

Telefonica O2 Holdings Limited
Annual Report and Financial Statements
Year ended 31 December 2022



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COMPANY INFORMATION

Directors

Thomas Peter de Albuquerque
Luis Ángel Prendes Arroyo
Guillermo Martinez Maside

Secretary

Prism Cosec Limited

Registered office

Highdown House
Yeoman Way
Working
West Sussex
BN99 3HH

Independent Auditors

PricewaterhouseCoopers LLP
40 Clarendon Road
Watford
Hertfordshire
WD17 1JJ

STRATEGIC REPORT

Telefonica O2 Holdings Limited (the “**Company**”) is a member of the Telefónica group of companies (the “**Telefónica Group**”). The immediate parent company is Telefónica, S.A. headquartered in Spain and listed on the Spanish stock exchange as well as the New York and Lima stock exchanges.

The Company has one subsidiary, mmO2 Ltd, a company that does not trade and does not have any employees or suppliers and qualifies as a small company as defined in section 382 of the Companies Act 2006.

In accordance with section 402 of the Companies Act 2006, a consolidated set of financial statements has not been prepared as the Company is exempt from the requirement to prepare consolidated group accounts. The Company has wholly-owned subsidiary, mmO2 Limited, that can be excluded from consolidation as its inclusion is not material for the purpose of giving a true and fair view in accordance with section 405 of the Companies Act 2006.

O2 and Virgin Media Joint Venture

On 7 May 2020, Liberty Global and Telefónica, S.A., amongst others, entered into the Contribution Agreement and agreed to form a 50:50 Joint Venture, VMED O2 UK Limited (“**VMED O2 UK**”), combining the operations of Virgin Media Inc. in the UK (“**Virgin Media**”) with the operations of O2 Holdings Limited and its subsidiaries (“**O2**”) in the UK (the “**Joint Venture**”). The Joint Venture was consummated on 1 June 2021.

The Joint Venture combines Virgin Media’s fibre-rich broadband network with O2’s leading mobile operations to create a leading telecommunications provider in the UK. As of 31 December 2022, the Joint Venture had 5.8 million fixed-line customers and 44.7 million total mobile connections.

Despite the difficult macroeconomic context, the Joint Venture has delivered its set guidance and made strong strategic and operational progress throughout the year. The Joint Venture introduced new products, such as TV Stream and Switch up and continues to drive fixed mobile convergence with its VOLT product. The Joint Venture delivered synergies according to its plan and the fixed footprint reached 16.1 million homes passed, meeting the full year build targets. In mobile, it expanded 5G services to more than 1,600 towns and cities, on-track to deliver 5G services to 50% of the UK population in 2023.

Business activities

During the year the purpose of the Company was to act as an intermediate holding company within the Telefónica Group, holding the investment in VMED O2 UK, the Joint Venture entity as described above. The Company’s main activities during the year were mainly to continue to maintain operational oversight of the Joint Venture, in particular the implications of the wider economic uncertainties on the Joint Venture businesses.

Telefónica, S.A. manages its operations centrally and therefore the Company’s directors do not believe that further key performance indicators for the Company are necessary to enhance the understanding of the development, performance or position of the business of the Company.

STRATEGIC REPORT (CONTINUED)

Performance and Development

After dividend income of £800m (2021: £5,954m) and an impairment loss in the amount of £392m (2021: £742m of loss on disposal of assets held for sale) the Company has generated a profit before tax of £424m in 2022 (2021: £5,235m). Dividends of £800m were declared in 2022 (2021: £2,000m).

The Company has paid dividends amounting to £1,800m (2021: £4,500m) in cash in the year, out of which £1,000m corresponded to outstanding dividends as at 31 December 2021 and £800 million related to those declared in 2022.

The net assets of the Company as at 31 December 2022 were £10,129m (2021: £10,508m).

Given that the Company mainly operates as a holding company, the performance of the Company is reliant on the performance of the Joint Venture and the Directors are of the opinion that analysis using key performance indicators is not necessary for understanding the Company's business itself.

Details about the operating performance of the Joint Venture, VMED O2 UK Limited, can be obtained from its website [Q4/FY22 financial results - Virgin Media O2](#); its financial statements; and from the financial results releases of the Company's shareholder, Telefónica, S.A.

Principal Risks and uncertainties

The Directors have satisfied themselves that it is not essential for the Company to have a separate risk management system. The principal risks are managed by the directors of Telefonica S.A. at the group level. The Company's principal activity is to act as a holding company and the risks to which the Telefónica Group is exposed includes the principal matters which would impact the risks and uncertainties facing the Company. Details of the Telefónica Group's risks, the potential impact and how they are being mitigated are discussed in the Telefónica Group's consolidated management report which do not form part of this report.

The Joint Venture faces certain risks and uncertainties as set out in the Joint Venture's financial statements which do not form part of this report.

Risks Relating to the Joint Venture transactions

We are exposed to certain risks relating to Joint Venture transactions. These include:

- The expected benefits and synergies from the Joint Venture transactions may not materialise.
- The integration of Virgin Media and O2 will be a significant exercise and could adversely affect the Joint Venture's business.
- As a result of the Joint Venture transactions, the Joint Venture recorded a significant amount of goodwill, which could be subject to impairment

How the Joint Venture manages this: Through the oversight of Telefónica teams over a collection of activities across the Joint Venture, collectively driven and delivered by its personnel, which, to name a few, include: strategic and operational planning, integration activities, service agreements with the Joint Venture parents and other relevant parties, operational and commercial delivery.

172(1) Statement

We have a responsibility to promote the success of the Company in good faith for the benefit of our ultimate shareholder whilst having regard, at least, to the following matters:

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

In discharging our responsibilities as directors to the Company, we have adopted the Telefónica Group's governance framework 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 the Company.

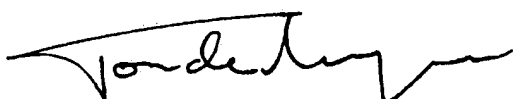
The affairs of the Company are conducted in accordance with the articles of association of the Company, and the directors are committed to running the Company's business responsibly and maintaining the highest standards of reputation and business conduct. As it is a holding company, the Company does not have any physical location of operations, nor any employees, suppliers (other than its auditor, PricewaterhouseCoopers LLP and company secretary, Prism CoSec Limited) or customers.

The Company's stakeholders are therefore its shareholders and the wider Telefónica Group. The Company has two shareholders, with one shareholder holding one share in a nominee capacity on behalf of Telefónica, S.A. The risk of acting unfairly between shareholders is not a risk that will arise for the Company.

Further detail on Telefónica Group's governance can be found in the Annual Corporate Governance Report within Telefónica, S.A.'s Annual Report at <https://www.telefonica.com/en/shareholders-investors/financial-reports/annual-report/>.

The Strategic Report was approved by the Board on 8 June 2023.

By Order of the Board



Thomas Peter de Albuquerque
Director

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

Legal form & Principal Activities

Telefonica O2 Holdings Limited ("**the Company**") is a Private Company limited by shares, incorporated in England and Wales under the registered number 5310128 and domiciled in the United Kingdom. The registered office address is Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH. It is a wholly owned subsidiary and the parent company is Telefónica, S.A., a company incorporated in Spain. The Company acts as a holding company for the operations of the Joint Venture, VMED O2 UK Limited; and as a holding company for its subsidiary, mmO2 Limited.

Future Developments

The company continues to perform its activities as a holding company for the Joint Venture. Further details of the O2/Virgin Media Joint Venture arrangement can be found on page 4 of the Strategic report.

Research and development

The company does not undertake any research and development activities.

Structure of branches

The company does not have any branches.

Directors and Secretary

The Directors of the Company who were in office during the year were:

Thomas Peter de Albuquerque

Guillermo Martinez Maside

Luis Angel Prendes Arroyo

The Secretary of the Company in office during the year was Prism Cosec Limited.

Directors' liability insurance and indemnity

Telefónica, S.A., the Company's parent company, maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against Directors of companies within the Telefónica Group and the Directors of the Company are covered by this insurance. The insurance was in force throughout the last financial year and is currently in force. The Company also granted an indemnity in the form permitted by the UK Companies Act to its Directors which also remains in force.

UK Employee Engagement Statement

The Company does not have any employees in its own right. Details of the Joint Venture's employee engagement and relationship can be found in VMED O2 UK Limited Consolidated Annual Report.

DIRECTORS' REPORT (CONTINUED)

Energy and Carbon Report

The Company did not have any energy and carbon footprint during the financial year ended 31 December 2022. However, the Company holds an investment in the Joint Venture with significant energy and carbon footprints, details of which are set out in a separate report; Streamlined Energy and Carbon Statement, part of the VMED O2 UK Limited Consolidated Annual Report.

Stakeholder Statement

The Company does not have any significant external stakeholders. Details of the main stakeholders of the Joint Venture can be found in the VMED O2 UK Limited Consolidated Annual Report.

Dividends

Dividends of £800m were declared in 2022 (2021: £2,000m). The Company has paid dividends amounting to £1,800m (2021: £4,500m) in cash in the year, out of which £1,000m corresponded to outstanding dividends as of 31 December 2021 and £800 million related to those declared in 2022.

Political donations

The Company made no political donations during the year ended 31 December 2022 (2021: £nil).

Financial Risk Management

Details of the Group's approach to financial risk management objectives and policies are set out in the financial statements in Note 16 "Financial instruments and capital management".

Capital structure and rights attached to shares

The details of the Company's capital structure including the rights attached to shares are detailed in Note 14 of the financial statements.

Going Concern

The Company's business activity is to act as an intermediate holding company within the Telefónica Group, holding the investment in the Joint Venture. The financial position of the Company is described in the Strategic Report. In addition, Note 16 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk, liquidity risk and interest rate risk

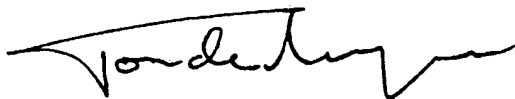
Statement of disclosure of information to Auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

DIRECTORS' REPORT (CONTINUED)

The Directors' report was approved by the Board on 8 June 2023.

By Order of the Board

A handwritten signature in black ink, appearing to read 'T. de Albuquerque', with a stylized, flowing script.

Thomas Peter de Albuquerque

Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 UK-adopted international accounting standards.

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 UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also 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 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.

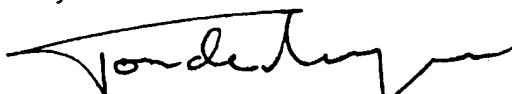
Directors' confirmations

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.

The Statement of Directors' responsibilities was approved by the Board on 8 June 2023.

By Order of the Board



Thomas Peter de Albuquerque
Director

Independent auditors' report to the members of Telefonica O2 Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Telefonica O2 Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2022; the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 2022 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, 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.

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 UK corporation tax legislation, 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. 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 posting inappropriate journal entries to increase income or reduce expenditure. Audit procedures performed by the engagement team included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the those charged with governance about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries, including journal entries with unusual account combinations.

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.

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.



Andrew Latham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

8 June 2023

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

| | Note | 2022 £m | 2021 £m |
|--|------|--------------|--------------|
| Other income | | 11 | 22 |
| Impairment losses | 10 | (392) | - |
| Loss on disposal of assets held for sale | | - | (742) |
| Operating loss | 4 | (381) | (720) |
| Finance income | | 5 | 1 |
| Dividend income | 7 | 800 | 5,954 |
| Profit before taxation | | 424 | 5,235 |
| Taxation | 8 | (3) | - |
| Profit after taxation and total comprehensive income for the year | | 421 | 5,235 |

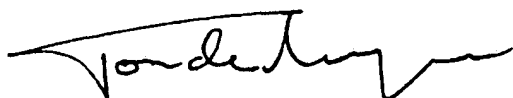
The accompanying notes on pages 18 to 27 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As of 31 December 2022

| | Note | 31 December 2022 £m | 31 December 2021 £m |
|--|------|---------------------------|---------------------------|
| Non-current assets | | | |
| Investments | 10 | 10,033 | 10,425 |
| | | 10,033 | 10,425 |
| Current assets | | | |
| Other receivables | 11 | 22 | 22 |
| Cash and cash equivalents | 12 | 83 | 1,291 |
| | | 105 | 1,313 |
| Current liabilities | | | |
| Trade and other payables | 13 | (9) | (1,230) |
| | | (9) | (1,230) |
| Net current assets | | 96 | 83 |
| Total assets less current liabilities | | 10,129 | 10,508 |
| Net assets | | 10,129 | 10,508 |
| Equity | | | |
| Share capital | 14 | 9 | 9 |
| Share premium | 14 | 1,852 | 1,852 |
| Retained earnings | | 8,268 | 8,647 |
| Total equity | | 10,129 | 10,508 |

The accompanying notes on pages 18 to 27 are an integral part of these financial statements.

These financial statements on pages 14 to 27 were approved by the Board of Directors and authorised for issue on 8 June 2023. They were signed on its behalf by:



Thomas Peter de Albuquerque
 Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

| | Share capital (Note 14) £m | Share premium (Note 14) £m | Retained earnings £m | Total equity £m |
|--|-------------------------------------|-------------------------------------|----------------------------|-----------------------|
| Balance at 1 January 2021 | 9 | 440 | 5,412 | 5,861 |
| Profit for the year | - | - | 5,235 | 5,235 |
| Total comprehensive income for the year | - | - | 5,235 | 5,235 |
| Dividends paid (Note 9) | - | - | (1,000) | (1,000) |
| Dividends unpaid | - | - | (1,000) | (1,000) |
| Share premium contribution (Note 14) | - | 1,412 | - | 1,412 |
| Balance at 31 December 2021 | 9 | 1,852 | 8,647 | 10,508 |
| Profit for the year | - | - | 421 | 421 |
| Total comprehensive income for the year | - | - | 421 | 421 |
| Dividends paid (Note 9) | - | - | (800) | (800) |
| Balance at 31 December 2022 | 9 | 1,852 | 8,268 | 10,129 |

The accompanying notes on pages 18 to 27 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

| | Note | 2022 £m | 2021 £m |
|--|------|----------------|----------------|
| Profit before taxation | | 424 | 5,235 |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Finance income | | (5) | (1) |
| Dividend income | 7 | (800) | (5,954) |
| Loss on disposal of assets held for sale | | - | 742 |
| Impairment losses | | 392 | - |
| Operating profit before adjustments for working capital changes | | 11 | 22 |
| (Increase)/decrease in other receivables | | - | (20) |
| (Decrease) in other payables | 13 | (224) | (119) |
| Interest received | | 5 | - |
| Net cash flow used in operating activities | | (208) | (117) |
| Dividends received | | 800 | 5,954 |
| Acquisition of shares in subsidiary | | - | (1,412) |
| Return of capital on investment in subsidiary | | - | 101 |
| Price adjustment on acquisition of Joint Venture | | - | (63) |
| Net cash flow generated from investing activities | | 800 | 4,580 |
| Dividends paid | | (1,800) | (4,500) |
| Repayment of loan | | - | (101) |
| Issue of ordinary shares | | - | 1,412 |
| Net cash flow used in financing activities | | (1,800) | (3,189) |
| Net (decrease)/increase in cash and cash equivalents | | (1,208) | 1,274 |
| Cash and cash equivalents at 1 January | | 1,291 | 17 |
| Cash and cash equivalents at 31 December | | 83 | 1,291 |

The accompanying notes on pages 18 to 27 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. General information

Telefonica O2 Holdings Limited (the "**Company**") is a private company limited by shares and domiciled in the United Kingdom. It is incorporated in England and Wales under the registered company number 5310128. The address of the Company's registered office is Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH. The principal activity of the Company is to act as an intermediate holding company within the Telefónica Group.

The Company holds a 50% share in VMED O2 UK Limited (**the Joint Venture**), which is a 50:50 Joint Venture that was formed on 1 June 2021 between Liberty Global plc. and Telefónica, S.A. Telefonica O2 Holdings Limited is a wholly owned subsidiary of Telefónica S.A.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements have been prepared using historical cost principles.

The principal accounting policies of the Company applied in the preparation of these financial statements are set out below. The IFRS accounting policies have been applied consistently to all periods presented.

2.2 Consolidated financial statements

In accordance with section 402 of the Companies Act 2006, consolidated financial statements have not been prepared as the Company is exempt from the requirement to prepare consolidated group accounts. The Company has wholly-owned subsidiary, mmO2 Limited, excluded from consolidation as its inclusion is not material for the purpose of giving a true and fair view in accordance with section 405 of the Companies Act 2006.

2.3 Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the 12-month period from the date on which the financial statements were approved thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.4 Functional currency

These financial statements are presented in pounds sterling, which is also the functional currency, because that is the currency of the primary economic environment in which the Company operates.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2022****2. Significant accounting policies (continued)****2.5 Investments**

Investments are stated at cost less provision for impairment. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an investment's fair value less costs to sell and value in use.

Investments in subsidiary undertakings and Joint Ventures are tested for impairment indicators annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable.

2.6 Financial income and expense

Financial income principally consists of interest income on Company deposits and gains arising from foreign exchange rate instruments. Financial expense principally consists of interest expense on Company borrowings and losses arising from foreign exchange rate instruments.

2.7 Taxation

Taxation expense for the period comprises current tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. 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 on the basis of amounts expected to be paid to the tax authorities.

2.8 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents relate entirely to cash at bank only.

2.9 Financial assets

The Company's financial assets relate to other receivables arising from intercompany transactions and are measured at amortised cost. The Company assesses on a forward-looking basis the expected credit losses associated with its trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk or probability of default for balances repayable on demand.

2.10 Dividend income and distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders until paid.

Income is recognised when the Company's rights to receive the payment is established. Dividends received from subsidiary and associate companies are recognised as finance income in the Company's financial statements in the period in which the dividends are declared.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2022****2. Significant accounting policies (continued)****2.11 New standards and interpretations not yet adopted**

At the date of preparation of the consolidated financial statements, the following IFRS and amendments to existing standards had been published, but their application is not mandatory:

| Standard and amendments | Annual periods beginning on or after |
|---|---|
| IFRS 17 | 1 January 2023 |
| Amendments to IAS 1 Disclosure of Accounting Policies | 1 January 2023 |
| Amendments to IAS 8 Definition of Accounting Estimates | 1 January 2023 |
| Amendments to IAS 12 Deferred Tax related to Assets and Liabilities Arising from a Single Transaction | 1 January 2023 |
| Amendments to IAS 12 International Tax Reform—Pillar Two Model Rules | 1 January 2023 |
| Amendments to IAS 1 Classification of Liabilities as Current or Non-current | 1 January 2024 |
| Amendments to IAS 1 Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IAS 16 Lease Liability in a Sale and Leaseback | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements | 1 January 2024 |

Based on the assessment performed to date, the Group estimates that the adoption of these new pronouncements will not have a significant impact on the financial statements in the initial period of application.

3. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. A significant change in the facts and circumstances on which these estimates and judgements are based could have a material impact on the Company's earnings and financial position. The estimates and assumptions which are significant to the financial statements are discussed below.

3.1 Impairment of investments - Critical accounting estimate

Investments are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss must be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount.

An impairment exists when the carrying value of an investment exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from forecasts. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as the expected cash inflows and the growth rate used for extrapolation purposes.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. Critical accounting estimates and judgements (Continued)

3.2 Joint arrangements - Critical accounting judgement

IFRS11 establishes principles for the financial reporting of parties to joint arrangements. It defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Upon formation of the joint arrangement, the Company determined its interest in VMED O2 UK Limited as a Joint Venture. Each Shareholder holds 50% of the issued share capital of VMED O2 UK Limited. The Shareholders Agreement contains customary provisions for the governance of a 50:50 Joint Venture that result in Telefónica S.A. and Liberty Global having joint control over decision making with respect to the Joint Venture.

4. Operating loss

Operating loss from continuing activities is stated after charging:

| | 2022 £m | 2021 £m |
|--|------------|------------|
| Loss on disposal of assets held for sale | - | 742 |
| Impairment losses (Note 10) | <u>392</u> | <u>-</u> |

5. Auditors' remuneration

The aggregate fees paid to auditors during the year for audit and other services are analysed below:

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Fees payable to the Company's auditors for the audit of the Company's financial statements | <u>143</u> | <u>185</u> |

In addition, the Company has incurred £16k (£80k in 2021) audit fees for its subsidiary, mmO2 Limited. No non-audit services have been provided to Telefonica O2 Holdings Limited.

6. Directors and employees

No directors are remunerated for their services to the Company. Directors' remuneration, including benefits, are met by other Telefónica Group companies. The number of employees in the company were Nil (2021: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. Dividend income

| | 2022 £m | 2021 £m |
|---|------------|--------------|
| Dividends received from O2 Holdings Limited | - | 5,793 |
| Dividends received from VMED O2 UK Limited | 800 | 161 |
| Dividend income | 800 | 5,954 |

8. Taxation

The analysis of the charge/(credit) for the year is as follows:

| | 2022 £m | 2021 £m |
|------------------|------------|------------|
| Current Tax | 3 | - |
| Total Tax | 3 | - |

The tax assessed for the year varied from the amount computed by applying the UK statutory tax rate to profit or loss on ordinary activities before taxation. The differences were attributable to the following factors:

| | 2022 £m | 2021 £m |
|--|------------|--------------|
| Profit before tax from continuing operations | 424 | 5,235 |
| Profit before taxation | 424 | 5,235 |
| Profit on ordinary activities multiplied by the rate of UK corporation tax of 19% (2021: 19%) | 81 | 995 |
| Income not taxable for tax purposes | (152) | (1,136) |
| Expenses not deductible | 74 | 141 |
| Taxation for the year | (3) | - |

Income not taxable relates principally to dividends received.

The statutory tax rate is the U.K. rate of 19.0%. In March 2021, legislation was introduced to increase the U.K. corporate income tax rate from 19.0% to 25.0% from 1 April 2023. This rate change was substantively enacted on 24 May 2021 (Finance Bill 2021).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. Dividends declared

| | 2022 £m | 2021 £m |
|--|------------|--------------|
| Dividend – 9.007p (2021: 22.52p) per share | <u>800</u> | <u>2,000</u> |

Dividends of £800m (2021: £2,000m) were declared and paid in 2022.

10. Investments

| | 2022 £m | 2021 £m |
|--------------------|---------------|---------------|
| mmO2 Limited | - | 2 |
| VMED O2 UK Limited | <u>10,033</u> | <u>10,423</u> |
| | <u>10,033</u> | <u>10,425</u> |

10.1. Assessment of impairment of investments in joint ventures

At each year end, the Company re-estimates the future cash flows derived from its investments. The estimate is based on the expected cash flows to be received from the joint venture in its functional currency, discounted using the appropriate rate, net of the liabilities associated (mainly net debt), considering the percentage of ownership. The main assessments used to determine the discounted cash flows are the revenue growth, the long term operating income before depreciation and amortization (OIBDA) margin, the long-term investment ratio, the weighted average cost of capital (WACC) and the perpetual growth rate, indicators employed by Telefónica Group in its investments valuation.

As a result of these estimations an impairment provision in the amount of £390 million was recognized in VMED O2 UK Limited investment.

Regarding the main assumptions used for the calculation of the discounted cash flows the ratios of operating variables included in the valuation are within the ranges expected by analysts for comparable companies in the region. As far as the revenues are concerned, the Joint Venture business plan envisages trend of improvement or stability in the projections aligned with the evolution of the group's analysts expectation. Moreover, the analysts' estimates for the long-term two-year OIBDA margin for the Joint Venture are in a range within 35% to 39%. With respect to the long-term investment over revenues ratio, the investment needs are forecasted by analysts to be around 19%. The WACC used to discount the cash flows is 7.3% for 2022. Terminal growth rate is set at 1%, below the real terminal growth forecast for the UK economy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. Other receivables

| | 2022 £m | 2021 £m |
|-----------------------------------|------------|------------|
| Amounts owed by the Joint Venture | 22 | 22 |
| | <u>22</u> | <u>22</u> |

Amounts owed by the Joint Venture represent receivables due from VMED O2 UK Limited.
All intercompany balances are interest free.

12. Cash and cash equivalents

| | 2022 £m | 2021 £m |
|--------------|------------|--------------|
| Cash at bank | 83 | 1,291 |
| | <u>83</u> | <u>1,291</u> |

Cash and cash equivalents represent balances held with Telfisa Global BV, a related party.

13. Trade and other payables

| | 2022 £m | 2021 £m |
|--|------------|--------------|
| Dividends payable | - | 1,000 |
| Amounts owed to group and related undertakings | 2 | - |
| Amounts owed to the Joint Venture | - | 214 |
| Taxation | 3 | - |
| Other payables | 4 | 16 |
| | <u>9</u> | <u>1,230</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

14. Share capital and reserves

| | 2022 | | 2021 | |
|---|------------------|----|------------------|----|
| Share capital | Number of shares | £m | Number of shares | £m |
| Called up, allotted and fully paid | | | | |
| Ordinary shares of 0.1 pence each | 8,882,223,780 | 9 | 8,882,223,780 | 9 |

The Company has one class of issued share capital, comprising ordinary shares of 0.1 pence each. Subject to the Company's articles of association, and applicable law, the Company's ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any right of redemption.

Share premium

The share premium account represents the premium on shares issued. The reserve is non-distributable.

| | 2022 | | 2021 | |
|---------------|------------------|-------|------------------|-------|
| Share premium | Number of shares | £m | Number of shares | £m |
| Share premium | 8,882,223,780 | 1,852 | 8,882,223,780 | 1,852 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. Subsidiary undertakings and joint arrangements

A complete list of the Company's subsidiary undertakings and joint arrangements at 31 December 2022 is detailed below.

| Name | Country of incorporation and operation | Nature of business | Portion of ordinary shares held |
|---|--|--------------------|---------------------------------|
| VMED O2 UK Limited Registered office: Griffin House, 161 Hammersmith Road, London, United Kingdom, W6 8BS | England and Wales | Telecoms | 50 (Joint Venture) |
| mmO2 Limited Registered office: Highdown House, Yeoman Way, Worthing, West Sussex, United Kingdom, BN99 3HH | England and Wales | Non-trading | 100 |

16. Financial instruments and capital management

Financial risk factors and management

The Company's principal financial liabilities comprise intercompany trade and other payables. The purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as intercompany receivables and cash. The principal financial risks of the Company and how the Company manages these risks are discussed below:

Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

(i) Risk management

The Company's principal credit risks are attributable to its other financial assets which mostly comprise intercompany receivables and cash and cash equivalents. Credit risk is managed on a Telefónica Group basis.

(ii) Intercompany receivables

Intercompany receivables are considered to have a low credit risk and no loss allowance is recognised. Management consider 'low credit risk' to be when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term or on demand.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

16. Financial instruments and capital management (Continued)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.

Management of the Company's liquidity risk is reduced through being a part of the larger Telefónica Group.

Market risk

(i) Foreign currency risk

The Company also has a small amount of transactional exposure. Such exposure arises from cash accounts with Telfisa bank accounts.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk arises primarily from the effects of movements in interest rates on the interest received on cash and cash equivalents. The majority of the Company's cash and cash equivalents are deposited with a central Telefónica group company that pays interest at variable market rates.

17. Capital Management

The Company's capital comprises share capital and retained earnings. The Company's objectives when managing capital are to safeguard the Company's ability to continue to operate as a going concern, to maintain optimal capital structure commensurate with risk and return and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may pay dividends to its shareholder, return capital to its shareholder, issue new shares or sell assets to reduce debt or draw down more debt.

18. Parent company and controlling party

The Company's immediate & ultimate parent company and controlling party is Telefónica, S.A., a company incorporated in Spain, which prepares consolidated financial statements. Consolidated financial statements of Telefónica, S.A. may be obtained in its website at www.telefonica.com or from its registered address, Gran Vía, 28, Madrid, Spain.