

STRATEGIC REPORT (CONTINUED)**Principal risks and uncertainties (continued)****Risks Relating to Our Indebtedness, Taxes and Other Financial Matters**

There are inherent financial risks relating to possible loss of value or results derived from adverse movements in financial variables and the inability of the Company to meet its obligations or convert its assets into cash, as well as commercial credit and fiscal risks.

***How we manage this:** These risks are actively monitored and managed by our finance teams.*

Further details of these risks and uncertainties are reported in the 2021 VMED O2 IFRS Bond Report for 2021 published on the corporate website. Further details of the Risk Management Framework and Internal control can be found in the Corporate Governance Statement on pages 48 to 49.

172(1) STATEMENT

As Directors we have a responsibility to promote the success of the Company in good faith for the benefit of our shareholders whilst having regard, at least, to the following matters:

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

In discharging our responsibilities as Directors to the Company, to the extent permissible by law we are aligned to the governance framework set out for VMED O2. The Board of Directors of VMED O2 have put in place a governance framework for the VMED O2 which includes best practice procedures to support the assessment of those matters necessary to make informed decisions in furtherance of the long-term success and sustainability of VMED O2 as a whole. The Directors of the Company are supported by the Executive Management Team in discharging the statutory duties in the best interest of the Company and the VMED O2 as a whole.

In adopting the VMED O2 governance framework the Directors of the Company have delegated the day to day management of the Company to the VMED O2 Executive Management Team (of which the Directors themselves are a part of the Executive Management Team) whilst retaining sufficient oversight of specific matters(including statutory matters) to assist in the effective discharge of their responsibilities.

STRATEGIC REPORT (CONTINUED)**VMED O2 Governance Framework**

The Board of VMED O2 is made up of an equal number of Directors nominated by Telefonica and Liberty Global, the ultimate shareholders who have agreed that the role of the Board of VMED O2 includes ensuring that the affairs of VMED O2 are conducted in accordance with the provisions of the shareholders' agreement and the articles of association of the respective companies within VMED O2, making sure that each shareholder's interests are taken into account in decision-making. The Directors of VMED O2 have delegated the day-to-day management of VMED O2 to the Executive Management Team whilst retaining sufficient oversight over specific reserved matters in addition to statutory matters. Subsequently each subsidiary company within VMED O2 has delegated authority to the Executive Management Team (of which members are also the statutory directors of the subsidiary companies) to the extent permissible by law and the shareholders' agreement. The Executive Management Team are made of 12 members with the requisite skills and experience from diverse disciplines. *Further details of our governance arrangements can be found in the Corporate Governance Statement on pages 45 to 53.*

The Joint Venture was formed to bring together two major businesses in the UK, O2 and Virgin Media, to create a connectivity challenger in the market. As a customer-first organisation, we bring a range of connectivity services together in one place with a clear mission: to upgrade the UK. Accordingly, the VMED O2 Board has defined our corporate purpose as being to "Reimagine Connectivity and Upgrade the UK", taking action to close the digital divide and helping to build a more inclusive, resilient and low carbon economy. We continue to focus on all our key stakeholders; employees, customers, the regulators and the community and to take their interests into account in decision-making.

The size and spread of VMED O2's business and our stakeholders mean that our stakeholder engagement generally takes place at an operational level, led by a member of the Executive Management Team supported by the Senior Leadership Team which consists of professionals for the respective areas. We find that this is the most efficient and effective approach and helps us achieve a greater positive impact on environmental, social and other issues that are relevant to our business. Some examples of our stakeholder engagement are set out in our Corporate Governance Statement on page 50. Regular updates are provided to the VMED O2 Board and the Executive Management Team (including the Directors of the Company) to help them understand the interests and views of VMED O2's key stakeholders and other relevant factors, which ensures that the Directors can take them into account when making decisions and can comply with their section 172 duty to promote the success of the Company. We set out below some examples of how the matters set out in section 172(1)(a) to (f) have been taken into account and the impact that has had on our decisions.

Employees

The focus from day one has been to engage and motivate the respective teams at VMED O2, to ensure everyone was ready for the journey to integrate Virgin Media and O2 and support our shared ambition to be the UK's connectivity champion. Following the requisite regulatory clearance and press release, the incoming CEO sent a welcome email to all the employees, followed by a livestream event watched by about 11,000 employees, either live or on catchup within the first week. Members of the Executive Management Team had additional briefing sessions with their respective teams, and we held interactive sessions and roadshows as part of the employee engagement strategy to keep employees informed on all matters of concern.

STRATEGIC REPORT (CONTINUED)**Employees (continued)**

From these sessions we were able to gauge the morale of the team, listen to their concerns and understand what really matters to our people – input which has in turn informed the priorities for our people strategy. To demonstrate our commitment to our employees, within a week of the Joint Venture formation, we launched two new staff offers to integrate the staff offerings across both businesses, which had successful uptake from employees. To enable a culture of continuous learning we have partnered with LinkedIn Learning to provide all of our people with access to a range of learning content (technical, professional, leadership and targeted learning on specific matters). In addition to this we run targeted programmes to build the talent resource within the business. Further details on our employee relations can be found on page 51 of the Corporate Governance Statement.

Customers

VMED O2 did not lose sight of the customer-first strategy as it continue to maintain commercial momentum. Within the first four months of the Joint Venture, VMED O2 launched Volt, a joint customer proposition, which provides exclusive benefits for being with the Virgin Media and O2 brands. Through interactions with customers and artificial intelligence solutions, VMED O2 understands its customers' pinch points, and as a result have made the decision to continue with the "roam like home" offering despite the UK's withdrawal from the European Union. The decision has received positive feedback from customers, society and government. Further details of our customer engagement to understand the customers' needs can be found on page 50 of the Corporate Governance Statement.

Responsible Business

We are committed to running our business responsibly, looking beyond our environmental and social impact initiatives to foster positive social and environmental change in our daily business operations. We communicate regularly and openly on our progress, with the annual publication of reports on corporate responsibility, modern slavery, gender pay gap and payment practices for the significant businesses in VMED O2.

Following the launch of the Joint Venture, we announced the Together Fund, working in partnership with the Together Coalition and Neighbourly to provide grants of £1,000 to 400 small charities across the UK that champion community spirit, belonging and togetherness. We also launched the National Databank in partnership with the Good Things Foundation to tackle data poverty across the UK, committing to provide £12.5m worth of O2 connectivity (7.5 million GB of data) by the end of 2023. In November, VMED O2 increased its data pledge to gift 10GB of mobile data to the Databank for every O2 plan purchased between 1 November 2021 and 31 January 2022.

The Databank is now being utilised by multiple mobile operators with the aim of helping over a quarter of a million people to get connected by the end of 2023. These partnerships demonstrate our commitment to tackle key social issues, developing innovative partnerships that create a fairer and more resilient economy and society. We have also set out our commitment to support a low carbon future, aiming to achieve net zero operations by the end of 2025 and supporting our customers to decarbonize too. Further details of our approach to responsible business can be found on pages 35 to 39 of the Non-Financial Report Statement.

Telefonica UK Limited
Year ended 31 December 2021

Registered Number: 01743099

STRATEGIC REPORT (CONTINUED)**Responsible business (continued)**

In May 2022, VMED O2 launched its new sustainability strategy, the Better Connections Plan, which has commitments to cut carbon, champion circularity, and support communities as it upgrades the UK. This includes targeting net zero carbon emissions in its full value chain, including operations, products and supply chain, by 2040. These commitments are all underpinned by an ambition to find a better way to do business by championing inclusive, equitable values, create a great place to work, and ensure partners and suppliers uphold its stringent ethical and environmental standards. Further details about the Better Connections Plan can be found at news.virginmediao2.co.uk/responsible-business/

PERFORMANCE AND DEVELOPMENT**Financial performance highlights**

The Company's profit for the year ended 31 December 2021 was £656 million (2020: £581 million).

The net assets of the Company as at 31 December 2021 were £4,886 million compared to £2,658 million at 31 December 2020, the movement of which is due to £1,411 million of a share premium issue, £656 million of profit for the year, £52 million actuarial loss after tax impacts on the defined benefit pension scheme, income tax related to other comprehensive loss of £10m, a dividend payment of £354 million, a capital contribution of £267 million, a share based payment of £3 million and an Other Reserves movement of £203 million.

The cash and cash equivalents of the Company at 31 December 2021 were £33 million compared to £76 million at 31 December 2020. The decrease of £43 million is driven by £1,486 million net cash flow from operating activities, £31 million net cash flow used in investing activities and £1,498 million cash flow used in financing activities. The significant cash flows within these areas are: £1,429 million for purchase of property, plant and equipment and intangible assets, proceeds from share issue of £1,411 million, £354 million dividend payment, £964 million repayment of borrowings, and £557 million property, plant and equipment depreciation.

Post Balance Sheet Events

In January 2022, CTIL entered into a £500 million revolving loan facility. The facility was issued at par, maturing on 6 January 2027 and bears interest at a rate of Sterling Overnight Index Average (SONIA) plus 2.00%, subject to a SONIA floor of 0.0%. The net proceeds from the facility were used to redeem the outstanding amount of CTIL's shareholder loans of £460 million, which were due to be repaid 8 January 2022.

The Strategic report was approved by the Board on 29 June 2022.

By Order of the Board



Vivienne Aziba
For and on behalf of VMED O2 Secretaries Limited
Secretary