tested annually for impairment and when there are indicators of impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of sale and value in use.

2 Significant accounting policies (continued)

(j) Investments

Investments in subsidiaries and associates are recorded at cost, less provision for any impairment.

Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement. Joint ventures are accounted at cost less provision for any impairment.

(k) Stock

Stock comprises mobile telecommunications equipment and related goods for resale and is valued at the lower of cost and net realisable value. Cost of stock is calculated based on weighted average cost updated as required to reflect changing manufacturer costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling costs. A provision is made, where required, for slow moving, obsolete and defective stock.

(l) Debtors

Debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less any provision for impairment. Provisions are maintained in respect of bad and doubtful debts for estimated losses resulting from customers not making the required payments. Estimates are an unbiased view of lifetime expected credit losses. This view is formed on the date of the customer contract to estimate future losses and uses internal historical information of customer behaviour, detailed customer segmentation and external credit rating reports to anticipate future customer behaviour.

VAT on sale of handset devices is classified as other debtors. The balance is reduced, in line with customer monthly billing, over the term of the contract. The Company has an unconditional right to receive the VAT from the customer. If the customer does not pay the VAT, the Company can adjust this within VAT payable. Therefore, no provision for impairment is required against the balance.

(m) Contract assets and liabilities

Contract assets primarily relate to the Company's rights to consideration for performance obligations completed but not billed at the reporting date. Contract assets are amortised on a systematic basis that is consistent with the pattern of transfer of goods and services to the customer. The contract assets are transferred to receivables when the rights become unconditional.

Where the Company transfers substantially all of the credit and late payment risk to the counterparty in sale of a contract asset, the net carrying amount of the underlying asset is derecognised from the Company's Statement of Financial Position. Differences between proceeds received and carrying amount are taken to finance costs.

Impairment against contract assets is assessed using lifetime expected credit losses. To estimate the lifetime credit loss on outstanding contracts, internal historic information relating to customer behaviour, detailed current customer segmentation and information from external credit rating reports are applied collectively to trade receivables and contracts assets, to arrive at the risk of customer default and customer credit risk based on expected customer behaviour during the life of the contract. Default is defined to be consistent with internal credit assessment procedures and captures milestone events resulting in significant changes in credit loss rates, such as disconnection from the Company's network.

Contract liabilities primarily relate to the Company's unfulfilled performance obligations for which consideration has been received at the reporting date. On fulfilment of its obligations, the contract liability is recognised in revenue in the period when the performance obligations are fulfilled.

2 Significant accounting policies (continued)

(n) Customer acquisition costs

Customer acquisition costs primarily relate to incremental commission costs incurred to obtain telecommunications contracts with customers. These costs are amortised over a period greater than 12 months but not exceeding 24 months. The Company also applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Company otherwise would have recognised is less than one year.

(o) Prepayments

Prepayments are primarily recognised as an asset when payment for the goods or services is made in advance of the Company obtaining access to the goods or receiving the services. Some prepayments are also recognised when invoices have been received in advance that are not yet due. The prepayment is then proportionately charged to the Statement of Comprehensive Income over the period in which economic benefit from the goods or services is utilised.

(p) Cash at bank and in hand

Cash and cash equivalents include cash in hand, deposits at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(r) Leases

Right-of-use assets are measured at cost comprise the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The right-of-use assets are depreciated straight line for a period of over 1 year to 12 years.

Lease assets include cell sites, retail stores, offices, data centres, transmission access, vehicles and printers.

Lease payments are prevalently fixed, and a minority of leases include rent reviews to reflect changes in market rental rates. Termination options are included in some leases and considered as reasonably certain to be not exercised and therefore not included the lease liability.

2 Significant Accounting policies (continued)

(r) Leases (continued)

There are no residual value guarantees, except for vehicles. The early termination payment is adjusted to make up the deficiency or excess between the actual cost for the lessor and the net proceeds from the sale on disposal of the vehicle. Lessee's reasonable expectation of the amount that will be paid have not led to include any amount in the measurement of the lease liability.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease income from leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining the lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

In accordance with IFRS 16.6, the Company has elected not to apply IFRS 16 lessee accounting to short-term leases and low-value leases. The associated lease payments are recognised as an expense on a straight-line basis over the lease term. There are no low-value leases.

The Company has applied IFRS 16 at individual lease level, as it has not elected to use the practical expedient, allowed by IFRS 16.B1, to apply it to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects would not differ materially.

The Company has assessed the lease terms in accordance with the IFRS 16 guidance. Enforceable extension or termination options have been included in the lease term when reasonably certain to be or not to be exercised, respectively, considering all relevant facts and circumstances that create an economic incentive to exercise an option.

The Company considers lease variable payments linked to future performance or use of the underlying asset when they are virtually certain that these will be triggered.

The Company has applied the practical expedient 46A in relation to IFRS-16, in which rent concessions can be treated as a variable lease payment rather than a lease modification, for all eligible rent concessions.

(s) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Statement of Financial Position date in the countries where the Company operates and generates taxable income. 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 based on amounts expected to be paid to the tax authorities.

2 Significant Accounting policies (continued)

(s) Taxation (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority.

Tax provisions are based on management's best estimate of the likelihood of settlement. Management uses in-house tax experts, professional advisers and previous experience when assessing tax risks.

(t) Merger reserve

Transfer of assets and liabilities between the Company and its subsidiaries are accounted for as mergers. The assets and liabilities resulting from such mergers are recorded at historical cost and the difference from consideration paid is recorded as a merger reserve.

(u) Foreign currency transactions

Transactions denominated in foreign currencies are translated into sterling at the rate prevailing at the time of the transaction. Monetary assets or liabilities denominated in foreign currencies, which are held at the end of the year, are translated into sterling at the year-end rate of exchange. All exchange differences on monetary items are taken to the Statement of Comprehensive Income.

(v) Financial assets

The Company classifies its financial assets as financial assets at fair value through profit or loss and financial assets subsequently measured at amortised cost. The classification depends on the business model and the contractual terms of the financial asset. Management determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

2 Significant Accounting policies (continued)

(v) Financial assets (continued)

Financial assets subsequently measured at amortised cost

These financial assets are initially recognised at fair value. The assets have a business model of being held to collect contractual cashflows and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, these financial assets are carried at amortised cost using effective interest rate (EIR) less provision for impairment. Interest calculated using EIR is recognised in the Statement of Comprehensive Income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets where changes in fair value are recognised in the Statement of Comprehensive Income in the period in which they arise. At the end of the reporting period subsequent to initial recognition, these financial assets are carried at fair value. In addition, any dividends or interests earned on these financial assets are recognised in the Statement of Comprehensive Income.

(w) Derivative financial instruments

Derivative financial instruments are utilised by the Company in the management of its foreign currency exposures. The Company's policy is not to utilise derivative financial instruments for trading or speculative purposes. All derivative financial instruments are classified as fair value through profit or loss.

(x) Asset retirement obligations

The Company has an obligation under the terms of its cell site and building leases to restore the sites and buildings to their original state on the relocation of the cell site equipment and vacation of buildings. The provision for asset retirement obligation represents the present value of the estimated future cash flows required to settle these obligations. This is now recognised as part of right-of-use asset.

(y) Government grants

The Company received government assistance during the year. The Company matched the assistance with the costs that they are intended to compensate. These are recognised in Statement of Comprehensive Income over the necessary period.

3 Critical accounting estimates and judgements

The preparation of financial statements often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the financial statements. The Company bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

3 Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions

(a) Carrying value of long life assets

Assets that have an indefinite useful life are tested for impairment annually and when there is indication that they may be impaired. Assets that are subject to depreciation and amortisation are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Estimation is required in assessing assets for impairment, particularly in determining appropriate values or ranges for the key assumptions to be applied in preparing cash flow projections to determine the recoverability of carrying value of assets. Changing the assumptions selected by management could significantly impact the Company's impairment evaluation and hence reported assets and profits or losses. Further details are included in Notes 13, 14 and 15.

The Company performs an annual impairment review where the Company identifies the business as a single Cash Generating Unit ("CGU"), being Hutchison 3G UK Limited and the recoverable amount is calculated based on a value-in-use model. The Company evaluates its CGU performance regularly to identify potential impairment. The strategic plan of the CGU has been used to perform the impairment test at year-end. The process of preparing the CGU strategic plan takes into consideration the current condition of the CGU market, analysing the macroeconomic, competitive, regulatory and technological climate together with the CGU position in this context and the growth opportunities given the market projections and their competitive positioning. The calculation determined the value-in-use to be £1,751 million higher than the carrying value of the assets.

Value in use is calculated based on an approved business plan reflecting the Company's view of its prospects at 31 December 2021 taking into account certain variables such as Earnings before interest, tax, depreciation and amortisation (EBITDA), Capital expenditure (CAPEX), discount and perpetuity growth rates.

The value-in-use drops to a level where it would equal the carrying value of the assets if each revenue stream under-performed by the percentages shown below:

	Underperformance that would reduce value in use to equal carrying value
Home broadband	65%
Business	76%
Contract voice	8%

The Company is investing in its 5G infrastructure and improving its current 4G infrastructure. In determining the value-in-use, the cash outflow on capital expenditure represents 21% of the total margin.

If the cash outflow in respect of the capital expenditure is 24% per annum higher than management's estimate as at 31 December 2021, then the recoverable value would drop to a level where it would equal the carrying value.

If the discount rate were to increase by 1.325%, from 7% to 8.325%, the recoverable value would drop to a level where it would equal the carrying value.

Economic uncertainty since the year-end might have increased the risk of impairment in future periods.

3 Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

(b) Depreciation and amortisation

Tangible and intangible assets (excluding Telecommunication licenses)

Depreciation and amortisation of operating assets constitutes a substantial operating cost for the Company. The cost of tangible and intangible assets (excluding Telecommunication licenses) is charged as depreciation or amortisation expense over the estimated useful lives of the respective assets using the straight-line method. The Company periodically reviews changes in technology and industry conditions, asset retirement activity to determine adjustments to estimated remaining useful lives and depreciation rates.

Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expense in future periods.

The annual depreciation and amortisation charge is sensitive to changes in the estimated useful economic lives of the assets. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. Network infrastructure is the most significant class of assets and if the average useful life was to decrease by 3 years from 17 years to 14 years, the depreciation charge for the year would be higher by £53.6 million and the net book value would be lower by the same amount.

(c) Allocation of transaction price for revenue recognition

As the bundled package includes two performance obligations, the transaction price must be allocated to each of the individual performance obligations on a relative stand-alone selling price basis. The Company estimates the stand-alone selling prices at contract inception based on observable prices of the mobile device provided and the mobile communication services rendered in similar circumstances to similar customers. If the allocation of revenue based on stand-alone selling prices was to change by 1% in favour of devices, the incremental revenue recognised during the year would be £9.7 million with the contract asset balance being higher by £3.1 million.

(d) Taxation

The Company's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the Company's total tax charge involves estimation in respect of certain matters where the tax impact is uncertain until a conclusion is reached with the relevant tax authority or through a legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows. Resolving tax issues can take many years as it is not always within the control of the Company and often depends on the efficiency of legal process.

Estimation is also required when determining probable future taxable profits for its deferred taxes. The Company assesses the availability of future taxable profits using the same undiscounted five-year forecasts for the Company's operations. Where tax losses are forecast to be recovered beyond the five-year period, the availability of taxable profits is assessed using the cash flows and long-term growth rates used for the value in use calculations. The cash flows inherent in these forecasts include the unsystematic risks of operating in the telecommunications business including the potential impacts of changes in the market structure, trends in customer pricing, the costs associated with the acquisition and retention of customers, future technological evolutions and potential regulatory changes.

Using these forecasts, the recovery period of Company's deferred tax assets is 21 years. Should the forecast profitability reduce by 1%, consequently reducing the utilisation of tax losses by 1%, the recoverability period would increase by 2 years to 23 years. We note a large portion of these taxable losses had arisen in the early part of the business being established and investing in growth.

3 Critical accounting estimates and judgements (continued)

3.2 Critical judgements in applying the Company's accounting policies

(a) Determination of performance obligations

A bundled package will typically include a mobile device and mobile communication services. This determination is management's judgment based on accounting guidelines included in the applicable accounting framework, legal and contractual obligations and management's interpretation of these in light of their professional and commercial expertise. Based on this, management has concluded that supply of devices and provision of services are separate and typically the only performance obligations in a bundled package offered by the Company.

(b) Carrying value of long life assets

The Company has made significant investments in its telecommunication network, UMTS and 4G licences. These assets are deemed to form a single CGU.

Judgement is required in the area of asset impairment, particularly in assessing whether an event has occurred that may indicate that the related asset values may not be recoverable. No such events have been noted during the year.

(c) Depreciation and amortisation

Telecommunications licences

Telecommunications licences comprise the right to use spectrum and the right to provide a telecommunications service. Telecommunications licences that are considered to have an indefinite useful life to the Company are not amortised. Licences are reviewed for impairment annually. Judgement is required to decide if the life of the asset is indefinite or finite. Due to the perpetual nature of these licenses, these have been concluded to have indefinite lives.

Tangible and intangible assets (excluding Telecommunication licenses)

Depreciation of the asset begins when the asset can operate in the manner intended by the Company. Judgement is made whether an asset does not currently have the intended commercial use; and the assets are tested for impairment. No such assets have been identified in the current year.

(d) Provisions, claims and other contingent liabilities

The Company exercises judgement in measuring and recognising provisions and exposures to contingent liabilities related to pending litigation, ongoing proceedings with tax authorities and other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities.

Judgement is necessary to assess the likelihood that a pending claim will succeed or if a liability will arise, and to quantify the possible range of any financial settlement.

The Company considers each case individually for the purposes of this assessment and if any provision, either for liability or over doubtful recovery of an asset, is required to be recorded at the year-end date. The inherent uncertainty of such matters means that actual results may materially differ from assessments made at the year-end date, whether recorded or otherwise.

3 Critical accounting estimates and judgements (continued)

3.2 Critical judgements in applying the Company's accounting policies (continued)

(e) Investment in joint operations

The Company holds a 50% interest in Mobile Broadband Network Limited ("MBNL"), a joint operation, which is structured in a separate incorporated company. MBNL operates solely for the benefit of the parties to the joint operation and all MBNL's output is to those parties. MBNL relies on the parties to the agreement on a continuous basis for the settlement of liabilities. Under the joint operations agreement, unanimous consent is required from all parties to the agreement for all significant activities.

In determining whether the operation is a joint operation or a joint venture, we have considered whether the arrangement indicates that the Company and other parties to the agreement have a direct share in all of the assets employed by the arrangement, the Company is liable for its share of the liabilities incurred through the terms of the contractual arrangement and whether the arrangement establishes the allocation of revenues and expenses relative to its capacity used in the arrangement.

On consideration of the facts and circumstances, the Company has determined this arrangement to be classified as a joint operation. The Company's share of the results and assets and liabilities of MBNL are therefore reflected on a line-by-line basis in these financial statements.

(f) Determination of lease term for right-of-use asset under IFRS 16 - Leases

The Company has entered lease arrangements through MBNL. Under IFRS 16, the lease determination is made as a lessee because MBNL is a joint operation. These determinations also comprise whether a shared contract is, or contains, a lease, and the determination of the lessee's incremental borrowing rate. For the purpose of IFRS 16, the Company has determined that the commencement date of lease agreements that were transferred to MBNL in the name of the joint operators as part of the joint arrangement was the date on which the network was consolidated for each particular lease, and therefore the underlying asset was made available for use by the joint arrangement.

The Company has applied IFRS 16 guidance to assess the different agreements to see if any embedded leases existed. Transmission agreements and managed service agreements have resulted not to be, or contain, a lease, because of failing lease scope, identified asset, or separability criteria. For rolling leases, where the lessee and the lessor each had the right to terminate the lease without permission from the other party, an analysis has been made of whether there was more than an insignificant penalty for termination, in order to determine the lease length. Where it is reasonably certain that a lease will be extended or terminated, the right-of-use asset and lease liability are recalculated. For MBNL cell sites, when the analysis has determined a lease to be a rolling lease, the legal end date of the joint arrangement agreement of 31 December 2031 has been used to determine the end of lease term for the purpose of IFRS 16.

(g) Taxation

The recognition of deferred tax assets, particularly in respect of tax losses, is based upon whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. Management bases this judgment on its future profitability forecasts. These forecasts contain significant estimates which are discussed in the note 3.1 (d) above.

3 Critical accounting estimates and judgements (continued)

3.2 Critical judgements in applying the entity's accounting policies (continued)

(g) Taxation (continued)

Changes in the assumptions which underpin the Company's forecasts could have an impact on the amount of future taxable profits and could in turn impact on the period over which the deferred tax assets would be recovered. Based on the latest forecast, it is appropriate to recognise deferred tax assets to the extent of future taxable profits.

(h) Service arrangements

Judgment is required to determine if a contract is a service arrangement or a lease under IFRS 16. During the year, the Company has entered into a contractual arrangement with TowerCo. Management has assessed the arrangement and has formed a judgment that the arrangement is a service arrangement and not a lease. This judgment is primarily based on the substantive substitution rights which TowerCo can practically exercise under the agreement for economic benefit.

4 Turnover

The Company's activities consist solely of the provision of 3G, 4G and 5G communication services and devices in the UK, facilitating roaming arrangements for its customers when travelling overseas, and for overseas based customers of reciprocal networks when roaming in the UK. In the view of the directors, these activities constitute one segment.

5 Other operating income

On the 30 April 2021, TowerCo acquired certain passive network assets from the Company, as well as leases in relation to these assets for a total consideration of £1,130.5 million and a net book value of £52.3 million. The consideration remains outstanding at the period end and attracts interest of 0.85% as set out in the purchase agreement. This gave rise to a gain of £1,078.2 million which has been recognised as a profit on sale of fixed assets in the other operating income line of the statement of comprehensive income. On the date of the transaction the Company and Towerco were companies under common control of CKHH. The transaction represents an internal transfer of the unilateral sites of the Company to TowerCo, in readiness of Towerco being in scope of the transaction with Cellnex, should it be approved by the CMA. The gain on the disposal is based on the potential market value of the assets. This is a factor of their estimated replacement cost, plus the time to obtain construction permits and build the large volume of transferred sites.

The sites which were transferred by the Company to the TowerCo in April 2021 continued to be used by the Company on the sale and service back basis with service cost per site payable to the TowerCo.

Operating income also includes non-trading income of £46.9 million (2020: £4.4 million). The increase is primarily due to £42.7 million of income in 2021 in recognition of an entitlement to acquire joint control of network assets on a fixed number of fully operational cell sites without any payment. The entitlement is included as an intangible asset (Note 13).

6 Operating costs

The operating costs mainly include:	2021 £000	2020 £000
Cost of Sales - cost of equipment sold	**624,318**	570,148
- other customer acquisition and retention costs	**76,729**	117,250
- other cost of sales	**347,696**	334,718
Staff costs (excluding capitalised costs)	**128,427**	130,479
Amortisation of intangibles (Note 13)	**142,512**	107,737
Amortisation - contract related costs (Note 19)	**48,492**	19,350
Depreciation on right-to-use asset (Note 14)	**87,586**	82,463
Depreciation of tangible assets (Note 15)	**269,842**	282,113
Net impairment losses on financial and contract assets	**35,414**	35,795
Ofcom annual license fees	**75,643**	56,019
Network service costs	**12,746**	-
Foreign exchange loss /(gain)	**1,407**	(2,275)

Auditors' remuneration is analysed as:	2021 £000	2020 £000
Statutory audit - relating to current year	**1,345**	1,675
Taxation advisory services	**-**	28
	1,345	1,703

Statutory audit fees include audit services of £308k (2020: £450k) in respect of the potential future sale of certain tower assets.

7 Directors' emoluments

	2021 £000	2020 £000
Aggregate emoluments	**3,370**	5,096
Other pension contributions	**-**	7
	3,370	5,103

7 **Directors' emoluments (Continued)**

The above emoluments were paid to two directors (2020: four directors). The emoluments of other directors are not paid to them in their capacity as directors of the Company and are payable for services wholly attributable to other CKHH Group companies.

During the year, none of the directors (2020: two directors) were paid compensation for loss of their office (2020: £2.1 million).

	2021	2020
	£000	£000
Highest paid director - aggregate emoluments	**2,413**	1,946
Highest paid director - pension contributions	**-**	-
	2,413	1,946

8 **Staff costs**

	2021	2020
	£000	£000
Wages and salaries	**172,575**	166,002
Social security costs	**22,889**	22,806
Other pension costs	**8,463**	7,640
	203,927	196,448

A proportion of these costs relating to acquisition and construction of fixed assets has been capitalised in accordance with the Company's accounting policies with costs charged to the Statement of Comprehensive Income disclosed in Note 6.

Directors' emoluments are included within the staff costs.

The Company operates a defined contribution personal pension plan. The Company automatically enrols employees into a workplace pension scheme if they met certain criteria. The Company's employees have the option to leave the scheme after commencement date of employment. The amount recognised as an expense for the defined contribution scheme was £8.5 million (2020: £7.6 million).

9 Employee information

The average monthly number of people (including Executive Directors) employed by the Company during the year was:

	2021 Average number	2020 Average number
Operations	**3,591**	3,574
Administration	**896**	1,002
	4,487	4,576

10 Interest receivable and similar income

	2021 £000	2020 £000
Interest receivable from bank deposits	**144**	839
Interest receivable from group undertakings	**6,713**	-
	6,857	839

11 Interest payable and similar expenses

	2021 £000	2020 £000
Interest on lease liabilities	**22,256**	21,192
Unwinding of discounting	**4,924**	6,519
Other interest payable	**2**	-
	27,182	27,711

12 Tax on profit

	2021 £000	2020 £000
Current tax		
Adjustment in respect of prior years	**(1,492)**	(972)
Current tax charge	**(2,883)**	(2,404)
Total current tax	**(4,375)**	(3,376)
Deferred tax		
Adjustment in respect of prior years	**(6,077)**	(3,734)
Deferred tax credit	**217,042**	53,460
Total deferred tax	**210,965**	49,726
Total tax credit on profit before taxation	**206,590**	46,350

12 Tax on profit (Continued)

The tax assessed for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The difference is explained below:

	£000	£000
Profit before taxation	**1,205,054**	148,861
Tax on profit at the standard UK rate of corporation tax at 19% (2020: 19%)	**(228,960)**	(28,284)
Effect of:		
Expenses not deductible for tax purposes	**(1,634)**	(4,774)
Non-taxable group gain	**204,870**	-
Re-measurement of deferred tax - change in tax rate	**243,387**	88,549
Adjustment in respect of prior years	**(7,569)**	(4,706)
Others	**(3,504)**	(4,435)
Total tax credit on profit before taxation	**206,590**	46,350

The tax charge for the period is the same as the standard rate of corporation tax in the UK of 19% (2020: 19%). In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these financial statements.

Following the year end, on 23 September 2022, the Government announced that the 25% corporation tax increase due to come into effective from 1st April 2023 was to be reversed. The impact of this on the financial statements would be a reversal similar to the increase recorded in the current year once substantively enacted.

13 Intangible assets

	UMTS, 4G and 5G licences £000	Software and other licences £000	Access rights £000	Total £000
Cost				
At 1 January 2021	5,009,328	923,381	517,600	6,450,309
Additions	280,025	260,012	42,700	582,737
Disposals	-	(3,073)	-	(3,073)
At 31 December 2021	**5,289,353**	**1,180,320**	**560,300**	**7,029,973**
Accumulated amortisation and impairment				
At 1 January 2021	(1,859,286)	(425,713)	(500,001)	(2,785,000)
Charge for the year	-	(142,512)	-	(142,512)
Disposals	-	3,073	-	3,073
At 31 December 2021	**(1,859,286)**	**(565,152)**	**(500,001)**	**(2,924,439)**
Net book value				
At 31 December 2021	**3,430,067**	**615,168**	**60,299**	**4,105,534**
At 31 December 2020	3,150,042	497,668	17,599	3,665,309

Included in the cost of UMTS, 4G and 5G licences is the acquisition cost of the licences, together with the associated bid costs. Other licences relate to the rights to distribute content and software licence costs.

The UMTS licence acquired in 2000 to operate 3G video mobile services in the UK provides an allocation of frequency spectrum and the right to deliver voice, data and other services to mobile users. Amortisation of the licence commenced in 2003 when the underlying network assets became available for use. The licence was being amortised over 18.5 years as it was due to expire in 2021. In December 2010, Parliament approved a Statutory Instrument giving directions to Ofcom to, inter alia, amend the licence terms such that it becomes indefinite lived with an annual fee to be charged from 2022 when the initial licence term expires. The Statutory Instrument was effective from 30 December 2010 and, as a result, amortisation of the licence ceased from 1 January 2011 and the licence became indefinitely lived. Other spectrum licences also have indefinite lives and are also subject to annual fee. The carrying value of indefinitely lived assets is £3.4 billion (2020: £3.2 billion)

14 Right-of-use assets

The Statement of Financial Position shows the following amounts in relation to leases:

	2021 £000	2020 £000
Right-of-use assets		
Cell sites	**450,205**	467,699
Retail stores	**106,368**	81,742
Offices	**37,963**	2,751
Data centres	**4,603**	4,448
Transmission access	**112,802**	32,547
Vehicles and others	**1,083**	1,282
	713,024	590,469
Lease liabilities		
Current	**93,087**	90,606
Non-current	**638,072**	529,461
	731,159	620,067

Additions to the right-of-use assets during the year were £139 million (2020: £61 million). Modifications to the right-of-use assets during the year were an increase of £75 million (2020: an increase of £11 million). Impairment to right-of-use assets during the year were £0.1 million (2020: £2 million)

The Statement of Comprehensive Income shows the following amounts relating to leases:

	2021 £000	2020 £000
Depreciation charge of right-of-use assets		
Cell sites	**51,875**	50,937
Retail stores	**24,733**	23,559
Offices	**4,201**	5,853
Data centres	**1,160**	1,146
Transmission access	**5,300**	648
Vehicles and others	**317**	320
	87,586	82,463
Interest expense on lease liabilities	**22,256**	21,192
Expense relating to short-term leases for which the lessee has elected to apply the short-term lease exemption	**3**	1,399
Income from subleasing right-of-use assets	**223**	1,398
Rent concessions	**543**	200

The total cash outflow for leases in 2021 was £125 million (2020: £104 million).

15 Tangible assets

	Leasehold improvements £000	Plant, equipment and other assets £000	Network infrastructure £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2021	126,936	40,465	3,972,242	601,895	**4,741,538**
Additions	-	-	-	339,951	**339,951**
Transfers from assets in the course of construction	160	34,454	341,002	(375,616)	**-**
Disposals	(826)	(4,945)	(99,781)	(736)	**(106,288)**
At 31 December 2021	**126,270**	**69,974**	**4,213,463**	**565,494**	**4,975,201**
Accumulated depreciation and impairment					
At 1 January 2021	(109,707)	(39,007)	(2,748,844)	-	**(2,897,558)**
Charge for the year	(7,390)	(13,639)	(248,813)	-	**(269,842)**
Disposals	715	4,945	26,441	-	**32,101**
At 31 December 2021	**(116,382)**	**(47,701)**	**(2,971,216)**	**-**	**(3,135,299)**
Net book value					
At 31 December 2021	**9,888**	**22,273**	**1,242,247**	**565,494**	**1,839,902**
At 31 December 2020	17,229	1,458	1,223,398	601,895	1,843,980

In 2007, the Company entered into a network sharing agreement with T-Mobile (UK) Limited ("TMUK"), which is now a part of EE Limited ("EE"). As part of this arrangement, the Company agreed to decommission a number of its network sites and related assets and acquired the right to use certain of TMUK's network assets. Shared network assets acquired after the initial agreement was signed are treated as jointly controlled assets. On purchase, the Company records 50% of the total cost within tangible fixed assets and accounts for these assets in line with the policies set out in Note 2.

Included within disposals are assets that, having a net book value of £52.3 million, were sold for a consideration of £1,130.5 million giving rise to a gain of £1,078.2 million which has been recognised as profit on sale of fixed assets. Refer to note 5 for details of the transaction.

16 Investments – shares in subsidiaries

Name of subsidiaries

	2021	2020
	% of shareholding	
3UK Retail Limited Registered Office: Hutchison House, 5 Hester Road, Battersea, London, SW11 4AN, United Kingdom	**100%**	100%
ID Communications Limited Registered Office: 450 Longwater Avenue, Green Park, Reading, Berkshire RG2 6GF, United Kingdom	**100%**	100%
UK Broadband Limited Registered Office: 450 Longwater Avenue, Green Park, Reading, Berkshire RG2 6GF, United Kingdom	**100%**	100%
Hutchison 3G UK Finance Limited Registered Office: 450 Longwater Avenue, Green Park, Reading, Berkshire RG2 6GF, United Kingdom	**-**	100%

On 26 December 2009, the Company acquired 100% of the issued ordinary share capital of 3UK Retail Limited, a company incorporated in the UK, for £1,000. The principal activity of this subsidiary in 2009 was the sale of 3G mobile telecommunication products and services. The subsidiary has no current ongoing activity. It continues to hold store leases for the Company as the assets and liabilities were merged by the Company on 1 January 2010.

On 11 September 2014, the Company acquired 100% of the issued ordinary share capital of ID Communications Limited, a company incorporated in the UK, for £1. The principal activity of this subsidiary is to provide mobile communication services to end users in UK.

On 1 June 2017, the Company acquired 100% of the issued ordinary share capital of Transvision Investments Limited ("TIL"), a company incorporated in the British Virgin Islands, for £292.5 million. The principal activity of this subsidiary was to operate as an intermediary holding company. TIL operated in the UK through UK Broadband Limited ("UKB") under the brand name, Three Broadband. Consideration of £256.9 million was paid in cash with remaining £35.6 million being deferred included in long term liabilities. Deferred consideration represents the fair value of two MVNO vouchers, having face value of £25 million each, given as part of the consideration. The vouchers are redeemable over 5 years from the acquisition date extendible for a period of another 2 years.

On 25 January 2018, TIL transferred 100% of its investment in UKB to the Company through a distribution in specie. As a result, the Company gained direct ownership of 1,000 ordinary shares of UKB, having face value of £1 each, representing 100% of UKB's share capital. TIL was liquidated through members' voluntary liquidation proceedings in May 2020.

On 22 April 2020, the Company acquired 100% of the issued ordinary share capital of Hutchison 3G UK Finance Limited, a company incorporated in the UK, for £100. The principal activity of this subsidiary was to arrange financing for the Company. On 30 December 2021, the Company transferred 100% of its investment in Hutchison 3G UK Finance Limited, to fellow group undertaking CK Hutchison Networks Europe Investments S.à.r.l, for £100.

17 Investments – participating interests

In 2007, the Company and TMUK, now a part of EE, entered into a network sharing arrangement. The two parties established a joint operation, MBNL, a company registered and domiciled in the UK having registered office at Sixth Floor, Thames Tower, Station Road, Reading, England, RG1 1LX, to manage the roll-out of the shared 3G network, which has generated significant long-term cost benefits for the Company. In 2008, the Company acquired 50% of the ordinary share capital of MBNL for cash consideration of £1.7 million. In 2009, the Company invested an additional £8.3 million in MBNL, increasing its investment to £10 million, and maintaining its 50% interest in MBNL. The accounting policies, principles and judgments applied are described in Note 2 and Note 3. In 2016, EE Limited was acquired by BT Group plc. The principal place of business of the joint operation is in the UK and its ongoing purpose is the operation and maintenance of mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and networks on behalf of the joint operators, acquiring certain network elements for shared use, and coordinating the deployment of new infrastructure and networks on either shared or unilateral basis (unilateral elements being specific to one operator only). For the foreseeable future, the Company will continue to incur 50% of costs in respect of restructuring the shared network, a similar proportion of the operating costs (which vary in line with usage), and 100% of any unilateral elements.

The Company also owns 25% of the share capital of Digital Mobile Spectrum Limited ("DMSL") (2020: 25%) which is treated as an associate, a company registered and domiciled in the UK having registered office at 24/25 The Shard, 32 London Bridge Street, London, SE1 9SG. DMSL was incorporated with a remit to mitigate anticipated interference to Digital Terrestrial Television ("DTT") signals resulting from the reallocation of certain spectrum from DTT to 4G telephony as required by the terms of the 4G license issued by Ofcom. The license holders comply with the requirements through DMSL where DMSL invoices as required to meet the license obligations.

18 Stocks

	2021	2020
	£000	£000
Finished Goods	**50,917**	61,246

There is no significant difference between the replacement cost of finished goods and their carrying value. Stock is stated after provisions for impairment, which is immaterial to disclose separately.

19 Debtors

	2021 £000	2020 £000
Trade debtors	**154,700**	125,123
Amounts owed by group undertakings	**2,420,998**	758,051
Corporation tax receivable	**12,122**	18,884
Prepayments and other debtors	**208,883**	274,909
Contract assets	**317,498**	302,588
Contract-related costs	**42,830**	33,850
	3,157,031	1,513,405

Trade debtors are stated after provisions for impairment of £74 million (2020: £68 million).

Amounts owed by group undertakings includes a short-term loan of £1,166 million (2020: Nil), repayable on demand, to parent undertaking Hutchison 3G UK Holdings Limited, with interest receivable at a rate of 0.74%. Amounts owed by group undertakings also includes a short-term loan of £1,174 million (2020: £Nil), repayable on 31 December 2022, to TowerCo, with interest receivable at a rate of 0.85%. Other than these two short term loans, amounts owed by group undertakings are non-interest bearing, unsecured and repayable on demand. Included within this balance is a derivative foreign currency financial instrument to hedge against the Company's exposure to US Dollars for a US Dollar denominated other long-term payable. The financial instrument is recognised at fair value through profit and loss where changes in fair value are recognised in the Statement of Comprehensive Income. The fair value of the instrument as at the year-end was £26 million (2020: £26 million) and £0.1 million loss (2020: £2.9 million gain) was recognised in the Statement of Comprehensive Income during the year which fully offsets an equal and opposite gain (2020: equal and opposite loss) on the other long-term payable also recognised in the Statement of Comprehensive Income.

Contract assets are stated after provisions for impairment of £38 million (2020: £40 million).

Also included within contracts assets are contracts amounting to £65 million (2020: £65 million) which are expected to be settled in a period greater than 12 months but not exceeding 24 months.

Included within contract-related costs are costs amounting to £5 million (2020: £4 million) which are expected to be amortised in a period greater than 12 months but not exceeding 24 months. The amount of amortisation charged to the Statement of Comprehensive Income for the year was £48 million (2020: £19 million) and there was no impairment loss in relation to the cost capitalised.

The Company enters into asset sale agreements which result in the sale of certain contracts assets for which the Company is paid the total face value of the asset less an allowance to cover the credit and late payment risk.

20 Deferred tax assets

The provision for deferred tax consists of the following deferred tax assets:

	2021	2020
	£000	£000
Deferred tax asset due within 12 months	**38,411**	47,893
Deferred tax asset due after 12 months	**1,019,001**	798,976
Total deferred tax asset	**1,057,412**	846,869

Trade losses	**927,615**	713,306
Accelerated capital allowances	**178,425**	163,891
Other temporary differences	**(48,628)**	(30,328)
Total deferred tax asset	**1,057,412**	846,869

Deferred tax asset at the start of the year	**846,869**	797,566
Adjustment in respect of prior years	**(6,077)**	(3,734)
Increase in deferred tax asset due to change in tax rate	**243,387**	88,549
Decrease in deferred tax asset	**(26,767)**	(35,512)
Total deferred tax asset	**1,057,412**	846,869

20 Deferred tax assets (continued)

Deferred tax asset analysis	**Trade losses**	**Unclaimed capital allowances**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
At 1 January 2020	644,024	175,493	(21,951)	797,566
Charged to the Statement of Comprehensive Income (note 12)	68,860	(11,602)	(7,532)	49,726
Charged/(credited) to corporation tax liability	422	-	(845)	(423)
At 31 December 2020	713,306	163,891	(30,328)	846,869
Charged/(credited) to the Statement of Comprehensive Income (note 12)	213,887	14,534	(17,456)	210,965
Charged/(credited) to corporation tax liability	422	-	(844)	(422)
At 31 December 2021	**927,615**	**178,425**	**(48,628)**	**1,057,412**

Deferred tax assets and liabilities are offset where they relate to taxes levied by the same tax authority. Deferred tax liabilities totalling £57 million (2020: £37 million) have been offset against deferred tax assets.

Other temporary differences include items such as tax amortisation on 4G license and Research and Development Expenditure Credit (RDEC).

The net recognised deferred tax asset of £1,057 million at 31 December 2021 (2020: £847 million) relates to historical tax losses and temporary differences. The Company has an unrecognised deferred tax asset of £1 million (2020: £1 million) in respect of other losses and temporary differences. The deferred tax asset has been recognised to the extent that it is regarded as recoverable from future taxable profits.

The Company's corporation tax rate for the year ended 31 December 2021 is 19% (2020: 19%).

21 Creditors: amounts falling due within one year

	2021 £000	2020 £000
Trade creditors	**234,149**	299,157
Amounts owed to group undertakings	**1,145,350**	47,523
Other taxation and social security	**14,336**	13,912
Accruals and other creditors	**489,162**	614,321
Contract liabilities	**64,191**	59,220
Lease liabilities (Note 14)	**93,087**	90,606
	2,040,275	1,124,739

Amounts owed to group undertakings are trading loans, unsecured, non-interest bearing and repayable on demand, except a deposit agreement of £1.1 billion entered into on 30 December 2021 with fellow subsidiary undertaking, Hutchison 3G UK Finance Limited, which attracts an interest rate of 0.05% per annum and is repayable on demand at the option of the Company.

During the year, the amount classified as contract liabilities as at 31 December 2021 were recognised in turnover on satisfaction of related performance obligations.

22 Creditors: amounts falling due after more than one year

	2021 £000	2020 £000
Other payables	**84,444**	136,848
Lease liabilities (Note 14)	**638,072**	529,461
	722,516	666,309

Other payables represent amounts due to third parties, after more than one year, in respect of capital expenditure.

23 Provisions for liabilities

	Network restructuring provision	Asset retirement obligation	Total
	£000	£000	£000
At 1 January 2021	1,019	41,719	42,738
Additions	750	-	750
Discount accretion	24	903	927
Utilisation in the year	(911)	(6,400)	(7,311)
At 31 December 2021	**882**	**36,222**	**37,104**

Network restructuring provision

On 19 December 2007, the Company entered into an agreement with TMUK to share certain network assets. In connection with the network share arrangement, the Company committed to incurring network restructuring costs. In addition, the Company has obligations under leases for cell sites which are surplus to network share requirements. The provision for network restructuring represents the Company's best estimate of the present value of these costs.

Asset-retirement obligation

The Company has an obligation under the terms of its cell site and building leases to restore the sites and buildings to their original state on the relocation of the cell site equipment and vacation of buildings. The provision for asset retirement obligation represents the present value of the estimated future cash flows required to settle these obligations.

The utilisation during the year relates to the dilapidation provision for the closure of Maidenhead office with a remaining £500,000 is expected to be settled within 12 months.

Other than the Maidenhead office dilapidation provision, the expenditure relating to these asset retirement obligations will substantially be incurred over the next 5 to 10 years.

24 Called up share capital and share premium

	2021	2020
	£	£
Authorised, allotted and fully paid:		
201 (2020: 201) ordinary shares of £1 each	**201**	201

On 30 March 2015, 100 ordinary shares with aggregate nominal value of £100 were issued for cash at a value of £63,000,000 each, giving a share premium of £6.3 billion. On 30 June 2015, 100 ordinary shares with aggregate nominal value of £100 were issued for cash at a value of £53,570,495.14 each, giving a share premium of £5.4 billion. On 21 December 2021 the Company underwent a capital reduction by special resolution, reducing share premium by £10.7 billion and resulting in a corresponding increase in distributable reserves. The total share premium at 31 December 2021 was £1 billion (2020: £11.7 billion).

25 Capital and other commitments

At 31 December 2021, the Company had commitments of £218 million (2020: £101 million) for the purchase of handsets and related equipment with various handset manufacturers.

At 31 December 2021, the Company had contracted capital commitments of £271 million (2020: £88 million), with £106 million (2020: £60 million) being due within one year and £165 million (2020: £28 million) being due after more than one year. These capital commitments relate to the transformation of the Company's IT systems and the ongoing improvement and growth of the Company's mobile communications network.

26 Related party transactions

Although the Company has taken advantage of the exemption not to disclose details of transactions with key management personnel and CKHH Group companies there are some related parties that are not wholly owned by the CKHH Group, with which there were no material transactions.

During the year, the Company made no payment to DMSL (2020: no payment) for invoices raised for the arrangements explained in Note 17.

27 Post balance sheet events

In March 2022, the Competitions and Markets Authority ("CMA") has granted approval of the UK Transaction between CKHH Group and Cellnex Telecom, S.A. ("Cellnex") subject to Cellnex disposing of certain other assets to maintain competition in the market. Should Completion occur, the legal ownership of TowerCo will be passed to the Cellnex Group but the Company will continue to have operational use of its sites and assets under a master services agreement. As at the date of signing these accounts, no control of TowerCo has passed to Cellnex.

Following the conflict arising between Russia and Ukraine in March 2022, the Company removed roaming charges anywhere in Ukraine and charges associated with calls and texts from the UK to Ukraine will be credited back to customers' accounts. The Company has also announced a connectivity support package for refugees arriving in the UK comprising of a free 30-day preloaded Pay as You Go SIM card, which is available to any incoming refugees from the conflict in Ukraine, including unlimited domestic calls, text and data for use within the UK. These preloaded SIMs are available for free to all refugees from the conflict in Ukraine now in the UK via Three's 311 stores. Further, considering the government's recently announced sanctions, the Company had requested Chelsea Football Club temporarily suspend the Company's sponsorship of the club, including removal of the Three brand from shirts and around the stadium until further notice. Given the sale of Chelsea Football Club in May 2022, this temporary suspension has been removed and the commercial relationship with Chelsea has now been restored. The Company expects no material impact on the business due to the conflict.

28 Ultimate controlling party

Hutchison 3G UK Holdings Limited, whose principal activity is to act as a holding company, is the immediate controlling party of the Company and owns 100% of the shares and voting rights.

CKHH, a limited liability company, registered in the Cayman Islands and listed on The Stock Exchange of Hong Kong Limited, is the largest group to consolidate the financial statements of the Company, and is the Company's ultimate controlling party and owns, through Hutchison 3G UK Holdings Limited, 100% of the share capital and voting rights of the Company.

The smallest group to consolidate these financial statements is CK Hutchison Group Telecom Holdings Limited ("CKHGTH") which is the Company's intermediate holding company.

Copies of the consolidated financial statements of CKHH may be obtained from the Company Secretary at 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong or www.ckh.com.hk.

The consolidated financial statements of CKHGTH are available on www.ckhutchisontelecom.com.