Hutchison 3G UK Limited

Company Number 03885486

Annual Report and Financial Statements

For the Year Ended 31 December 2023

Hutchison 3G UK Limited

Registered Number	03885486
Directors	Victor T K Li Canning Fok Frank Sixt Dominic Lai (alternate to Victor T K Li) Edith Shih (alternate to Canning Fok) Elaine Carey Clemence Cheng David Dyson Robert Finnegan Christian Salbaing (alternate to Frank Sixt)
Independent Auditors	PricewaterhouseCoopers LLP 3 Forbury Place 23 Forbury Road Reading Berkshire RG1 3JH
Bankers	HSBC Bank plc 62-76 Park Street London SE1 9DZ
Registered Office	450 Longwater Avenue Green Park Reading Berkshire RG2 6GF

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Strategic Report for the year ended 31 December 2023

The directors present their Strategic Report on Hutchison 3G UK Limited (the "Company") for the year ended 31 December 2023.

(a) Business review and future developments

The Company is an indirect wholly owned subsidiary of the ultimate parent company, CK Hutchison Holdings Limited ("CKHH", 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 United Kingdom ("UK").

The net assets of the Company decreased to £6,568 million (2022: £6,614 million). Major movements include a decrease in debtors of £573 million driven by a decrease in group balances (note 19), a decrease in creditors falling due within one year of £495 million driven by a decrease in accruals and other creditors (note 21). During the year, the Company continued to invest in its network to support its long-term strategic aims.

The Company delivered an adjusted EBITDA of £526 million for the year ended 31 December 2023 (2022: £628 million). Revenue continued to grow in 2023 through the higher active customer base and margin-related initiatives largely offsetting cost increases, particularly through a full year of operating with the towers arrangement with Cellnex, higher energy costs and other items impacted by inflation.

Revenue has increased year on year, up 5% from £2,380 million in 2022 to £2,500 million in 2023, driven by growth in customer bases across SMARTY, Broadband and Business along with average rate increases across the Contract segments. The Wholesale segment continues to grow through the contribution from MVNO's and increased revenue from alternative messaging services.

Contract Voice (80% of total revenue – 2022: 83%) remains the primary consumer proposition, focusing on establishing long-term customer relationships through comprehensive airtime services. The Business proposition (3% of total revenue – 2022: 2%) offers tailored solutions for Small Office/Home Office ("SoHo") enterprises and Small and Medium-sized Enterprises ("SMEs"). This service mirrors the structure of the Contract Voice product while addressing specific business needs. Home Broadband (4% of total revenue – 2022: 2%) utilises wireless technology to provide an alternative to traditional fixed-line broadband services. This offering aims to meet evolving consumer connectivity needs in residential settings.

2023 costs were higher with a full year impact of service fees from Cellnex as part of the towers arrangement put in place at the end of 2022. Across other areas, Three has seen increasing inflationary pressures and the Company has aimed to manage costs as tightly as possible. The core areas of inflationary pressure are wages, energy, rents and device costs. We have introduced pay rises for much of our employee base: since H1 2022, the base salary for retail staff has increased by 9.7%, and for head office staff has increased by 7.4%. All staff members earning less than £30,000 also received a one-off payment of £500 to help them through the cost-of-living crisis. As well as our employees, we have been supporting vulnerable customers by setting up payment arrangements where necessary. We have created a social tariff on SMARTY which provides access to a £12/month plan with unlimited data, calls and texts, and launched superfast 5G for eligible households. As the 5G site rollout has progressed in 2023, costs have increased due to the growth in volume of sites. Furthermore, site rentals have seen inflationary impacts as has the cost of energy required to power sites and data centres.

The active customer base of the Company closed at 10.6 million at 31 December 2023 (2022: 10.3 million). The Mobile market continues to be competitive with many mobile network operators and mobile virtual network operators competing for share. Fixed Wireless Access is driving the growth in Broadband and is supported by the 5G network rollout. The Business segment has focused on driving growth in the small Business segment through our Telesales and Retail channels as well as building momentum in the medium sized business segment. The investment in its people, IT systems and the network earned the Three Business segment an award for "Best Network for Business" at the 2023 Mobile Industry Awards. The growth in the SMARTY brand has continued to repeat its success of previous years as areas of the market recognise the value of its proposition.

(a) Business review and future developments (continued)

The Three brand was relaunched two years ago, since then brand perceptions have improved, showing the strength of the brand messaging filtering through to customers. Three's 2023 marketing campaign of 'Life Needs a Big Network' campaign messaging focused on how phones can mean something different to everyone. Providing connectivity for more than 10 million customers, Three is aware how important its network is in facilitating life's moments. Together with the successful rebranding, the loyalty programme which launched at the same time continues to grow its customer engagement through meaningful rewards such as customers discounts, experiences, and tickets.

Investment in the network remains a key priority. We have progressed the rollout of our 5G network, and at the end of 2023 there were more than 4,600 live 5G sites, reaching 62% outdoor coverage. There was also a focus on investing in our 4G infrastructure, providing improved speeds and wide coverage for our customers. As well as increasing the network footprint, Three has continued to grow the mobile coverage across London Underground. The business continues to decommission 3G network technologies and this programme is on track to reach our target to switch off our 3G network by the end of 2024.

In 2023, Three received various recognitions for its 5G network: the UK's fastest 5G network by Ookla, highest 5G coverage of any MNO in the UK by Ofcom, and most data traffic in the UK by enders.

The Company's IT transformation programme deployment has completed the majority of its deployments in 2023. All customers have now migrated onto the new billing system's platform as of the end of the year. As part of the capabilities from the new platform, the Contract business continued to grow its device financing offerings to consumers, giving more choice and flexibility to customers. Further revenue growth opportunities are continuously being explored with faster to market capabilities and dynamic CRM tools. The focus will now also be on decommissioning the legacy IT estate to ensure the business is operating as efficiently as possible.

In November 2020, CK Hutchison Networks Europe Investments S.à r.l. ("LuxCo"), an indirect wholly owned subsidiary of CKHH and a fellow 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"). The UK Transaction was focused on unilateral sites of CK Hutchison Networks (UK) Limited ("TowerCo", a fellow subsidiary of the Company) and the economic benefit from, and the requirement to bear the costs towards, the Company's interests in UK tower assets either owned by the Company or in respect of which the Company has, from time to time, the right of use in the UK, being a subset of the shared sites in relation to Mobile Broadband Network Limited ("MBNL").

The above UK Transaction was completed in November 2022 through sale of the TowerCo to Cellnex and entry into economic benefits arrangements ("EEBA") with the Cellnex Group.

Following the dissolution of the MBNL joint venture in 2031, the Company will transfer legal title to a subset of the MBNL sites to Cellnex. Since consideration was received in advance as part of the EEBA, a liability has been recognised and presented as deferred consideration (See note 22: Creditors: amounts falling due after more than one year).

Further, in line with the Company's policy, management has assessed that the consideration received from the EEBA includes a significant financing component (financial liability in relation to the subset of the MBNL sites). This financial liability was estimated as a net present value of various cash flows under the terms of the EEBA and Services Agreement ("SA") between the Company and Cellnex until the point of the expected transfer of legal ownership of a subset of the MBNL sites to Cellnex discounted using the Company's incremental borrowing rate on the date of the transaction. Interest is charged against the Statement of Comprehensive Income until the end of the arrangement.

Strategic Report for the year ended 31 December 2023 (continued)

(a) Business review and future developments (continued)

In June 2023, CK Hutchison Group Telecom Holdings Limited ("CKHGTH"), the Company's intermediary holding company, and Vodafone Group Plc ("Vodafone") have entered into binding agreements in relation to a combination of their UK telecommunications businesses (the "Transaction"), which are subject to the fulfilment of certain conditions, as set out below. Following the closing of the Transaction, the combined business will be owned 51% by Vodafone and 49% by CKHGTH and it is expected that the merger of businesses will have substantial impact on the financial position and performance of the Company. As at the date of approval of these financial statements, the completion of the Transaction is subject to regulatory approvals and other customary closing conditions and is pending for completion. Further, as part of the final approvals, the directors will ensure that the new merged entity will have the appropriate funding in place. As such, the actual financial impact of the merger would only be reflected in the subsequent financial period following completion of the Transaction.

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	2023	2022 [5]	Variance %
Revenue	£2,500m	£2,380m	5%
Adjusted EBIT [4]	(£74m)	£127m	-158%
Adjusted EBITDA [4]	£526m	£628m	-16%
Registered customer base ('000)	12,576	13,083	-4%
- of which prepaid	3,418	4,460	-23%
- of which postpaid	9,158	8,623	6%
Active customer base ('000) [1]	10,614	10,304	3%
- of which prepaid	1,556	1,823	-15%
- of which postpaid	9,058	8,481	7%
Contract customers as a percentage of the total registered customer base	73%	66%	
Contract customers' contribution to the net customer service revenue base	89%	89%	
Active customers as a percentage of the total registered customer base	84%	79%	
Active contract customers as a percentage of the total contract registered customer base	99%	98%	
12-month trailing blended Average Revenue per Active User ("ARPU") [2]	£18.40	£18.83	
12-month trailing Net Average Margin per Active User ("Net AMPU") [3]			
- Prepaid	£5.70	£5.63	
- Postpaid	£13.31	£12.91	
- Blended	£12.05	£11.66	
Average number of employees (note 9)	4,813	4,595	
Employee turnover	4%	3%	

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. Adjusted EBITDA is considered to be an appropriate indicator of the Company's performance considering the structure and operating model of the Company. This is not an IFRS GAAP term.

Key performance indicators (continued)

Note 5: Please note that the 2022 KPIs have been restated to include FWA customer information as a result of an omission in the prior year but are now included in the current year's calculation. The inclusion of this customer information increases the prior year postpaid customer base (on a registered and active basis) by 315k and 314k customers respectively and has subsequent impacts on "12-month trailing blended Average Revenue per Active User ("ARPU")" and "Blended and Postpaid 12-month trailing Net Average Margin per Active User ("Net AMPU")" of 3p, 16p and 15p respectively and is not deemed material.

(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

Global economic conditions / Economic risks

Influences such as geopolitical conflicts and uncertainties surrounding future monetary and fiscal policies have led to a range of economic implications across our markets. The UK has experienced various economic impacts from the high inflationary period. The economic circumstances impact both consumers and business operations. Customers face pressures from higher rental and mortgage costs along with the general rise in prices which therefore could lead to inability to meet bill payments. The business faces inflationary increases in line with the higher inflation rates which in turn to a higher cost base.

Three have robust business processes to monitor and control risks that may arise from the macro economic impacts. To support customers Three offers payment arrangement plans for those that are experiencing difficulties to meet their bill payments. The SMARTY brand offers 'social tariffs' for those that qualify. To monitor and mitigate business wide impacts from the economic conditions the Executive leadership team are regularly briefed on the performance of the business including a number of iterations of financial forecasts. This foresight allows for strategic decisions to be made that manage the cost implications on Three.

Competition

Three faces significant competition in each of the segments in which it operates. Competition among providers of mobile and broadband services is expected to continue and may affect the prices chargeable for propositions. Three's marketing position also depends on effective marketing initiatives and its ability to anticipate and respond to various competitive factors affecting the industry. This includes new services, pricing strategies by competitors and changes in consumer preferences and economic, political and social conditions in the countries in which it operates. Any inability for Three to compete effectively, including in terms of pricing of services, acquisition of customers and retention of existing customers, as well as collectability of revenues, could decrease the revenue that Three receives.

Three adopts an operating model and a range of business processes to allow performance management across the many product categories offered to the market. Governance is in place across Commercial teams in conjunction with finance partnership to ensure external and internal factors are reviewed regularly to support proactive and reactive measures toward market conditions including regulatory pressures.

Regulations

The UK telecommunications market is highly regulated. Three is only permitted to provide telecommunications services and operate networks under spectrum licenses for mobile telecommunications. Some spectrum licenses have historically been issued for fixed terms and subsequently renewed and/or reauctioned. There can be no assurance, however, that any application for the renewal or participation in any auction of one or more of these licenses will be successful or granted. Governments and/or regulatory authorities may also impose auction rules and/or license conditions relating to national security, which could impact Three.

(b) Principal risks and uncertainties (continued)

Strategic Risks (continued)

Regulations (continued)

The UK government has implemented regulatory requirements and network operator obligations regarding network supplier, quality and coverage through the presence of Huawei equipment used in operating the network and the single rural network programme. Failure to meet these requirements could result in damage fines, penalties or other sanctions. Further to this, selling regulated products lends the business to compliance with the Financial Conduct Authority.

In addition, the UK mobile market is overseen by Ofcom, as a part of their governance Three is subject to price control regulation with respect to their wholesale mobile termination rates and contractual price rises, such price control regulation may impact costs and revenues and therefore could have a material adverse effect on Three's financial condition. Furthermore, any new regulatory initiatives or changes in legislation, regulation or government policy affecting Three, as well as decisions by regulatory authorities could have a material effect on Three's financial condition and results of operations.

Three employs an operating model to ensure there are clear accountabilities on the continuous engagement, review and compliance with regulatory bodies. This model ensures the business keeps informed about upcoming changes and ensures changes are assessed and implemented through the already existing governance frameworks. We continuously observe the external environment, collect insights to guide our decision-making, and proactively collaborate with policymakers, regulatory bodies, clients, and key stakeholders to identify mutually beneficial solutions. Specifically, at the beginning of 2023, Three has begun offering loans to customers for Devices. This proposition is regulated by the Financial Conduct Authority ("FCA"), various structures are in place across the business to ensure compliance ranging from Senior Managers Certified Regimes identified and implemented, governance in place to ensure performance monitoring, reporting to build and capture reporting obligations and the robust process to ensure new requirements from the FCA are reviewed, implemented, monitored and reported upon.

Technology

Failures in network and IT systems could result in significant impact to customers and suppliers.

An external cyber-attack, internal threat, or supplier security breach could lead to service disruptions or data breaches. Cyber risks are continually changing, influenced by economic, technological, and geopolitical factors. We expect threats to persist from current sources and evolve with new technologies like artificial intelligence ("AI") and quantum computing.

Three has robust network service and IT detection strategies which in turn alerts internal systems and processes of degradation, there are formalised structures in place to ensure priority is focused on remediating impacts. Three ensures compliance with our data protection standards, we regularly review how personal data is utilised across the organisation with the appropriate control measures in place. We are also refining our strategies for managing risks related to artificial intelligence. By scanning the horizon for emerging regulations, industry developments, and new technologies, we stay informed about potential impacts on our data risks, controls, and processes. Additionally, we offer training and tools on data protection and handling to equip our team with the knowledge needed to make informed, risk-aware decisions in their daily activities.

Supplier relationships

The telecommunications industry requires business from a range of suppliers across many sub industries and across many global regions. Various economic and geopolitical issues could lead to interruptions in our supply chain which in turn could impact the ability to implement strategic initiatives or deliver on operational obligations, leading to various issues but not limited to unavailable or delayed products and services, increased expenses, limited options and diminished network quality.

(c) Principal risks and uncertainties (continued)

Strategic Risks (continued)

Supplier relationships (continued)

The Three Executive team are continuously aware of the geopolitical landscape, allowing the business to address emerging issues and adhere to regulations, economic sanctions, and trade rulings. To minimise risk, various procurement strategies are deployed which could include securing multi-year agreements with essential suppliers, projected and pre-ordered inventory to account for longer lead times and continued optimising our network and device infrastructure logistics strategy.

Sustainability

Our sustainability strategy seeks to mitigate potential risks that the business may be exposed to if the strategy is not met. Failure to meet all goals of the strategy would leave us exposed to potential risks such as not being able to play our part in minimising the impacts of climate change, being unable to attract or retain a sufficiently diverse workforce and provide an inclusive workplace for all, being unable to deliver a network that provides a fast, secure, and reliable service for all including the provision of initiatives to address digital exclusion whilst not meeting our requirements to be a responsible business with ethical governance and leadership.

In 2022, Three carried out a materiality assessment where we engaged with a range of stakeholders to identify key sustainability focus areas, risks and opportunities for the Company. Subsequently, Three developed its first sustainability strategy, 'Sustainable Connections', to build on many positive environmental and social initiatives that already existed across the business. The strategy supports the CKHGTH Sustainability Goals and aligns with the CKHH Sustainability Framework. The Three Strategy focuses on five Goals: Take Action on Climate Change, Promote a Circular Economy, Create Great Places to Work, Create a Thriving Digital Economy, and, Operate Responsibly and with Integrity. In 2022, in support of the 'Take Action on Climate Change' Goal, CKHGTH set Science-Based Targets aligned to a 1.5 degree pathway which were approved by the Science Based Targets Initiative (SBTi). These targets commit CKHGTH to: reduce scope 1 and 2 emissions by 50% by 2030, versus a 2020 baseline; and reduce scope 3 emissions by 42% by 2030 versus a 2020 baseline. Three's emissions were included in the baseline carbon footprint (2020), and in 2023 we commenced a project to develop a detailed Three emissions reduction strategy to 2030 across all scopes to support the delivery of the Group target.

In support of this emissions reduction target, last year we carried out energy audits across our sites and identified a number of energy savings opportunities for implementation in 2024. During the year, Three continued to realise the energy savings from its investment in Ekkosense, an AI-enabled data centre cooling optimisation software. Ekkosense is a 3-time winner of industry awards in 2023 for its Special Contribution to Improving Energy Efficiency, Best ESG technology and Digital innovation of the year. In 2022, through the installation of Ekkosense, Three secured a 200kW cooling energy saving across four sites, leading to a 10-15% cooling energy saving in just ten weeks.

We updated our Supplier Code of Conduct in 2022 to include a focus on climate change and environmental protection. To increase transparency across our supply chain, we continued to roll out Ecovadis, a supplier assessment tool, which is expected to result in increased supplier engagement and opportunities to positively influence across our supply chain.

The Company is also subject to the Streamlined Energy and Carbon Reporting, which is included in the Directors' Report on pages 33-35, and Task Force on climate-related financial disclosures ("TCFD"), which is included in the Directors' Report on pages 25-33. 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.

(d) Principal risks and uncertainties (continued)

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.

Three has a series of projects underway within the organisation to ensure that it meets the obligations of the Telecoms Security Act as set out in the Act and the Code of Practice. The program spans activity from 2023 through to 2028 when the final compliance deadline is set. Funding for any necessary activity is assessed and planned over the lifetime of the program, with budget requests made/to be made for identified activity planned in each financial year.

The Designated Vendor Direction ("DVD") for Huawei came into legal effect on 13 October 2022. In summary, compliance requirements started from 14 April 2023 with subsequent dates phased for different Huawei components. Relevant requirements for Three:

- All equipment is compliant with the Government Risk Mitigation Strategy from 14 April 2023.
- All Huawei equipment is under support arrangements from 14 April 2023.
- Cap on the use of Huawei equipment of 35% in PCPs' 5G access networks, achieved by 31 July 2023.
- Cap of 35% of forecasted network traffic passing through Huawei equipment in PCPs' 5G access networks, to be measured over a year starting from 31 July 2023, achieved by early June 2024.
- No use of Huawei equipment in PCPs' Core Network, achieved by 31 December 2023.
- No use of Huawei equipment in high data rate intra-core and inter-operator transmission equipment, to be achieved by 31 December 2025.
- No Huawei equipment in 5G network, to be achieved by 31 December 2027.

Three has met compliance obligations that have passed and has plans to meet compliance obligations set out above.

The Company has engaged a second supplier, Ericsson, in respect of its 5G network to ensure full compliance with the restrictions. 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.

In 2022, the UK government imposed sanctions on dealing with certain entities and individuals connected to Russia. The Company continues to be in compliance with these regulations.

Amidst Israel – Hamas conflict, Three has no impact as the vast majority of the Amdocs team supporting Three is based outside of Israel and we do not foresee any challenge or risk for Amdocs to continue supporting Three as normal. We continue to monitor the situation.

(b) Principal risks and uncertainties (continued)

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 continuing to evolve the maturity of its governance and performance related metrics. The Company continues to implement improvements to its governance framework in order to strengthen due diligence and relationship management. This has mainly been achieved through greater simplification and clarity of processes, improved reporting and the introduction of automation where possible. This will include monitoring partners who support the sale of regulated products which introduces additional regulatory compliance requirements.

The Company has identified physical climate risks which are listed in the TCFD section below.

(c) 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.

(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.

(c) Financial risk management (continued)

(b) Credit risk (continued)

The Company is exposed to its customers defaulting on the payment of their debts. The Company mitigates this risk by performing Know Your Customer checks on all customers, Credit assessments on all contract customers prior to customer acceptance and Enhanced identity checks (including anti-money laundering) and a range of affordability checks on any loan sales as well as the transfer of credit risk to counterparties through sale of certain contract assets. No credit is given to prepaid customers.

(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.

All intercompany loans were transitioned to Sterling Overnight Index Average ("SONIA") from London Interbank Offered rate ("LIBOR") as at December 2022 and all agreements were executed to this effect in 2023.

(d) Investment risk

The Company has significant investments in its subsidiary undertakings. These investments are reviewed for impairment on an annual basis and 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.

(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 13-36 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 21-23 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 19-25 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 23-25 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 14-18 for Principle 1 through 3 of the Wates Codes of Corporate Governance.

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

- 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
27 September 2024

Hutchison 3G UK Limited

Directors' Report for the year ended 31 December 2023

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 2023.

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

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 21-23 for our commentary on Wates Corporate Governance for workforce.

Directors' Report for the year ended 31 December 2023 (continued)

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 10-11 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 current year (2022: £2,019 million).

Research and development

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

Post Balance sheet events

The Competition and Markets Authority (CMA) merger inquiry was launched on 26 January 2024 after the final Merger Notice was submitted by CKHH and Vodafone to the CMA. On 22 March 2024, the CMA declared the completion of Phase 1 of the statutory review process regarding the proposed merger with Vodafone. The CMA confirmed its decision to advance the Transaction to Phase 2 for a comprehensive investigation. Phase 2 began on 4 April 2024. On 3 June 2024, the CMA announced an extension of the Phase 2 decision deadline from 18 September 2024 to 12 October 2024. The Company notes that the review by the CMA is still underway. The CMA issued provisional findings and a notice of possible remedies on 13 September 2024. This is not a final decision, and the parties will continue to work with the CMA to secure approval. Based on our current expectation, the measures to be agreed to address the CMA's concerns are not expected to have a material adverse effect on the liquidity of MergeCo for a twelve-month period to 30 September 2025. The current statutory deadline for the CMA to issue its final report is 7 December 2024.

Following the Transaction's closing, the combined business will be 51% owned by Vodafone and 49% owned by CKHGTH. As of the approval date of these financial statements, the completion of the Transaction is pending regulatory approvals and other customary closing conditions.

Wates Corporate Governance Report

The Company is an indirect wholly owned subsidiary of CKHH, 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, entertainment and information services in the UK. From its inception, the Company as part of the CKHH Group has striven 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 2023, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has adopted the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles").

Wates Corporate Governance Report (continued)

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 customers' 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 3-5.

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.

Wates Corporate Governance Report (continued)

Principle 1 - Purpose and Leadership (continued)

The Board and ELT recognise the importance of their 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, employee feedback sessions as well as through external benchmarking via Qualtrics and Glassdoor.

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. The Company is subject to the Financial Conduct Authority ("FCA") regulations in respect of financial services activities carried out in relation to the provision of loans to enable device purchase. These regulations include the FCA's SMCR and the Conduct Rules for which the Company launched SMCR training in 2021, with training continuing to be in place for 2023. 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 2023, 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 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 as appropriate 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.

Wates Corporate Governance Report (continued)

Principle 2 - Board Composition (continued)

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 2023, the ELT comprised the Chief Executive Officer ("CEO") and seven 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, Managing Director of Business and the Chief Portfolio Officer.

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 risk 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.

Directors' Report for the year ended 31 December 2023 (continued)

Wates Corporate Governance Report (continued)

Principle 3 - Director Responsibilities (continued)

The CEO is responsible for the careful consideration of the structure, size, diversity profile and skills make-up of the ELT, and the progress in achieving the strategic needs and challenges of the organisation 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.

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 based at CKHH which 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 practices 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 identifying, assessing, managing, monitoring and reporting risks within the Company, whether strategic, financial, operational or compliance related. 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 directorate 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. The principal risks and uncertainties relevant to the management of the Company's strategy are in the Company's Strategic Report on pages 6-10.

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 assessed to show the Company's risk profile. 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.

Wates Corporate Governance Report (continued)

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.

The remuneration of the ELT and the directors of the Board is set by the CKHH Remuneration Committee (the "Rem Co"). Any changes to the existing remuneration structures and policies for employees including senior executives of the Company is agreed with the local remuneration committee at Three. Remuneration is annually reviewed in line with market changes, inflation and business performance, and annual pay increments for the Company are approved by the local remuneration committee at Three ahead of the proposals to Rem Co. Any other changes to pay due to changes in the terms of employment are approved by individuals of appropriate seniority within Three. All reward proposals take into consideration the impact on equal pay and internal equity (including by gender).

For senior executive management and the ELT, the Company benchmarks remuneration each January against the market using, Willis Towers Watson executive survey, 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.

The 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 2024 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.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

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.

Customers

The Company has 10.6 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 1.9 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.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

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 2027.

Suppliers

The Company works with around 750 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 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 always remain compliant 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 scheme which recognises employees displaying behaviours in line with our values. If employees have any concerns these can be raised via the Company's whistle-blowing process 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.

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 people in need. Other initiatives include: free subscription to the Headspace mindfulness app; Peppy, a digital health app that supports menopause; nudge, a financial education platform; and, additional leave to support life events like fertility issues, pregnancy loss. For office-based employees, the Company offers company-funded private medical insurance and for our retail employees, free access to Tastecard and quarterly Uber Credit vouchers. The Company has launched a green car scheme which enables employees to sacrifice part of their salary in exchange for a brand new electric or plug-in hybrid car and make a personal tax saving. The Company runs various wellbeing events, talks and courses throughout the year focused on mental, physical, social and financial health. It also promotes 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. The Company also utilises surveys to measure employee experience at key moments in the employee lifecycle or for key change projects i.e. joining or leaving or to gain insight about the future of work and flexible working. The insight from these surveys helps 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.

In 2020, the Company established its approach working with National Centre for Diversity ("NCD") through their Investors in Diversity programme, on several key areas to promote diversity, inclusion and belonging. The Company ran a couple of diagnostic surveys to identify areas of improvement against their set of standards, as well as benchmark best practise from other companies. The insights from the surveys helped create a roadmap for our Diversity, Inclusion and Belonging strategy and an action plan backed by tangible measures and reporting processes to keep making progress. In 2024, the Company evolved its strategy to take a holistic approach by bringing together diversity & equity, wellbeing and ways of working as key pillars to help create a culture of inclusion and belonging for employees.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Diversity, Inclusion & Belonging (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 the 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.

DIB training, launched in 2021, continued in 2023 for all employees and is completed annually. In 2022, the Company increased the collection of the voluntary personal data held regarding employees enhancing the quality of the data to include age, disability, gender, race, religion, gender identity, marital status, parental status and sexual orientation. The process was undertaken in compliance with data protection legislation and the Company's employee policies on data protection.

Community and environment

The Company believes every step it takes as a business needs to have a meaningful impact on its employees and society. The Company is here to provide connectivity, every day, for every customer, but is also incredibly proud of the charitable partnerships and campaigns it has formed – particularly with Samaritans. These are having a positive impact on the wider communities and the lives of its customers.

Some of the initiatives from this year included:

- Launch of a social tariff offering unlimited allowances for £12 per month through its MVNO SMARTY;
- We See You Network launched in partnership with Chelsea FC to recognise and celebrate unstoppable women in sport. The campaign won the 'Equality, Diversity & Inclusion Award' at the inaugural Women's Football Awards;
- The Company doubled its donation to 2 million GB data to connect 80,000 disadvantaged people through the Good Things Foundation over the next few years;
- Continued support of the Company's Reconnected programme which sees old devices refurbished and given to disadvantaged people with six months of unlimited network connectivity.

Samaritans

In 2021, the Company joined forces with Samaritans with the 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 this initiative will allow more people to access emotional support, 24/7, 365 days a year.

During 2023, the Company continued to support and work collaboratively with Samaritans, helping to amplify key calendar moments, including Mental Health Awareness Week, World Suicide Prevention Day and World Mental Health Day. In July, the Company was the headline sponsor of Samarathon, Samaritans' flagship fundraising event, for the third year where participants are encouraged to get active and run, jog or walk 26 miles over the month.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Samaritans (continued)

In 2023, the Company brought together its sponsorship of Chelsea FC and partnership with Samaritans to encourage football fans to open up about mental health through the #TalkMoreThanFootball campaign. The Company became a supporter of the Samaritans Training School, a project designed to make the charity's volunteer training more flexible and accessible, and in September, the Company and Samaritans created a guide for parents and students, with advice to encourage better conversations and maintain good lines of communication.

Discovery

The Company's Discovery first launched as a concept store before being rolled out nationwide in 2017. The Company's Discovery programme delivers digital training for local communities of all ages and abilities, no matter which network they are on.

The pioneering initiative reflects the Company's ongoing commitment to empower and educate local communities by teaching them essential digital skills, ensuring that mobile technology is accessible and enjoyable for everyone.

In April, as King Charles' coronation approached, the Company launched free "Still got I.T" sessions for senior citizens in all its stores across the nation. The free training took place on 14th May and was provided by the Company's Discovery team and in-store staff to help older people make the most of their smartphones.

During 2023, Discovery supported over 60,000 people right across the UK. Over 26,000 of these people received their Discovery sessions instore in 2023, whilst over 1,000 digital skills workshops have been presented to over 34,000 people in local communities.

Environment

The Company is committed to minimising its emissions and supporting positive environmental change within our ecosystem.

In 2023, we launched our first Sustainability Strategy 'Sustainable Connections'. https://www.three.co.uk/content/dam/threedigital/doc-assets/social-commitment/sustainable-connections-final.pdf. The strategy contains five Goals organised under three pillars: 'Our Planet', 'Our People' and 'Our Business'.

Wates Corporate Governance Report (continued)

Principle 6 - Stakeholder Relationships and Engagement (continued)

Environment (continued)

The 'Our Planet' pillar Goals are:

- Take Action on Climate Change
- Promote a Circular Economy

In 2022, CKHGHT set science-based targets aimed at reducing greenhouse gas emission in alignment with limiting global warming to 1.5 degree, these targets are verified by the Science-Based Targets initiative. The Company's emissions were included in the baseline carbon footprint (2020), and in 2023 we commenced a project to develop a detailed Company emissions reduction strategy to 2030 across all scopes to support the delivery of the Group target.

To demonstrate our commitment to embedding environmental best practice, we were delighted to achieve ISO 14001 certification in 2023 in recognition of our environmental management system. We also introduced a Green Cars programme giving employees the option to buy an electric car through a salary sacrifice scheme. The programme generated huge interest and we achieved our three-year take-up target in year 1.

To increase transparency across its supply chain, the Company continued to roll out Ecovadis, a supplier assessment tool, which is expected to result in increased supplier engagement and opportunities to positively influence across its supply chain.

Task Force on climate-related financial disclosures (TCFD) regulation

Overview

The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to develop consistent climate-related financial risk disclosures in order to provide information to stakeholders for use by investors, banks and companies.

In 2022, the UK government introduced legislation requiring certain UK entities to begin reporting in line with TCFD. Three is captured by these specific requirements, with the first reporting period being 1 January – 31 December 2023 as a result of the Department for Business, Energy & Industrial Strategy (BEIS) issued guidance.

TCFD, or Task Force on Climate-related Financial Disclosures is a framework that provides guidance to help companies disclose climate-related risks and opportunities. As a result of this guidance, TCFD will outline how each business mitigates risks and maximises opportunities and more importantly is transparent about the way in which they are governed. Ultimately, financial markets, consumer, shareholders and stakeholders require clear, comprehensive and high-quality information on the impacts of climate change on the business. In line with The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, this is Three's reporting to disclose greenhouse gas emissions, energy consumption and energy efficiency actions.

Directors' Report for the year ended 31 December 2023 (continued)

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Climate related risks assessment

There are four pillars on which disclosures are recommended in order to comply with TCFDs regulations.

TCFD Recommendation 1 – Governance – Disclose the organisation's governance around climate related risks and opportunities.

Recommended disclosures for Governance

- Describe the board's oversight of climate related risks and opportunities.
- Describe management's role in assessing and managing the climate related risks and opportunities.

TCFD Recommendation 2 – Risk management – Disclose how the organisation identifies, assesses and manages climate related risk.

Recommended disclosures for Risk management

- Describe the organisation's processes for identifying and assessing climate related risks.
- Describe the organisation's process for managing climate related risks.
- Describe how processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management.

TCFD Recommendation 3 – Strategy – Disclose the actual and potential impacts of climate related risks and opportunities on the organisation's business, strategy and financial planning where such information Is material.

Recommended disclosures for Strategy

- Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.
- Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning.
- Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios including a 2°C or lower scenario.

TCFD Recommendation 4 – Metrics and targets – Disclose the metrics and targets used to assess and manage relevant climate related risk and opportunities where such information is material.

Recommended disclosures for metrics and targets

- Describe the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.
- Describe scope 1, scope 2 and if appropriate scope 3 greenhouse gas (GHG) emissions and the related risks.
- Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Governance

Sustainability at CK Hutchison Group Telecoms level is overseen by the Policy Board, which includes the CEOs from each operating company, with Robert Finnegan, CEO Three UK and Ireland representing the UK Business. Other members include Mr Frank Sixt (CK Hutchison Holdings Group Co-Managing Director and Group Finance Director, and CK Hutchison Group Telecom Group Finance Director). This ensures that sustainability strategies are directed by the most senior level of management, and with a direct link to the overall approach of CKHH.

At an operational level there is a CK Hutchison Group Telecoms Sustainability and Climate Change Network (the "Network"), comprised of sustainability leads from each operating company, with direct responsibility for developing strategies and driving initiatives which bring into effect our sustainability ambitions. The Three UK and Ireland Sustainability Manager represents Three at this forum.

This Network sets up individual project working groups where it makes sense to collaborate on specific targeted outcomes, such as a focus on enhancing the way we collect and measure our scope 3 footprint across the Group, and our decarbonisation plans.

Sustainability sits within the People Directorate within Three. The Chief People Officer is the Executive sponsor for sustainability, supported by a business manager who sits on the people leadership team with responsibility for overseeing sustainability across Three. The business manager in turn is supported by a full-time sustainability manager who manages the day-to-day implementation of Sustainable Connections, the Three sustainability strategy. The strategy, and its associated targets was approved by the Three Executive Leadership Team in December 2022.

The implementation of the Sustainable Connections strategy is governed by a Sustainability Committee comprising representatives from across the business. The committee is mandated to meet at least quarterly and is chaired by the People Team Business Manager, who has delegated responsibility from the Chief People Officer. 'Take Action on Climate Change' is one of the Three sustainability strategy goals, and climate action is a core focus of the sustainability committee. Responsibilities of the committee include monitoring and reporting on our progress towards our sustainability strategy targets, Three's contribution towards CKHGTH's science-based targets goals and longer-term path to Net Zero, whilst also ensuring we are meeting our broader social and environmental commitments. A subset of committee members participated in the climate risks and opportunities workshops that took place in preparation for this publication in 2023. The broader committee reviewed the defined risks and opportunities and financial impacts prior to finalisation (February 2024).

Key sustainability risks and opportunities are escalated by the People team Business Manager to the Chief People Officer and up to the Executive Leadership Team.

At Three, we are committed to minimising our emissions and supporting positive environmental change within our own ecosystem. In 2022, our parent company, CKHGTH set science based targets aligned to a 1.5°C pathway, verified by the Science-Based Targets initiative. Three's emissions were included in the baseline carbon footprint that took place in 2020 and we are continuing to deliver and develop detailed emissions reduction strategies to 2030 across all scopes to support the delivery of the Group target.

Energy is a key influence in Three achieving its sustainability goals and consequently the Chief Technical Officer (CTO) is a key stakeholder in ensuring we are energy efficient and sourcing energy from sustainable sources across all of our network sites and datacentres, as well as building resilience across our assets to minimise disruption from climate related events.

Three undertake 3 strategic and financial planning cycles a year. As part of this cycle, assessments are made on any arising risks or issues that may require remedial action, the businesses current position against its strategic objectives as well as deriving plans for initiatives to further support Three's sustainability credentials.

Directors' Report for the year ended 31 December 2023 (continued)

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Governance (continued)

Three Governance	Cadence & Reporting
CKHGTH Policy Board Membership includes members of the CKHGTH Board, CKHGTH Sustainability Committee and includes Three CEO, as well as Mr. Frank Sixt (CK Hutchison Holdings Group Co-Managing Director and Group Finance Director, and CK Hutchison Group Telecom Group Finance Director). This composition ensures that sustainability strategies are directed by the most senior level of management, and with a direct link to the overall approach of CKHH.	The board is responsible for approving the CKHGTH sustainability strategy, key sustainability projects, and public reporting.
CKHGTH Sustainability and Climate Change Network Comprises of sustainability leads from each operating company, with direct responsibility for developing strategies and driving initiatives which bring into effect our sustainability ambitions. This Network sets up individual project working groups where it makes sense to collaborate on specific targeted outcomes, such as our focus on enhancing the way we collect and measure our scope 3 footprint, and our decarbonisation plans.	Meet quarterly to share best practice, opportunities and risks associated to sustainability strategy.
Three UK Sponsor The Chief People Officer is appointed to oversee and drive commitment to the sustainability strategy and for integrating sustainability principles into the core business strategy with the ELT.	Sustainability is a key focus within the Priority Program, with updates provided quarterly by the CEO to the entire business and monthly performance dashboards tracking progress towards annual targets.
Three UK Sustainability Committee Representation across all functions and responsible for driving collaboration and progress on sustainability strategy including climate related strategy, risks and opportunities. This group is pivotal in collating data points to feed into CKHGTH, CKHH and business quarterly reporting. Members of the committee are subject matter experts, with job description underpinned by an objective equating to 5% of individual annual performance.	The committee, chaired by the People & Property Business Manager, coordinates monthly actions, tracks initiative progress, and measures performance. It is supported by a dedicated SHP site containing all relevant documentation and offers fully documented guidance on roles and responsibilities, including requirements for annual CKHGTH reporting.
Sustainability Manager Overseeing all sustainability initiatives, collaborating with various functions, and driving continuous improvement to aligned to the sustainability strategy.	This role includes comprehensive documentation of responsibilities and the requirements for CKHGTH reporting.

Hutchison 3G UK Limited

Directors' Report for the year ended 31 December 2023 (continued)

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Strategy

Three recognises that physical and transition climate related risks and opportunities have the potential to impact the financial position of the business in the medium and long term.

As a subsidiary of CKHGTH, Three has adopted the scenarios developed by the CKHGTH Climate Action Working Group to evaluate climate-related risks and opportunities, focusing on those representing the widest range of uncertainties. This evaluation aims to assess the resilience of the business, as outlined in the table below.

Three's climate scenarios

Net Zero (Orderly Transition)	Delayed Transition (Disorderly)	Business as usual
1.5°C	2°C	>3°C
An ambitious scenario that limits global warming to 1.5°C through stringent climate policies introduced immediately and innovation reaching net zero CO_2 emissions around 2050. There is an emphasis on decarbonising the electricity supply, increasing electricity use, increasing energy efficiency and developing new technologies to tackle hard-to-abate emissions Transition risks are high due to higher emissions costs and changes in business and consumer preferences. Physical risks are low.	Assumes global annual emissions do not decrease until 2030. Strong policies are then introduced suddenly to limit warming to below 2°C. There is material short term macroeconomic disruption, affecting the whole economy but particularly concentrated in carbon intensive sectors. Transition risks and carbon prices are higher than in the net-zero scenario. Emissions exceed the carbon budget temporarily then decline rapidly after 2030 to ensure a 67% chance of limiting global warming to <2°C.	Assumes that only currently implemented policies are preserved, leading to high physical risks. Emissions will grow until 2080 leading to about 3°C of warming and severe physical risks including heatwaves, flooding and irreversible changes like higher sea level rise. Physical risks to the economy could result from disruption to ecosystems, health, infrastructure and supply chains, potentially leading to displacement of people and economic instability.

Climate-related risks and opportunities represent potential impacts to the business, as such, assessments have been made to assess them under 3 categories: Physical risks, transition risks and opportunities, definitions of what these are for Three are outlined below:

<u>**Physical risks**</u>: risk of damage to key infrastructure that could have a detrimental impact on the business, to such an extent that the damage impacts on Three's ability to provide connectivity services to its customers. This also includes any detrimental impact on Three's ability to sell or service customers.

Directors' Report for the year ended 31 December 2023 (continued)

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Strategy (continued)

Transition risks: Three areas of risk have been determined under the category of transition risks, namely:

- Increased cost of carbon due to regulatory requirements: This stems from the rising costs of decarbonisation due to evolving regulations such as carbon pricing. This includes both direct and indirect taxes (e.g., CBAM for imports into the EU), which drive up the costs of internal operations and across supply chains (including leases and materials, for example).
- Increased costs of energy as a consequence of variable wholesale energy prices: Higher energy costs are due to the increasing prices of energy and/or renewable energy certificates, arising from increased demand and limited availability.
- Customer preferences shifting away from companies with lower climate performance: Changing customer preferences and priorities mean that an approach to climate change seen as insufficient (including the failure to meet public commitments, e.g., net zero by 2050) will impact Three's social license to operate. This could result in a loss of market share to competitors demonstrating stronger action.

Opportunities: Two areas of opportunity have been identified:

- Reduced energy cost from energy efficiency: Transitioning to more energy efficient systems will reduce energy cost.
- Customer preferences shifting to favour companies with better climate performance: Demonstrating strong action to reduce GHG emissions and meet reduction targets set, in relation to peers, will allow CKHGTH to benefit from customer preference by helping win new customers and maintaining existing customer base, along with the potential for increased revenue from innovation of sustainability related products.

All risks and opportunities have been assessed over the short term (by 2030), mid term (by 2040) and long term (by 2050).

Hutchison 3G UK Limited

Directors' Report for the year ended 31 December 2023 (continued)

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Strategy (continued)

Assessment of climate related risks and opportunities

Category	Risk Category	Description	Scenario	2030	2040	2050
Physical	Flooding	Increased intensity, duration and frequency of flooding	Net Zero	○	○	○
			Delayed Transition	○	○	○
			Business as usual	○	●	●
	Heatwave	Increased intensity, duration and frequency of heatwaves	Net Zero	○	○	○
			Delayed Transition	○	○	○
			Business as usual	○	○	○
	Cyclones	Increased intensity, duration and frequency of cyclones	Net Zero	○	●	●
			Delayed Transition	○	●	●
			Business as usual	○	●	●
Transition	Cost of Carbon	Increased cost of carbon due to regulatory requirements	Net Zero	●	●	○
			Delayed Transition	●	●	○
			Business as usual	○	○	○
	Energy	Increased costs of energy	Net Zero	○	○	○
			Delayed Transition	○	○	○
			Business as usual	○	○	○
	Customer Preference	Customer preferences shifting away from companies with lower climate performance	Net Zero	●	●	●
			Delayed Transition	○	●	●
			Business as usual	○	○	○
Opportunities	Energy efficiency	Reduced energy cost from energy efficiency and reliance on renewable energy sources	Net Zero	●	●	●
			Delayed Transition	●	●	●
			Business as usual	●	●	●
	Customer Preference	Customer preferences shifting to favour companies with better climate performance	Net Zero	●	○	○
			Delayed Transition	●	○	○
			Business as usual	○	●	●

Key:

Risks	Minor	0.5% - 1% of revenue
	Moderate	1% - 2% of revenue
	Major	2% - 3% of revenue
	Extreme	> 3% of revenue
Opportunities	Minor	0.5% - 1% of revenue
	Moderate	1% - 2% of revenue
	Major	2% - 3% of revenue
	Extreme	> 3% of revenue

Note: The revenue reference point is an approximation of impact on the business, as some of the risks will impact revenue. The revenue projection is based on the assumption that it will grow in line with the economy's GDP growth moving forward.

Risk Management

Three adopts an Enterprise Risk Management framework which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework. The framework sets out how Three identifies, assesses, manages, monitors and reports its key or principal risks (including climate related risks) within strategic, operational, financial and compliance categories.

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Risk Management (continued)

The business, as the "first line", is responsible for its risks and opportunities and the ELT have overall responsibility and oversight of those risks. The Enterprise Risk Management ("ERM") team, as a "second line" function, own the Enterprise Risk Management Framework ("ERMF") methodology and provide training and support to the business to identify, assess, manage, monitor and report on principal risks in line with the ERMF.

Each functional area (or "Directorate") within the organisation identifies their principal risks that could impact on the businesses ability to achieve its strategic, operational or financial objectives. These risks are assessed against a scoring matrix which is aligned to the principles set out by CKHGTH, weighing up the potential business impacts (ranging from 1 "minimal" to 5 "extreme") against the likelihood of risks materialising. These risks are managed or mitigated via various control activities and where necessary, a further course of action with deliverables and timelines may be established in order to reduce the exposure of the business to that risk and bring it towards its target rating.

Governance forums are in place in each Directorate to monitor risk and control activities and progress against action plans. Principal risks are overseen (and where necessary escalated) by Risk Sponsors, who are appointed by and represent the ELT.

Formal reporting of Principal risks, as confirmed by the ELT, takes place twice a year to the Group Audit Committee who provide input as appropriate to ensure effective risk management.

Three's approach to Enterprise Risk Management and internal control:

Identify – New risks are identified within the Directorate meetings with broader updates to key risk registers and control assessments as part of the Group reporting process. Each **Directorate** within the business is required to:

- Identify key risks that could affect the achievement of business objectives.
- Hold individual directorate risk and review meetings to flag and identify risk
- Record their key risks; *controls and mitigating actions plans on a register*
- Identify their business processes and record control assessment

Assess – Risks are assessed using the risk scoring matrix adapted from Group. The risk score **(impact x likelihood)** determines the risk rating which identifies the highest priority risks, driving the level of mitigation. Where risk exposure is judged to be in the red category, directorates are required to identify time boxed action plans to reduce exposure.

Manage - Manage Each directorate has a **Risk Sponsor** who is nominated by their ELT member to oversee risk management & control process in their Directorate.

The Risk Sponsor provides regular updates to their ELT member & leadership teams of key risks, mitigation plans and progress on action. Twice a year, each ELT member formally signs off on the adequacy and completeness of their Directorate risk registers, control assessments, risk events and audit items.

Monitor - Mitigating actions & progress are tracked through Directorate governance forums. Directorate risk registers are reviewed periodically to consider:

- Whether key risks are adequately covered, and suitable mitigation plans continue to be in place
- Adequacy of existing controls & progress on mitigation actions
- Re-assessment of risks following completion of planned mitigation activity

Directors' Report for the year ended 31 December 2023 (continued)

Task Force on climate-related financial disclosures (TCFD) regulation (continued)

Risk Management (continued)

Report - A monthly **Risk & Compliance Management Board** provides oversight and serves as an escalation platform for significant risks, facilitating the efficient management of risks spanning multiple directorates. Attendance at this meeting includes all Risk Sponsors, with Senior Leaders and Subject Matter Experts invited as necessary.

The formal reporting of Enterprise Level risks and controls to the ELT occurs biannually, triggered by Group reporting. This reporting commences upon each ELT member's confirmation of the adequacy and completeness of their respective Directorate risk registers.

Metrics and Targets

As part of the wider CKHGTH group, Three is committed to delivering against our internal 'Sustainable Connections' strategy but also to deliver and continue to develop emissions reduction initiatives to support the CKHGTH science-based targets.

The CKHGTH Science-based targets are as follows:

- Reduce absolute Scope 1 and 2 GHG emissions by 50% by 2030, versus a 2020 baseline
- Reduce absolute Scope 3 GHG emissions by 42% by 2030 versus a 2020 baseline

In addition to the above, there is a formal CKHGTH commitment, submitted to the SBTi to set net-zero targets that are aligned with a 1.5°C pathway.

More specifically, initiatives currently being undertaken by Three to support our 'Sustainable Connections' strategy are as follows:

- Optimisation of cooling within data centres.
- Energy Reduction focus to result in lower business wide energy consumption.
- Focus on procuring renewable energy for all directly-procured energy. Continued rollout of 5G technology resulting in the decommissioning of 3G sites to maximise higher spec but more energy efficiency technology alongside aligning to SDG 9- Industry, Innovation and Infrastructure.
- Site consolidation: Decommissioning plan for network sites to be replaced with higher-spec more energy efficient technology.
- Digital Inclusion: Three reconnected programme – A programme where people can donate their unwanted devices to people in need across the UK to help disadvantaged people get connected, with 6 months Unlimited data, calls, and texts on Three.
- Digital Inclusion: Discovery programme offering digital skills and capabilities training instore. Three's Discovery programme delivers digital training for local communities of all ages and abilities, no matter what network they are on.
- Supply Chain Transparency: Improvements to supply chain engagement to understand the emissions profile of our suppliers and also to understand broader social and environmental risks such as pollution, modern slavery or child labour within our supply chain. Target: 95% of our supply chain spend to be covered by a supply-chain transparency programme and Eco SIM rollout.
- Circular Economy: Three Recycle Trade In programme – customers trade in their old device for reuse/recycle.
- Business Travel reduction: Target to reduce emissions from business travel by 25% by 2030 against a H2 2022 baseline.

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.

Streamlined Energy and Carbon Reporting (continued)

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, for example, company vehicle fleets, in addition to fugitive refrigerant gases. Scope 2 consumption and emissions cover indirect emissions relating to the consumption of purchased electricity in day-to-day business operations. Scope 3 consumption and emissions cover 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 (tCO2e) figures for energy supplies reportable by the Company are as follows:

Utility and Scope	2023 Consumption (kWh)	2023 Consumption (tCO2e)	2022 Consumption (kWh)	2022 Consumption (tCO2e)
Grid-Supplied Electricity (Scope 2)	456,122,211	94,450.94	409,152,621	79,121.93
Gaseous and other fuels (Scope 1)	2,447,663	463.23	2,104,808	394.66
Mobile Combustion (Scope 1)	6,856,207	1,638.05	5,386,712	1,297.74
Mobile Combustion (Scope 3)	1,182,613	272.72	1,346,985	316.37
Refrigerants (Scope 1)	-	160.63	-	223.26
Total	466,608,694	96,985.57	417,991,126	81,353.96

Notwithstanding the overall increase in energy usage (kWh), the intensity ratio per petabyte (tCO2e/PB data) has decreased due to improved efficiency measures, as the higher amounts of data processed by Three (petabyte data) have resulted in a lower carbon footprint per unit of data. There was an uplift in 2023 MBNL Scope 2 grid supplied electricity usage mainly driven by 4G/5G site activations under the following deployment programmes: Streetworks, Shared Rural Network and Buy-In. Scope 2 grid supplied electricity H3G usage decreased from 2022 to 2023 due to a combination of the following factors. The Empire Programme, which took place over 2021 and 2022, consolidated two offices, Star House and GBM, into one office in Reading. The Glasgow office was reduced from two floors to one in October 2022, and the Wokingham warehouse was closed over a period of months in 2023. Additionally, a programme called Ekkosense was installed at four of the five data centres in October 2022 which optimised heating and cooling efficiency.

An intensity metric of tCO2e 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. Market-based intensity metrics were not previously stated in prior year reporting.

	Location-based		Market-based	
Intensity Metric	2023	2022	2023	2022
tCO2e / PB data	31.45	35.24	23.35	n/a

Streamlined Energy and Carbon Reporting (continued)

Energy Efficiency Improvements

The Company's parent has launched a sustainability strategy that aligns with five core sustainability framework pillars, meeting a number of the UN Sustainable Development Goals ("SDGs"). This focusses not only on the understanding and mitigation of carbon emissions of the business, but also on the sustainable use of resources in operations, and the creation of pleasant workplaces.

The Company has continued efforts to improve the efficiency of lighting within its office spaces. This has taken the form of lighting replacements of fluorescent lighting to LED across the business. To further support the efficiency of installed plants through the portfolio, the Company has been undertaking reviews of the operational timings of lighting and screen control systems within the two head office spaces. The business will continue to monitor the effectiveness of these strategies on emissions at these sites, and if successful will look to roll this out more widely where possible.

Further sustainability initiatives are discussed under Strategic Risks on Page 8 of the Strategic Report.

Reporting Methodology

Scope 1, 2 and 3 consumption and CO2e emission data has been developed and calculated using the GHG Protocol – A Corporate Accounting and Reporting Standard (World Resources Institute and World Business Council for Sustainable Development, 2004); Greenhouse Gas Protocol – Scope 2 Guidance (World Resources Institute, 2015); ISO 14064-1 and ISO 14064-2 (ISO, 2018; ISO, 2019); Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance (HM Government, 2019).

Government Emissions Factor Database 2023 version 1 has been used, utilising the published kWh gross calorific value (CV) and kgCO2e emissions factors relevant for the reporting year 1 January 2023 to 31 December 2023.

All consumption data for the Company was complete for the reporting year. Therefore, no estimations were required.

Market based emissions were calculated utilising the application of supplier specific emissions factors and REGO certificates confirming renewable energy procurement and consumption. Where verifiable evidence of renewable generation was not available for the associated consumption, or the supply is known to not be a renewable supply, a residual emissions factor was applied to the remaining electricity reported.

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 law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with 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;

Directors' Report for the year ended 31 December 2023 (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

- 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' confirmations

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

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

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
27 September 2024

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 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2023; the Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 6 Operating costs, we have provided no non-audit services to the Company in the period under audit.

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 audit of 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 2023 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. 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.
- Challenging significant accounting assumptions and judgements individually and collectively for indications of management bias.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any).
- 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 2024

Hutchison 3G UK Limited

Statement of Comprehensive Income for the Year Ended 31 December 2023

	Note	2023 £000	2022 £000
Revenue	4	**2,500,497**	2,380,253
Other operating income	5	**5,437**	4,589
Operating costs	6	**(2,579,517)**	(2,290,198)
Operating (loss)/profit		**(73,583)**	94,644
Interest receivable and similar income	10	**6,304**	17,698
Interest payable and similar expenses	11	**(75,425)**	(26,210)
(Loss)/Profit before taxation		**(142,704)**	86,132
Tax on (loss)/profit	12	**96,406**	72,325
(Loss)/Profit for the financial year		**(46,298)**	158,457
Other comprehensive income		**-**	-
Total comprehensive (losses)/income		**(46,298)**	158,457

The results relate to activities which are continuing.

The notes on pages 44 to 78 form an integral part of the financial statements.

Hutchison 3G UK Limited

Registered number 03885486

Statement of Financial Position as at 31 December 2023

	Note	2023 £000	2022 £000
Fixed assets			
Intangible assets	13	**4,413,185**	4,452,754
Right-of-use assets	14	**664,030**	696,840
Tangible assets	15	**1,723,375**	1,714,121
Investments – shares in subsidiaries	16	**292,519**	292,519
Investments – participating interests	17	-	-
		7,093,109	7,156,234
Current assets			
Stocks	18	**31,855**	62,619
Debtors *(including £210m (2022: £64m) due after one year)*	19	**1,743,328**	2,315,836
Deferred tax asset	20	**1,388,930**	1,295,267
Cash at bank and in hand		**44,829**	20,759
		3,208,942	3,694,481
Creditors: amounts falling due within one year	21	**(1,106,106)**	(1,600,663)
Net current assets		**2,102,836**	2,093,818
Total assets less current liabilities		**9,195,945**	9,250,052
Creditors: amounts falling due after more than one year	22	**(2,580,422)**	(2,570,842)
Provisions for liabilities	23	**(47,688)**	(65,077)
Net assets		**6,567,835**	6,614,133
Capital and reserves			
Called up share capital	24	-	-
Share premium	24	**1,000,000**	1,000,000
Merger reserve		**(36,158)**	(36,158)
Accumulated profits		**5,603,993**	5,650,291
Total shareholders' funds		**6,567,835**	6,614,133

The notes on pages 44 to 78 form an integral part of the financial statements.

The financial statements on pages 41 to 78 were approved by the Board of Directors on 17 September 2024 and were signed on its behalf by:

Robert Finnegan
Director
27 September 2024

Hutchison 3G UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2023

	Note	Called-up share capital £000	Share premium £000	Merger reserve £000	Accumulated Profits £000	Total shareholders' funds £000
At 1 January 2022		-	1,000,000	(36,158)	7,510,586	8,474,428
Profit for the financial year		-	-	-	158,457	158,457
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	158,457	158,457
Dividend paid	24	-	-	-	(2,018,752)	(2,018,752)
At 31 December 2022		-	1,000,000	(36,158)	5,650,291	6,614,133
Loss for the financial year		-	-	-	(46,298)	(46,298)
Other comprehensive income		-	-	-	-	-
Total comprehensive losses		-	-	-	(46,298)	(46,298)
At 31 December 2023		**-**	**1,000,000**	**(36,158)**	**5,603,993**	**6,567,835**

1 **General information**

Hutchison 3G UK Limited (the "Company") is a private limited company limited by shares, incorporated and domiciled in the United Kingdom ("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 **Material 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 on www.ckh.com.hk.

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.

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 29 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 Material 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 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.

The financial statements have been prepared on the going concern basis as the Directors continue to have a reasonable expectation that the Company has adequate resources to continue in operation for a period of at least 12 months from the date of approval of these financial statements. In making their assessment of the Company's ability to continue as a going concern, the Directors have considered the factors as noted below.

CK Hutchison Holdings Limited ("CKHH"), Brilliant Design Limited ("Hutchison"), CK Hutchison Group Telecom Holdings Limited ("CKHGTH"), Vodafone International Operations Limited ("Vodafone"), Vodafone Group Plc ("Vodafone TopCo", together with its subsidiaries, the "Vodafone Group"), and Vodafone UK Trading Holdings Limited ("MergeCo") entered into a contribution agreement on 14 June 2023 (the "Contribution Agreement"), pursuant to which the parties have conditionally agreed on the transaction to combine Vodafone's and Hutchison's respective telecommunications operations in the UK into MergeCo. Immediately following the closing of the transactions under the Contribution Agreement, the issued share capital of MergeCo will be owned 51% by Vodafone and 49% by Hutchison.

The Directors are satisfied that, at the time of approving these financial statements, it is appropriate to adopt the going concern basis. For the purposes of making their assessment of the Company's ability to continue as a going concern, the Directors have considered that the proposed merger of the entities constituting Vodafone's telecommunications operations in the UK (the "Vodafone UK Business") and the entities constituting Hutchison's telecommunications operations in the UK (the "Three UK Business") on which the Company forms a part ("the Merger") is expected to complete in the period prior to 30 September 2025 ("the going concern period"). As at the date of approval of these financial statements, the completion of the Merger is subject to regulatory approvals and other customary closing conditions and is pending for completion.

As such, in forming their view on the going concern basis of the Company, the Directors have considered two scenarios, one, where completion of the Merger does not occur within the going concern period, and both the Vodafone UK Business and the Company continue to operate on a standalone basis (the "Standalone Scenario"), and two, where the Merger completes in the going concern period (the "Merger Scenario").

2 Material accounting policies (continued)

(a) Basis of preparation (continued)

Standalone Scenario

In the Standalone Scenario, the Directors have considered the liquidity needs and resources required to continue in operation through the going concern period against the financial performance and position of the Company in addition to the cashflow forecasts through to 30 September 2025, and concluded that the going concern basis is appropriate.

In addition to the above, CKHGTH has confirmed its continued support to the Company to the extent that financing is not otherwise available, for the period that the Company remains a wholly owned subsidiary of the CKHH Group.

Merger Scenario

In assessing whether the Company will continue to be a going concern in the Merger Scenario, the Directors have specifically considered the following factors:

- The Merger is expected to complete in 2025 and a completion date of 31 March 2025 has been assumed ("estimated completion date").
- The impact of changes in working capital, injection of shareholder debt and available cash and cash equivalents of MergeCo upon completion, including but not limited to, the settlement of the call deposit account and intercompany balances.
- The shareholder debt is not due for repayment for at least three years from the estimated completion date, and there are no financial covenants that would trigger immediate repayment.
- The available equity funding facility which is contractually available to MergeCo from the shareholders following completion.
- The additional debt facility which is contractually available to MergeCo from the shareholders after MergeCo has exhausted all other possible financing options and will not be repayable during the going *concern period.*
- The ability of both the shareholders to provide the committed equity funding and additional debt funding considering the solvency and liquidity position based on the publicly available information for both shareholders.
- The Base Case cash flow forecast of MergeCo for the six-month period from the estimated completion date to 30 September 2025 as well as any significant events and conditions impacting cash flow immediately after the going concern period.
- The impact of a severe, but plausible "Downside" case on MergeCo's available liquidity is detailed below in (b).

(a) Base Case

- The Base Case combined the standalone cash flow forecasts of the Vodafone UK Business and the Three UK Business, adjusted for MergeCo's forecast debt servicing payment. It also considered the expected effects of the merger, including synergies, integration costs and other relevant adjustments, as determined through the joint business planning process.
- MergeCo will make use of the committed equity funding in the Shareholders' Agreement during the going concern period and this has been factored into the available liquidity assessment.
- The Base Case Scenario demonstrates sufficient liquidity throughout, and immediately after, the going concern period, without the need for mitigating actions or additional shareholder funds beyond the committed equity funding.

2 Material accounting policies (continued)

(a) Basis of preparation (continued)

Merger Scenario (continued)

(b) Downside Case

- The Directors adjusted the Base Case forecast to reflect potential liquidity impacts of a severe, but plausible downside case.
- In order to determine the extent of sensitivities applied to the Base Case cash flow forecast, the Directors considered MergeCo's business model, the principal risks and uncertainties it might face, and its financing structure. The following downside risks have been assumed, and the impact of these risks crystallising simultaneously has been modelled:
    - Reduction in growth in the customer base in the six-month period following the estimated completion date;
    - Delayed realisation of synergies and other forecast cash inflows;
    - Increase in operating expenses, integration costs, and interest costs on debt; and
    - Other working capital and cash sensitivities impacting the timing of key cash inflows during the going concern period.
- Should the above downside risks crystallise simultaneously or any unforeseen circumstances arise that are not already considered, the headroom in the cash flow forecast may not be sufficient in certain months and may result in MergeCo requiring additional funding on top of the available equity funding facility. In such a scenario, both shareholders have committed to provide the necessary funds to MergeCo to ensure it can operate as going concern through the additional debt facility after MergeCo has exhausted all other possible financing options.
- The Downside Case scenario demonstrates sufficient liquidity throughout, and immediately after the going concern period, without additional shareholder funds beyond the committed equity and debt facility.

In consideration of the aforementioned factors and following the completion of this assessment, the Directors believe that the Company demonstrates sufficient liquidity throughout the going concern period and therefore the going concern basis remains appropriate.

(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 transactions 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 **Material 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 takes 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.

With the introduction of the device financing proposition on 30 January 2023, customers are involved in two separate contracts: one for services and another for the device. Consequently, they receive a single invoice for the device and separate monthly invoices for services. Customers sign two separate terms and conditions for each component upon purchasing a device plan and services, establishing enforceable rights and obligations. Device revenue is recognized upon transfer of the device, marked by delivery to the customer, while service revenue accrues over the contract term. A corresponding loan receivable is created for the device, representing the device amount sold at 0% annual percentage rate ("APR"), net of the upfront payment. No significant financing components have been identified in transactions undertaken in the periods presented in these financial statements.

Typically, device financing arrangements involve two primary performance obligations: the provision of the handset and the airtime service. However, customers also have the option to include additional items such as tablets, smartwatches, and lower-value accessories in their loan agreements.

Customers select device repayment plans spanning 12, 24, or 36 months, exclusively with an airtime subscription. An upfront payment may be required for the device, followed by obligatory monthly repayments until the loan balance clears.

Revenue is allocated between the device and services by allocating the total transaction price based on their stand-alone selling prices.

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 a separate performance obligation and be accounted for accordingly.

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

2 Material accounting policies (continued)

(b) Revenue recognition (continued)

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.

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.

2 Material accounting policies (continued)

(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.

(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.

2. Material accounting policies (continued)

(h) Tangible assets and depreciation (continued)

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.

(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.

2 Material accounting policies (continued)

(l) Debtors (continued)

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 contract 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.

(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.

2 Material accounting policies (continued)

(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 and 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.

Leases are transferred at net book value for assets and the relevant lease liability held at the time of disposal/transfer.

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.

2 Material Accounting policies (continued)

(r) Leases (continued)

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.

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.

2 Material Accounting policies (continued)

(u) Foreign currency transactions

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency. 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:

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 has previously received government assistance. The Company matched the assistance with the costs that they are intended to compensate. These are recognised in the 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.

3.1 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.

The recoverable amounts of the long life assets have been determined using value-in-use calculations, which require the use of judgements and estimates. A considerable level of judgement is needed to estimate the future free cash flows to be earned in the future for the Company. Significant judgement is involved in the estimation around 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, hence reported assets and profits or losses and therefore there exists a high level of subjectivity in deriving the estimate. Further details are included in Notes 13, 14 and 15 for intangible assets, right-of-use assets and tangible assets respectively.

The Company performs an annual impairment review where the Company identifies the business as a single Cash Generating Unit ("CGU"), being the Company 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. Management considered climate changes through work performed over impairment and concluded climate is not a critical factor for the Company. The calculation determined the value-in-use to be £2,233 million (2022: £2,493 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 2023 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 against its forecast by the percentages shown below:

	Underperformance that would reduce value in use to equal carrying value*
Home broadband	78% (2022: 100%)
Business	59% (2022: 78%)
Contract voice	12% (2022: 12%)

*In the next 12 months, underperformance of these revenue streams over the whole assessment period that would reduce value in use to carrying value.

In the next 12 months, forecast margin for all revenue streams over the whole assessment period would need to decrease by 10.34% for value in use to equal carrying value.

3 Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

(a) Carrying value of long life assets (continued)

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 15% (2022: 24%) of the total margin. If the cash outflow in respect of the capital expenditure is 45% (2022: 45%) per annum higher than management's estimate as at 31 December 2023, then the recoverable value would drop to a level where it would equal the carrying value. If the discount rate were to increase by 1.93% (2022: 2.07%), from 7.22% to 9.15% (2022: 7.65% to 9.72%), the recoverable value would drop to a level where it would equal the carrying value.

If the growth rate were to decrease by 3.1% (2022: 2.4%), from 1.3% to (1.8%) (2022: 1.3% to (1.1%)), 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.

(b) 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 £8.8 million (2022: £11.7 million) with the contract asset balance being higher by £4.9 million (2022: £2.9 million).

(c) 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 the 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 the Company's deferred tax assets is 12 years (2022: 11 years). Should the forecast profitability reduce by 1%, consequently reducing the utilisation of tax losses by 1%, the recoverability period would remain at 12 years (2022: increase by 1 year to 12 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. The deferred tax recoverability calculation was refined to exclude the impact of future capital allowances arising, which would be assessed for recoverability against future taxable profits as appropriate, in line with the requirements of IAS 12.

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, mobile communication services and device financing. This determination is management's judgement 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, provision of services and device financing are separate and typically the only performance obligations in a bundled package offered by the Company. The presence of a financing component in the contract arises when a handset or other equipment is provided to a customer upfront, while payment is received over the duration of the associated mobile communication services. In such cases, the customer is considered to have received financing.

(b) Carrying value of long life assets

The Company has made significant investments in its telecommunication network, UMTS, 4G and 5G licences. These assets are deemed to form part of the single business 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) 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 judgement on its future profitability forecasts. These forecasts contain significant estimates which are discussed in the note 3.1 (c) above.

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.

(d) Service arrangements

The above-mentioned transactions with Cellnex in relation to the Unilateral and the subset of MBNL sites resulted in the following significant judgements applied in preparation of the financial statements of the Company:

Service arrangements

Judgement is required to determine if a contract is a service arrangement or a lease under IFRS 16. In 2021, the Company entered a contractual arrangement with CK Hutchison Networks (UK) Limited ("TowerCo", a fellow subsidiary of the Company). Management has assessed the arrangement and has formed a judgement that the arrangement is a service arrangement and not a lease. This judgement is primarily based on the substantive substitution rights which TowerCo can practically exercise under the EEBA.

3 Critical accounting estimates and judgements (continued)

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

(d) Service arrangements (continued)

Treatment of the economic benefits arrangements ("EEBA") and Services Agreement ("SA")

The Company continued to record its share in the subset of the MBNL sites as assets of the Company. Management has assessed the EEBA and SA and has formed a judgement that the cash flows under these arrangements should be treated as giving rise to:

- Deferred consideration in relation to the future transfer of legal title to a subset of the MBNL sites to Cellnex following the dissolution of the MBNL joint venture and;
- A financial liability in relation to the subset of the MBNL sites, which was discounted using the Company's incremental borrowing rate on the date of the transaction and interest will be charged against the Statement of Comprehensive Income until the end of the arrangement. It will be settled through projected cash flows under the EEBA and SA contracts by the time of the expected MBNL sites legal ownership transfer to Cellnex.

The Company continues to record its share of the MBNL assets as their conclusion is that control had not yet passed to Cellnex at the time of the arrangement.

The Company's directors have assessed the scope of the EEBA and SA from the Company's perspective and believe that the applied accounting treatment best reflects the contractual terms related to the transaction with Cellnex.

3.3 Other estimates and judgements

The following are other principal estimates, judgements and assumptions made by the Company, but which management believes do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) 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 19 to 16 years (2022: 21 years to 18 years), the depreciation charge for the year would be higher by £46.5 million (2022: £36.5 million) and the net book value would be lower by the same amount.

3 Critical accounting estimates and judgements (continued)

3.3 Other estimates and judgements (continued)

(a) Depreciation and amortisation (continued)

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 licences, 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.

(b) 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.

(c) 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.

3 **Critical accounting estimates and judgements (continued)**

3.3 **Other estimates and judgements (continued)**

(d) **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.

4 **Revenue**

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**

Other operating income includes non-trading income of £5.4 million (2022: £4.6 million).

6 Operating costs

The operating costs mainly include:		2023 £000	2022 £000
Cost of Sales	- cost of equipment sold	**568,783**	585,638
	- other customer acquisition and retention costs	**156,120**	123,658
	- other cost of sales	**500,142**	378,803
Staff costs (excluding capitalised costs)		**184,805**	142,690
Amortisation (Note 13)		**238,603**	183,072
Amortisation - contract related costs (Note 19)		**71,016**	57,710
Depreciation on right-to-use assets (Note 14)		**95,301**	91,230
Depreciation (Note 15)		**265,248**	226,892
Net impairment losses on financial and contract assets		**34,919**	35,037
Ofcom annual license fees		**82,538**	114,031
Network Service costs		**57,235**	36,312
Foreign exchange loss		**486**	3,846
Exceptional item		**-**	32,251

The 2022 exceptional item related to the EBITDA shortfall provision created as part of the overall arrangement between Cellnex and LuxCo in relation to TowerCo's sale due to shortage of sites at the time of transfer of ownership to TowerCo. As the EBITDA shortage was calculated, this was legally binding at the level of the Company and was therefore recorded at this level.

Auditors' remuneration is analysed as:	2023 £000	2022 £000
Statutory audit - relating to current year	**1,881**	1,458
Other services	**-**	-
	1,881	1,458

7 Directors' emoluments

	2023 £000	2022 £000
Aggregate emoluments	**2,502**	3,554
Other pension contributions	**-**	-
	2,502	3,554

Emoluments were paid to one director (2022: two directors) by the Company in their capacity as directors of the Company and for services wholly attributable to the Company. 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 and borne by these companies as relevant. During the year, none of the directors (2022: none) were paid compensation for loss of their office (2022: Nil).

	2023 £000	2022 £000
Highest paid director - aggregate emoluments	**2,502**	2,552
	2,502	2,552

8 Staff costs

	2023 £000	2022 £000
Wages and salaries	**239,315**	207,425
Social security costs	**29,602**	27,084
Other pension costs	**9,241**	8,604
	278,158	243,113

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 £9.2 million (2022: £8.6 million).

9 Employee information

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

	2023 Average number	2022 Average number
Operations	3,743	3,615
Administration	1,070	980
	4,813	4,595

10 Interest receivable and similar income

	2023 £000	2022 £000
Interest receivable from bank deposits	2,312	785
Interest receivable from group undertakings	3,992	16,913
	6,304	17,698

11 Interest payable and similar expenses

	2023 £000	2022 £000
Interest on lease liabilities	24,160	22,832
Unwinding of discounting	51,227	3,364
Other interest payable	38	14
	75,425	26,210

Unwinding of discount predominately relates to interest accrued in relation to financial liability in relation to the subset of the MBNL sites (note 22).

12 Tax on (loss)/profit

	2023 £000	2022 £000
Current tax		
Adjustment in respect of prior years	**2,512**	(3,043)
Current tax charge	**(292)**	(162,910)
Total current tax credit / (charge)	**2,220**	(165,953)
Deferred tax		
Adjustment in respect of prior years	**98,265**	(6,173)
Deferred tax (charge) / credit	**(4,079)**	244,451
Total deferred tax credit	**94,186**	238,278
Total tax credit on (loss)/profit before taxation	**96,406**	72,325

The tax assessed for the period is higher (2022: higher) than the standard rate of corporation tax in the UK of 23.50% (2022: 19.00%). The difference is explained below:

	2023 £000	2022 £000
(Loss)/Profit before taxation	**(142,704)**	86,132
Tax on (loss)/profit at the standard UK rate of corporation tax at 23.5% (2022: 19%)	**33,536**	(16,365)
Effect of:		
Expenses not deductible for tax purposes	**(5,455)**	(4,601)
Re-measurement of deferred tax - change in tax rate	**565**	9,184
Adjustment in respect of prior years – deferred tax movement due to tax return submissions	**98,265**	(9,216)
Adjustment in respect of prior years – re-measurement of deferred tax on group relief	**(24,374)**	-
Adjustment in respect of prior years – recognition of non-trade losses previously unrecognised	**1,204**	-
Adjustment in respect of prior years – current tax	**2,512**	-
Impact arising from the arrangement for the subset of MBNL sites	-	128,388
Others	**(9,847)**	(35,065)
Total tax credit on (loss)/profit before taxation	**96,406**	72,325

12 Tax on (loss)/profit (continued)

On 23 May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes', that provided mandatory temporary relief from the requirement to recognise and disclose information about deferred taxes arising from the implementation of the Pillar Two model rules. The exemption was endorsed by the UK Endorsement Board. In adopting these amendments, the Company has applied the mandatory temporary relief from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

On 11 July 2023, the government of the United Kingdom enacted the Pillar Two income taxes legislation effective from 1 January 2024. Since the Pillar Two legislation was not effective at the reporting date, the Company has no related current tax exposure.

Under the legislation, the Company will be required to pay, in the United Kingdom, top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15 per cent. The Company and wider group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance but the impact of these rules on the Company's income tax position is not expected to be material.

13 Intangible assets

	UMTS, 4G and 5G licences £000	Software and other licences £000	Access rights £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2023	5,289,704	1,361,355	552,571	372,192	7,575,822
Additions	-	-	-	221,832	221,832
Disposals	-	(5,123)	-	-	(5,123)
Transfers from assets in the course of construction	2,938	127,815	-	(130,753)	-
Transfers to Tangible Fixed Assets	-	-	(19,321)	-	(19,321)
At 31 December 2023	**5,292,642**	**1,484,047**	**533,250**	**463,271**	**7,773,210**
Accumulated amortisation and impairment					
At 1 January 2023	(1,859,286)	(763,781)	(500,001)	-	(3,123,068)
Charge for the year	-	(238,603)	-	-	(238,603)
Disposals	-	1,646	-	-	1,646
At 31 December 2023	**(1,859,286)**	**(1,000,738)**	**(500,001)**	**-**	**(3,360,025)**
Net book value					
At 31 December 2023	**3,433,356**	**483,309**	**33,249**	**463,271**	**4,413,185**
At 31 December 2022	3,430,418	597,574	52,570	372,192	4,452,754

13 Intangible assets (continued)

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 (2022: £3.4 billion).

Transfer of £19.3m to tangible fixed assets relates to drawdown of free carrier vouchers. These vouchers give the Company the right to use a site without payment, once the site is ready for use the equivalent values are transferred from Intangible assets to Tangible fixed asset as the voucher is utilised.

14 Right-of-use assets

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

	2023	2022
	£000	£000
Right-of-use assets		
Cell sites	**410,333**	423,903
Retail stores	**69,232**	93,568
Offices	**36,743**	38,308
Data centres	**4,089**	4,363
Transmission access	**142,957**	136,278
Vehicles and others	**676**	420
	664,030	696,840
Lease liabilities		
Current	**121,454**	149,937
Non-current	**568,439**	564,939
	689,893	714,876

Additions to the right-of-use assets during the year were £52 million (2022: £42 million). Modifications to the right-of-use assets during the year were an increase of £18.2 million (2022: an increase of £34 million). Impairment to right-of-use assets during the year were £0.5 million (2022: £0.9 million).

14 Right-of-use assets (continued)

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

	2023 £000	2022 £000
Depreciation charge of right-of-use assets		
Cell sites	**58,924**	53,383
Retail stores	**21,231**	22,963
Offices	**3,174**	3,674
Data centres	**1,401**	1,210
Transmission access	**10,314**	9,643
Vehicles and others	**257**	357
	95,301	91,230
Interest expense on lease liabilities	**24,160**	22,832
Income from subleasing right-of-use assets	**216**	199
Rent concessions	**418**	506

The total cash outflow for leases in 2023 was £118 million (2022: £114 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 2023	146,694	83,007	4,333,760	476,641	**5,040,102**
Additions	-	-	-	271,957	**271,957**
Transfers from assets in the course of construction	6,807	36,639	250,398	(293,844)	**-**
Transfers from Intangible fixed assets	-	-	-	19,321	**19,321**
Disposals	-	(1,470)	(61,533)	-	**(63,003)**
At 31 December 2023	**153,501**	**118,176**	**4,522,625**	**474,075**	**5,268,377**
Accumulated depreciation and impairment					
At 1 January 2023	(123,159)	(53,361)	(3,149,461)	-	**(3,325,981)**
Charge for the year	(8,148)	(14,678)	(242,422)	-	**(265,248)**
Disposals	-	37	46,190	-	**46,227**
At 31 December 2023	**(131,307)**	**(68,002)**	**(3,345,693)**	**-**	**(3,545,002)**
Net book value					
At 31 December 2023	**22,194**	**50,174**	**1,176,932**	**474,075**	**1,723,375**
At 31 December 2022	23,535	29,646	1,184,299	476,641	1,714,121

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.

16 Investments – shares in subsidiaries

Name of subsidiaries	2023	2022
	% 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%

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 was to provide mobile communication services to end users in the 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 4 years. As at 31 December 2023, the value of the deferred consideration is £50 million (2022: £49.5 million).

On 25 January 2018, TIL transferred 100% of its investment in UKB to the Company. 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.

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 judgements 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") (2022: 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

	2023	2022
	£000	£000
Finished Goods	**31,855**	62,619

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

	2023	2022
	£000	£000
Trade debtors	**211,400**	169,583
Amounts owed by group undertakings	**857,578**	1,517,847
Prepayments and other debtors	**228,040**	258,775
Contract assets	**356,953**	312,603
Contract-related costs	**89,357**	57,028
	1,743,328	2,315,836

19 Debtors (continued)

Trade debtors are stated after provisions for impairment of £37 million (2022: £36 million).

In 2022, amounts owed by group undertakings included a short-term loan of £1,166 million, repayable on demand, to parent undertaking Hutchison 3G UK Holdings Limited (the holding company of the Company), with interest receivable at a rate of 0.74%. This short-term loan was repaid 1 June 2023. Other than this short-term loan, 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 £30 million (2022: £31 million) and £1.0 million loss (2022: £4.8 million gain) was recognised in the Statement of Comprehensive Income during the year which fully offsets an equal and opposite gain (2022: 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 £39 million (2022: £39 million).

Also included within contract assets are contracts amounting to £203 million (2022: £59 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 £7 million (2022: £5 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 £71 million (2022: £58 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 contract 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:

	2023	2022
	£000	£000
Deferred tax asset due within 12 months	**74,712**	74,712
Deferred tax asset due after 12 months	**1,314,218**	1,220,555
Total deferred tax asset	**1,388,930**	1,295,267

	2023	2022
Deferred tax asset at the start of the year	**1,295,267**	1,057,412
Adjustment in respect of prior years	**98,265**	(6,173)
Increase in deferred tax asset due to change in tax rate	**565**	9,184
Decrease in deferred tax asset	**(5,167)**	234,844
Total deferred tax asset	**1,388,930**	1,295,267

20 **Deferred tax assets (continued)**

Analysis of net deferred tax assets / liabilities:

	2023 £000 Gross	2023 £000 Tax Effected	2022 £000 Gross	2022 £000 Tax Effected
Trade losses	**4,337,968**	**1,084,492**	3,785,698	945,019
Capital allowances	**340,128**	**85,032**	461,735	116,906
Other temporary differences arising from:				
Non-trade loan relationship deficit (carried forward)	**4,817**	**1,204**	-	-
4G licence	**(250,496)**	**(62,624)**	(214,351)	(53,588)
R&D qualifying spend	**(66,958)**	**(16,740)**	(50,118)	(12,339)
IFRS 16 transitional adjustment	**20,911**	**5,228**	26,693	6,274
Contract liability on deferred consideration	**1,161,552**	**290,388**	1,161,552	290,388
MBNL deferred tax asset	**7,800**	**1,950**	13,723	2,607
Total deferred tax asset	**5,555,722**	**1,388,930**	**5,184,932**	**1,295,267**

Deferred tax asset analysis	**Trade losses £000**	**Unclaimed capital allowances £000**	**Others £000**	**Total £000**
At 1 January 2022	927,615	178,425	(48,628)	1,057,412
Charged/(credited) to the Statement of Comprehensive Income (note 12)	16,982	(61,519)	282,815	238,278
Charged/(credited) to corporation tax liability	422	-	(845)	(423)
At 31 December 2022	945,019	116,906	233,342	1,295,267
Charged/(credited) to the Statement of Comprehensive Income (note 12)	138,950	(31,874)	(12,890)	94,186
Charged/(credited) to corporation tax liability	523	-	(1,046)	(523)
At 31 December 2023	**1,084,492**	**85,032**	**219,406**	**1,388,930**

Deferred tax assets and liabilities are offset where they relate to taxes levied by the same tax authority. Deferred tax liabilities totalling £79 million (2022: £66 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).

20 Deferred tax assets (continued)

The adjustment in respect of prior periods (£98m) consist of a post FY22 tax return adjustment. The adjustment was required due to an increase in losses largely driven by the capital allowance super deduction claim. The recognised transitional adjustment of £5m relates to Right of Use Assets (£49m) and Lease Liability (-£54m).

The net recognised deferred tax asset of £1,389 million at 31 December 2023 (2022: £1,295 million) relates to historical tax losses and temporary differences. The Company has an unrecognised deferred tax asset of £nil (2022: gross asset £4.8 million; tax effect £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.

There is no expiry date for the deferred tax assets or liabilities.

Deferred tax assets have been calculated at the corporation tax rates that will be in force at the time the assets are expected to unwind. Finance Act 2021 increased the UK corporation tax rate from 19% to 25% effective 1 April 2023. This increase was enacted at the balance sheet date as at 31 December 2022 and has been used to calculate the deferred tax asset as at December 2022.

The Company's corporation tax rate for the year ended 31 December 2023 is 23.5% (2022: 19%).

21 Creditors: amounts falling due within one year

	2023	2022
	£000	£000
Trade creditors	**178,483**	208,348
Amounts owed to group undertakings - trading	**40,432**	39,348
Corporation tax payable	**166,191**	156,561
Other taxation and social security	**18,396**	16,031
Accruals and other creditors	**464,146**	919,868
Contract liabilities	**58,107**	63,586
Lease liabilities	**121,454**	149,937
Financial liability in relation to the subset of the MBNL sites (Note 22)	**58,897**	46,984
	1,106,106	1,600,663

Amounts owed to group undertakings are trading loans, unsecured, non-interest bearing and repayable on demand. A deposit agreement of £1,100 million entered into on 30 December 2021 with fellow subsidiary undertaking, Hutchison 3G UK Finance Limited was repaid on 10 November 2022, it attracted an interest rate of 0.05% per annum and was repayable on demand at the option of the Company.

During the year, the amount classified as contract liabilities as at 31 December 2022 were recognised in revenue on satisfaction of related performance obligations.

22 Creditors: amounts falling due after more than one year

	2023 £000	2022 £000
Other payables	**35,585**	49,535
Financial Liability in relation to the subset of the MBNL sites	**630,273**	656,610
Deferred Consideration	**1,346,125**	1,299,758
Lease liabilities	**568,439**	564,939
	2,580,422	2,570,842

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

The UK Transaction was completed in November 2022 through sale of the TowerCo to Cellnex and entry into an EEBA with the Cellnex Group. Refer to the Strategic report, page 4, for details of the Transaction.

Following the dissolution of the MBNL joint venture in 2031, the Company will transfer legal title to a subset of the MBNL sites to Cellnex. Since consideration was received in advance as part of the EEBA, a liability has been recognised and presented as deferred consideration.

Further, in line with the Company's policy, management has assessed that the consideration received from the EEBA includes a significant financing component (financial liability in relation to the subset of the MBNL sites). This financial liability was estimated as a net present value of various cash flows under the terms of the EEBA and SA between the Company and Cellnex until the point of the expected transfer of legal ownership of a subset of the MBNL sites to Cellnex discounted using the Company's incremental borrowing rate on the date of the transaction. Interest is charged against the Statement of Comprehensive Income until the end of the arrangement.

23 Provisions for liabilities

	Network restructuring provision £000	Asset retirement obligation £000	Other provision £000	Total £000
At 1 January 2023	932	31,894	32,251	65,077
Additions	337	2,050	-	2,387
Discount accretion	24	998	-	1,022
Utilisation in the year	(525)	-	(16,485)	(17,010)
Release of provision	-	(3,788)	-	(3,788)
At 31 December 2023	**768**	**31,154**	**15,766**	**47,688**

23 Provisions for liabilities (continued)

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 expenditure relating to these asset retirement obligations will substantially be incurred over the next 5 to 10 years.

Other provision

This relates to the EBITDA shortfall provision created as part of the overall arrangement between Cellnex and LuxCo in relation to TowerCo's sale due to shortage of sites at the time of transfer of ownership to TowerCo. As the EBITDA shortage was calculated, this was legally binding at the level of the Company and is therefore recorded at this level.

24 Called up share capital and share premium

	2023	2022
	£	£
Authorised, allotted and fully paid:		
201 (2022: 201) ordinary shares of £1 each	**201**	201

The total share premium at 31 December 2023 was £1 billion (2022: £1 billion).

The directors do not recommend the payment of a dividend for the current year (2022: £2,019 million).

25 Capital and other commitments

At 31 December 2023, the Company had commitments of £238 million (2022: £282 million) for the purchase of handsets and related equipment with various handset manufacturers.

At 31 December 2023, the Company had contracted capital commitments of £108 million (2022: £152 million), with £83 million (2022: £93 million) being due within one year and £25 million (2022: £59 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 Contingent liabilities

On 30 November 2023, Mr Justin Gutmann (the proposed class representative, or "PCR"), filed an application for a collective proceedings order against the Company in the UK Competition Appeal Tribunal. These proceedings were served on Three on 11 December 2023. The claim alleges that Three has abused a dominant position by "overcharging" its out-of-contract customers – i.e. customers who remain on their existing tariffs for combined handset and airtime services after the expiry of their minimum term. The claim is brought on an "opt out" basis, meaning that qualifying consumers will automatically be included in the claim unless they choose to opt out. The PCR is currently seeking damages of £507 million (£436 million excluding interest) in the proceedings against Three.

The proceedings are at a very early stage. A case management hearing was scheduled for 23 May 2024, which determined the timetable to a hearing on 'certification' (i.e. whether the claim will be given approval by the Tribunal to proceed). If the proceedings are certified, a further case management hearing will be held to determine a timetable to trial. The court made various directions at the case management hearing. The certification hearing has been scheduled for 31st March 2025. Various milestones and timelines have also been directed (such as filing of evidence and arguments etc). The court directed that the four related proceedings (i.e. each action against each mobile network operator) shall be jointly case managed up to and including the certification hearing. The parties are required to submit to a single expert report (although any variances in view should be articulated in that report).

Three considers the claim to be unmeritorious and intends to vigorously defend it..Three also considers the alleged claim value to be significantly overstated but, given the early stage of the proceedings, does not consider it possible to estimate with a reasonable degree of precision the amount or range of any potential loss that might arise should the outcome be unfavourable to Three, or the likely timing of any future payments.

27 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 payments of £1.9 million to DMSL (2022: £0.8 million) for invoices raised for the arrangements explained in Note 17.

28 Post balance sheet events

The Competition and Markets Authority (CMA) merger inquiry was launched on 26 January 2024 after the final Merger Notice was submitted by CKHH and Vodafone to the CMA. On 22 March 2024, the CMA declared the completion of Phase 1 of the statutory review process regarding the proposed merger with Vodafone. The CMA confirmed its decision to advance the Transaction to Phase 2 for a comprehensive investigation. Phase 2 began on 4 April 2024. On 3 June 2024, the CMA announced an extension of the Phase 2 decision deadline from 18 September 2024 to 12 October 2024. The Company notes that the review by the CMA is still underway. The CMA issued provisional findings and a notice of possible remedies on 13 September 2024. This is not a final decision, and the parties will continue to work with the CMA to secure approval. Based on our current expectation, the measures to be agreed to address the CMA's concerns are not expected to have a material adverse effect on the liquidity of MergeCo for a twelve-month period to 30 September 2025. The current statutory deadline for the CMA to issue its final report is 7 December 2024.

Following the Transaction's closing, the combined business will be 51% owned by Vodafone and 49% owned by CKHGTH. As of the approval date of these financial statements, the completion of the Transaction is pending regulatory approvals and other customary closing conditions.

29 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 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.