
TELEFONICA UK LIMITED

**CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023**

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 2023 which has applied the Wates Corporate Governance Principles for Large Private Companies during the reporting year as summarised below. 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.

We operate three expert Steering Committees - Environment; Social Impact; and Diversity, Equity and Inclusion - to oversee delivery of the Virgin Media O2 ESG strategy known as our Better Connections Plan and to monitor progress against its goals and targets. The committees are each sponsored by an Executive member and composed of subject matter experts. Periodic updates are provided to Virgin Media O2's Audit Committee and Executives, ensuring senior oversight of our sustainability endeavours. These forums are also used as an escalation point, as needed, for any supply chain sustainability issues enabling oversight of such issues.

Virgin Media O2 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 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 the group's stakeholders.

In support of our ambition of being a converged champion and the UK challenger with customers at the heart of what we do, during the year we redefined the group's purpose as "See What You Can Do" as we aim to continue to put customers at the heart of our business decisions and deliver great customer outcomes through our products and services. We have established a broader behaviour framework through our core values Brave (encourage to be bold, creative, accountable and innovative), Real (encourages honesty and being authentic, respectful and transparent) and Together (encourages empathy, agility and inclusion) which we continue to embed throughout the organisation through continuing engagement at all levels, such as regular conversations in corporate sites, roadshows, livestreams, workplace and smaller focus groups.

Principle Two: Board Composition

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

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

The Executives have three expert sub-committees - Environment; Social Impact; and Diversity, Equity and Inclusion - to oversee delivery of the Virgin Media O2 ESG strategy known as our Better Connections Plan and

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to monitor progress against its goals and targets. The sub committees are each sponsored by an Executive and comprised of subject matter experts across the organisation. Periodic updates from the sub committees are provided to Audit Committee and Executives, ensuring senior oversight of our sustainability endeavours including our supply chain sustainability oversight.

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 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 Virgin Media O2 Board members, are responsible for setting the remuneration policy and practices for the group.

The Virgin Media O2 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. The Board periodically consider matters of strategic importance to the Company including statutory matters which cannot be delegated.

Principle Four: Opportunity and Risk

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

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

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

Our risk management model is aligned to both Committee of Sponsoring Organizations of the Treadway Commission (**COSO**) and ISO31000 guidelines and is integrated into the management of our strategy, objectives, operations, and transformational activities. Additionally, the Executives have established a culture of accountability for risk, embedding risk management into the responsibilities of all employees. Our risk governance model enables aligned risk oversight across operational divisions, delivering an enterprise-level view to senior management with focus on significant and emerging risks facing the business.

The Virgin Media O2 Board is responsible for the Group Risk Management programme and has delegated responsibility to the Audit Committee, which performs the following Risk Management oversight functions:

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

Our internal control framework incorporates preventative activities, covering such aspects as policy management, risk management, operation of internal controls over financial reporting, alongside the detective assurance activities of the internal audit function and whistleblowing management.

During the year a digitalised transformation programme delivered a governance, risk and control (**GRC**) platform for the centralisation, recording and management of risks, controls and corresponding tracking of management action plans within the Group. The internal control frameworks, including those covering internal controls over financial reporting, business governance, consumer protection, financial crime prevention, Ofcom metering and billing and other compliance control requirements are now managed through our GRC platform. By digitising our process, we adopt a continuous streamlined improvement model for our internal control frameworks.

We continue to closely monitor developments in relation to new governance reforms and proposals, including the Economic Crime and Corporate Transparency Act, and whilst we await guidance information, Management have commenced activities to review requirements to ensure compliance with the planned regulations.

Our control activities enable the Group to meet its business objectives, whilst providing the required level of oversight for Executives, Audit Committee and the 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 internal audit plan is reviewed and approved by the Audit Committee annually. In addition, 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 the services to the group as a whole and details of Board's remuneration are disclosed in the notes to the financial statement on page 78. 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, incentivise high performance to drive the achievement of the Group's Vision and long-term Strategy, in a way that represents a positive and entrepreneurial culture through short and long-term decision-making; (ii) approve certain senior level nominations and remuneration packages; and (iii) define policies for certain senior level appointments, and such other employee related matters as the Board may determine from time to time.

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

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annually publishes its gender pay gap report. Insight from gender pay gap reports has informed Virgin Media O2's diversity and inclusion policies put in place during the year.

Principle Six: Stakeholder Relationship and Engagement

The Board is aware that the Company's stakeholders are important for the successful delivery of the Company's ambition and purpose. For operational efficiencies, 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.

Matters of importance to the stakeholders during the year are summarised below and further details disclosed in the Section 172 Statement on page 20.

Employees

We continue our commitment to listen to and act on feedback from our employees, through our engagement surveys. In May 2023, we achieved an engagement score of 72 and 79% response rate, which provided a good representation of the overall workforce and a strong sense of psychological involvement. The survey results highlighted key strengths and opportunities enabling a sharp focus in influencing positive change in our culture, whilst we operate in a complex and dynamic macro and micro-environments. Our people priorities were updated supporting the insights of the survey and a refreshed strategic plan with a focus on culture underpinned by belonging, clarity, recognition, and development as crucial drivers of our success. 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.

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 can get more regular insights into the sentiment in the business, address any concerns and ensure that follow-up actions are adhered to. Further details of our employee strategy can be found in the "Employees" section on page 13.

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 to identify customers' pain points 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.

Further details of our customer strategy can be found in the "Customers" section on page 11.

Regulators

We actively engage with our regulators to foster a constructive relationship and support our business strategy.

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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 discussion, including the spectrum management proposals regarding future auction of mmWave spectrum and explored options to enable hybrid sharing between mobile and Wi-Fi in the upper 6 GHz band.

Financial Conduct Authority (FCA)

The Company is authorised to provide consumer credit and insurance services. The provisions of the new FCA Consumer Duty Regulation have been embedded within the organisation. We are committed to continually strengthen our monitoring and governance framework to ensure the delivery of good customer outcomes. Our framework is aligned with the FCA's focus areas for 2023/24 which include:

- a. Preparing financial services for the future by implementing the new regulatory framework to address emerging harms more efficiently.
- b. Putting consumers' needs first by improving consumer protection and standards for all consumers and ensuring support for struggling consumers remains a priority.
- c. Reducing and preventing financial crime by prioritizing this area, which will also help protect consumers to an extent and consumers in vulnerable circumstances specifically, as they may be more susceptible to fraud.

In 2024 we will focus on ensuring adequate oversight at senior management level through monitoring metrics to demonstrate how customers are receiving good outcomes throughout their expected lifecycle with us. Also the framework will be able to identify potential failures which could lead to customer harm and to enable us take reasonable steps where needed, to address any areas of concern.

Suppliers

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, where necessary, on matters of concern to the suppliers. The Board approves the Group's Modern Slavery Report, which is published annually on the website.

A mix of routine and exceptional management reporting is used to ensure appropriate stakeholder visibility at all relevant tiers of management both within Virgin Media O2 and its shareholder parents.

Supply continuity and service quality has continued to be a priority due to ongoing economic pressures on our supply chains and of the risk of potential impacts from various ongoing geopolitical issues. Examples of supplier engagement can be found in the Section 172(1) Statement on page 23. Further details of our responsible business plan can be found in the "Sustainability" section on page 18.

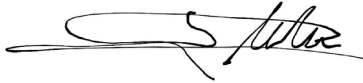
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Communities

Our Better Connections Plan is our Group's sustainability framework which centres on the areas where we believe we can make the greatest positive impact through our products, services and digital know-how, underscoring our ambition to help create an inclusive, connected and decarbonised society. Further details are reported in the "Sustainability" section on page 18.

The Corporate Governance Report was approved by the Board and signed on its behalf.



E Medina Malo

Director

Date: 9 September 2024