
TELEFONICA UK LIMITED

**CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The company is part of Virgin Media O2 and the Directors have chosen to adopt the Virgin Media O2 Governance Framework for the year ended 31 December 2022. In adopting the Virgin Media O2 Governance Framework, the Directors have delegated the day to day management of the company to the Virgin Media O2 Executive Management Team (the Directors are part of the Executive Management Team) whilst retaining oversight and accountability of key strategic matters to the company. Details of Virgin Media O2 governance framework during the year ended 31 December 2022 is reported in the Corporate Governance Statement in VMED O2 UK Limited Consolidated Annual Report and Financial Statements for the year end 31 December 2022 published on the website.

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

Principle One: Purpose and Leadership

The Virgin Media O2 Board provides entrepreneurial leadership which sets out the Group's long-term strategic direction and challenge to the Executive Management Team's (Executives) implementation of the strategy to deliver sustainable success and value to the Company and Group's stakeholders.

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

Principle Two: Board Composition

The Board consists of three directors (two male and 1 female) of mixed nationalities and continues to remain fit for purpose in relation to the size and complexity of the Company,

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

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

Governance Framework:

- a. Level one – Virgin Media O2 Board
- b. Level two – Audit Committee, Executive Management Team, and Remuneration Committee
- c. Level three – Subsidiary Companies, Business Divisions Leadership Team, Sustainability and Responsible Business Committee

Principle Three: Directors Responsibilities

The CEO, is not a member of the Virgin Media O2 Board but attends the Virgin Media O2 Board meetings to provide updates on the Executives delegated responsibilities. The Virgin Media O2 Board to meticulously challenge the implementation of the Group's (including the company's) strategy, position and performance. The Virgin Media O2 Board is assisted by the Audit Committee which have clear terms of reference and consists of

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two Virgin Media O2 Board members in addition to the Shareholders' General Counsels. The Audit Committee oversees the Group's risk management and internal control framework. The Remuneration Committee, whose detailed terms of reference consists of two Board members, are responsible for setting the remuneration policy and practices for the Group.

The Board and Executives are ultimately responsible for the Group's internal control framework, and together with the Leadership team are committed to maintaining a robust control framework which accords with the delivery of good governance, and the effective oversight of the operational controls through the delegation of authority processes.

Principle Four: Opportunity and Risk

The Virgin Media O2 Board oversees the development and implementation of the Group's strategy, including how the Group remains relevant within a highly competitive environment. The Group's key risks and mitigations are outlined in the Principal Risk and Uncertainties section of the Strategic Report on page 19. The Executives are responsible for the identification and management of risks across the Group. The day-to-day operational risks are managed in the respective business divisions and overseen by the Group's Risk Management Function. The Group's risk appetite is determined by the Executives, who receive regular updates on the consolidated risk profiles.

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

Virgin Media O2's internal control framework incorporates preventative activities, covering such aspects as Group policy management, continuous monitoring and risk management, alongside the detective assurance activities of internal audit function. The control activities enable the company and the Group to meet its objectives and to sustain and improve performance, whilst providing the required level of oversight for the Board, Executives, Audit Committee and Virgin Media O2 Board. The independent assurance activities include assessments of the internal controls over the financial reporting control framework at least annually which is undertaken by the internal audit team. The audit plan is reviewed and approved by the Audit Committee annually. The External Auditors have quarterly meetings with the Audit Committee to provide an update on the review of the processes and procedures.

Principle Five: Remuneration

The Board as Executives are remunerated for their services to the Group. The Remuneration Committee has the delegated authority to make recommendations to the Virgin Media O2 Board (i) to set and assess the Group's remuneration policy and practices that foster the retention and attraction of highly skilled talent, long-term succession planning, incentivize high performance to drive the achievement of the Group's Vision and long-term Strategy, in a way that represents a positive and entrepreneurial culture through short and long-term decision-making; (ii) approve certain senior level nominations and remuneration packages; and (iii) define policies for certain senior level appointments, and such other employee related matters as the Board may determine from time to time.

To align the success of the Leadership team with the sustainable success of the Group's business activities, part of the Board, Executives and Leadership Team's remuneration are delivered in the form of short and long-term variable remuneration and based on financial and non-financial performance. The short-term variable remuneration is linked to achieving specific financial, customer satisfaction and sustainability objectives. The long-term variable remuneration is linked to the long-term value creation in the Group by measuring key financial

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objectives aligned to the 3-year strategy.

The remuneration of the workforce is determined by the Executives, ensuring that proposals are balanced, proportionate, and aligned with Group's commitment to build a diverse and inclusive workforce. The Group companies within the scope of the gender pay gap regulations comply with the obligation to publish their gender pay gap report. Insight from gender pay gap reports has informed the Group's diversity and inclusion policies put in place during the year. Details of the Board and Executives Remuneration are disclosed in the notes the Financial Statements on page 65.

Principle Six: Stakeholder Relationship and Engagement

The Board is aware that the company and Group's stakeholders are important for the successful delivery of the company and Group's ambition and purpose. Given the complexity of the Group, the Executives have the delegated responsibility of the stakeholders in their respective business divisions and periodically report to the Board, Virgin Media O2 Board and Audit Committee on matters of strategic importance.

The Group's stakeholders' engagements during the year ended 31 December 2022 are discussed below with further details in the VMED O2 UK Limited Consolidated Annual Report and Financial Statements for the year end 31 December 2022 published on the website.

Employees

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

We have employee groups with key representatives across the Group whose role is to think holistically about the issues and concerns for employees in their business divisions. Through these groups we are able to get more regular insights into the sentiment in the business, address any concerns and ensure that follow up actions are adhered to.

Customers

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

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

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Regulators

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

Ofcom

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

ICO

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

Financial Conduct Authority (FCA)

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

Suppliers

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

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

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Communities

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

Investors

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



E Medina Malo
Director

Date: 22 June 2023