Registered Number: 2604354

# O2 Holdings Limited

# Annual Report and Financial Statements for the year ended 31 December 2012

## Contents

**O2 Holdings Limited**
**Company information**

Registered No 2604354

**Directors**

Robert Harwood
Maria Pilar López Alvarez
Enrique Medina Malo
Jesus Perez de Uriguen

**Secretary**

O2 Secretaries Limited

**Registered office**

260 Bath Road
Slough
Berkshire
SL1 4DX
UK

**Auditor**

Ernst & Young LLP
1 More London Place
London
SE1 2AF

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012

## CORPORATE STRUCTURE

O2 Holdings Limited (the "Company") is a private limited company registered in England and Wales under the number 2604354 The registered address is 260 Bath Road, Slough, Berkshire SL1 4DX It is a wholly owned subsidiary within the Telefonica group of Companies, The ultimate UK parent is Telefonica Europe plc and the ultimate parent is Telefónica S A , a company incorporated in Spain

## PRINCIPAL ACTIVITY

The principal activity of the Company during the year was to act as an intermediate holding company providing services to the Group References to 'the Group' in this report refer to Telefonica Europe plc and its subsidiaries, of which the Company is a part of

The Company is expected to continue as an intermediate holding company for the foreseeable future

## BUSINESS REVIEW

### Financial performance of the Company for the year ended 31 December 2012

The operating loss for the Company has increased by £583 million year on year to £610 million in 2012 (31 December 2011 loss of £27 million) The loss is largely attributable to a charge for impairment of investments in subsidiaries

The operating loss is partly offset by net financial income £149 million (31 December 2011 £152 million) and taxation credit of £154 million (31 December 2011 £9 million) As a result, the net loss after tax for the year ended 31 December 2012 was £307 million (31 December 2011 profit of £134 million)

### Financial position of the Company as at 31 December 2012

The net assets of the Company at 31 December 2012 were £3,007 million compared to £3,786 million at 31 December 2011 Details of significant movements have been detailed below

Investments in subsidiary undertakings has decreased from £11,422 million at 31 December 2011 to £10,832 million at 31 December 2012 due to an impairment of investments of £590 million in O2 International Holdings Limited and Kilmaine Limited The impairment has been the result of the downward valuation of Telefonica Ireland, an indirect subsidiary of the Company

Current liabilities have increased by £478 million in 2012 to £9,134 million This increase has resulted mainly from the new loans and interest accruing on outstanding internal loan balances with various companies within the Group

Current assets have increased by £299 million to £1,301 due to increases in trade and other receivables and cash and cash equivalents

### Financial risk management objectives, policies and exposure

Details of the Group's approach to financial risk management are set out in the financial statements in note 19 "Financial instruments"

### Going Concern

The Company's business activity is to act as an intermediate holding company within the Group The financial position of the Company is described in this report In addition, note 19 to the financial statements includes the Company's objectives, policies and processes for managing its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk As a consequence, the Directors believe that the Company is well placed to manage its business risk successfully despite the current uncertain economic outlook

The Directors have a reasonable expectation that with the continuing financial support of the Group, the Company has the ability to continue in existence for the foreseeable future thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

### Risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integral to the principal risks and uncertainties of the Group and are not managed separately A comprehensive analysis of the principal risks and uncertainties which impact the Group are disclosed in the consolidated Annual Report and financial statements of mmO2 plc, the Company's immediate parent Company

### Results

The audited financial statements are presented on pages 11 to 41

### SUBSEQUENT EVENT

On 30 April 2013, one of the Company's intermediate subsidiaries, Telefonica UK disposed of its UK consumer broadband and fixed-line telephony business, Be Un Limited, to British Sky Broadcasting Limited

On 24 June 2013, Telefonica S A, the Company's ultimate parent, announced that an agreement had been reached with Hutchison Whampoa Group, for the sale of its subsidiary Telefonica Ireland Limited The value of the sale totals €850 million, including an initial cash consideration of €780 million at closing of the transaction, and an additional deferred payment of €70 million based on the completion of agreed financial objectives

The transaction is subject, among other conditions, to the relevant competition approvals

On 30 September 2013, it was noted that due to a technical irregularity the amounts purportedly paid from O2 International Holdings Limited as dividends of £642m, paid on December 2012 and £384m paid on June 2013, were deemed to be held in trust for O2 International Holdings Limited The parties agreed that these amounts were to be reclassified as an interest free loan repayable on demand by the Company

### DIVIDENDS

During the year ended 31 December 2012 the directors declared and paid interim dividends of £468,975,663 (year ended 31 December 2011 £8,775,305,718)

**DIRECTORS AND SECRETARIES**

The Directors who held office during the year and currently, except where shown otherwise are as follows

| | |
|---|---|
| Robert Harwood | |
| Maria Pilar López Alvarez | |
| Enrique Medina Malo | |
| David Melcon | (resigned on 1 October 2012) |
| Jesus Perez de Uriguen | (appointed on 23 August 2012) |
| Edward Smith | (resigned on 31 August 2012) |

O2 Secretaries Limited served as secretary throughout the year

**DIRECTORS' LIABILITY INSURANCE AND INDEMNITY**

Telefonica Europe plc, the Company's ultimate UK parent company, has granted an indemnity in the form permitted by UK Company Law to Directors appointed to subsidiary companies This indemnity remains in place and continues until such time as any relevant limitation periods for bringing claims (as defined in the indemnity) against the Director has expired, or for so long as the past Director, where relevant, remains liable for any losses (as defined in the indemnity)

## EMPLOYEES

The Company has a wide range of communication channels with employees including face-to-face meetings, team briefings, audio conferences and a comprehensive intranet with tailored content dependent on employee segmentation The aim of all these channels is to ensure employees fully understand the Company's objectives and its operational and financial performance as well as our latest products and services, whilst creating an inclusive employee culture In addition the Company conducts an annual engagement survey with additional regular temperature checks and maintains a constructive dialogue with unions, employee representative bodies and works councils

The employee experience is paramount and the Company continues to be committed to the development of all people in the organisation, actively promoting this through many training and development initiatives People are encouraged and supported in maintaining personal development plans The Company has invested in e-learning technology to give people better access to a wide range of learning opportunities

The Company is committed to employment policies that follow best practice, based on equal opportunities for all, and recognises the diversity of its people This approach includes the fair treatment of people with disabilities in relation to their recruitment, training and development The Company has also invested in researching age, gender and disability diversity across the organisation, seeking to support all employees and their career development at every level of the organisation

**SHARE CAPITAL**

Details of the issued share capital of the Company at 31 December 2012 are given in note 16 to the financial statements

## COMMUNITY INVOLVEMENT

During the year ended 31 December 2012, the mmO2 plc group, of which O2 Holdings is a part, made donations to charitable and community organisations totalling £1,182,008 (2011 £2,085,525) of which £828,969 (2011 £1,435,400) was made from UK based companies As in previous years, no political donations were made

## POLICY ON THE PAYMENT OF SUPPLIERS

The Company aims to pay all of its creditors promptly The payment terms for major contracts are agreed at the same time as other terms are negotiated with individual suppliers

## STATEMENT AS TO DISCLOSURE TO AUDITOR

So far as each Director is aware, there is no relevant audit information of which the Company's auditor was unaware The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

By Order of the Board

Robert Harwood
For and on behalf of
O2 Secretaries Limited
Company Secretary
30 September 2013

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period In preparing the financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance,
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- make judgments and estimates that are reasonable and prudent

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 They 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

## Independent Auditor's Report to the members of O2 Holdings Limited

We have audited the financial statements of O2 Holdings Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## Independent Auditor's Report to the members of O2 Holdings Limited (continued)

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 September 2013

## O2 Holdings Limited
## Statement of comprehensive income
## Year ended 31 December 2012

Registered No 2604354

| | Note | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|---|
| Other operating income | | **95** | 94 |
| Administrative expenses | | **(115)** | (121) |
| Other non-recurring expenses | 5 | **(590)** | - |
| **Operating loss** | 2 | **(610)** | (27) |
| Financial income | 3 | **242** | 246 |
| Financial expense | 3 | **(93)** | (94) |
| **(Loss) / profit before taxation** | | **(461)** | 125 |
| Taxation credit | 4 | **154** | 9 |
| **(Loss) / profit for the year attributable to equity shareholders of the parent** | | **(307)** | 134 |
| **Other Comprehensive Income** | | | |
| Actuarial loss on defined benefit pension plans | 14 | **(1)** | - |
| Deferred tax on amounts recognised in reserves | 15 | **(2)** | - |
| **Other comprehensive loss for the year, net of tax** | | **(3)** | - |
| **Total comprehensive (loss) / income for the year attributable to the equity holders of the parent** | | **(310)** | 134 |

The accompanying notes are an integral part of these financial statements

**O2 Holdings Limited** Registered No 2604354

**Statement of financial position**

**As at 31 December 2012**

| | Note | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiary undertakings | 5 | **10,832** | 11,422 |
| Property, plant and equipment | 7 | **-** | - |
| Other intangible assets | 8 | **24** | 35 |
| Deferred tax assets | 15 | **5** | 5 |
| | | **10,861** | 11,462 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **1,229** | 1,001 |
| Cash and cash equivalents | 10 | **72** | 1 |
| | | **1,301** | 1,002 |
| **Current liabilities** | | | |
| Borrowings | 11 | **(8,822)** | (8,330) |
| Trade and other payables | 12 | **(311)** | (317) |
| Provisions | 13 | **(1)** | (9) |
| | | **(9,134)** | (8,656) |
| **Net current liabilities** | | **(7,833)** | (7,654) |
| **Total assets less current liabilities** | | **3,028** | 3,808 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 14 | **(6)** | (5) |
| Borrowings | 11 | **(12)** | (12) |
| Provisions | 13 | **(3)** | (5) |
| | | **(21)** | (22) |
| **Net assets** | | **3,007** | 3,786 |
| **Equity** | | | |
| Ordinary share capital | 16 | **12** | 12 |
| Share premium | | **-** | - |
| Retained earnings | | **2,995** | 3,774 |
| **Total equity** | | **3,007** | 3,786 |

The accompanying notes are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 30 September 2013 and were signed on its behalf by

Jesus Perez de Uriguen
Director

**O2 Holdings Limited** Registered No 2604354
**Statement of changes in equity**
**Year ended 31 December 2012**

| Company | Ordinary share capital £m | Share premium £m | Retained earnings £m | Total Equity £m |
|---|---|---|---|---|
| **At 1 January 2011** | **12** | **15,718** | **(3,303)** | **12,427** |
| Share capital reduction | - | (15,718) | 15,718 | - |
| Dividends paid | - | - | (8,775) | (8,775) |
| Total comprehensive income for the year | - | - | 134 | 134 |
| **At 31 December 2011** | **12** | **-** | **3,774** | **3,786** |
| Share capital reduction | - | - | - | - |
| Dividends paid | - | - | (469) | (469) |
| Total comprehensive loss for the year | - | - | (310) | **(310)** |
| **At 31 December 2012** | **12** | **-** | **2,995** | **3,007** |

The accompanying notes are an integral part of these financial statements

## O2 Holdings Limited
## Statement of cash flows
## Year ended 31 December 2012

Registered No 2604354

| | Note | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|---|
| **Operating loss** | | **(610)** | (27) |
| Depreciation and amortisation charges | 7, 8 | **13** | 12 |
| Decrease / (Increase) in trade and other receivables | 9 | **(228)** | (2) |
| Increase in trade and other payables | 12 | **(6)** | 24 |
| Increase / (decrease) in provisions | 13 | **(10)** | (27) |
| Other non-cash movements | | **837** | - |
| **Net cash flow used in operating activities** | | **(4)** | (20) |
| Increase in intangible assets | 8 | **(3)** | (17) |
| Dividends received | 3 | **211** | - |
| **Net cash flow generated by / (used in) investing activities** | | **208** | (17) |
| Net proceeds from increase in borrowings | 11 | **340** | 8,713 |
| Dividends paid | 6 | **(469)** | (8,775) |
| Interest paid | | **(4)** | (18) |
| **Net cash flow used in financing activities** | | **(133)** | (80) |
| **Net increase/(decrease) in cash and cash equivalents** | | **71** | (117) |
| **Cash and cash equivalents at start of the year** | 10 | **1** | 118 |
| **Cash and cash equivalents at end of the year** | 10 | **72** | 1 |

The accompanying notes are an integral part of these financial statements

## 1 Accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as adopted for use in the EU In addition the financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared using historical cost principles except that, as disclosed in the accounting policies below, certain items are measured at fair value

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

### Consolidated financial statements

In accordance with s400 of the Companies Act 2006, consolidated financial statements have not been prepared as the Company and its subsidiaries are included in the group financial statements of mmO2 Copies of the financial statements of mmO2 may be obtained from 260 Bath Road, Slough, Berkshire, SL1 4DX

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

### Functional currency

The Company financial statements are presented in sterling, which is also the functional currency

Transactions denominated in foreign currencies are translated at the exchange rate on the day the transaction occurred to the functional currency of the entity Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the statement of financial position date

Foreign exchange differences arising on translation are recognised in the income statement Non-monetary assets and liabilities denominated in foreign currency are translated at the foreign currency exchange rate ruling at the dates the non-monetary assets and liabilities are recognised

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any accumulated impairment losses, where applicable The cost of property, plant and equipment includes directly attributable incremental costs incurred in its acquisition and installation and also the initial estimate of costs of dismantling, removing the item and restoring the site on which it is located Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalised

Depreciation is provided on property, plant and equipment from the date they are available for use over their estimated useful lives on a straight-line basis The lives assigned to property, plant and equipment are

| | |
|---|---|
| Computers and office equipment | 2 to 6 years |

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each statement of financial position date

## 1. Accounting policies (continued)

### Other intangible assets

***Software***

Software is capitalised and measured at the cost incurred to acquire and bring into use the specific software These costs are amortised over their estimated useful lives of between 2 and 6 years on a straight line basis Costs that are directly associated with the production of identifiable unique software products controlled by the Company, which are expected to generate economic benefits over a period of more than one year, are recognised as intangible assets Computer software development costs recognised as intangible assets are amortised over their estimated useful lives not exceeding 6 years on a straight line basis

### 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

### Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment Assets with a definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units")

### Employee benefits

***Employee benefits - Pension obligations***

The Company operates both defined benefit and defined contribution plans A defined benefit plan generally provides pensions based on the employee's length of service and their final pensionable salary A defined contribution plan offers employees individual funds which are converted into pension benefits on retirement

The company participates in the Telefonica Pension Plan ("Telefonica PP"), a scheme sponsored by Telefonica Europe plc that provides benefits for the majority of the UK employees in the Telefonica Europe plc group The Telefonica PP has both defined benefit and defined contributions sections and covers all employees of the Group The defined benefit sections are closed to new entrants The assets of the schemes are held independently of the Company's finances

In its capacity as a participating employer in the defined contribution section of the Telefonica PP, the Company pays contributions into the Plan on behalf of the employees The Company has no further payment obligations once the contributions have been paid The contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

Companies within the Group account for the defined benefit sections of the Telefonica Pension Plan as though it were a defined contribution plan as there is no arrangement for charging out the net defined benefit cost between participating employers The net defined benefit cost of the defined benefit sections, as assessed in accordance with the advice of a qualified, independent actuary using the projected unit method and taking assets at market value, is recognised by the sponsoring employer Accordingly the defined benefit liability or asset of the Telefonica PP is not recognised on the statement of financial position of the Company as the sponsoring employer is Telefonica Europe plc Disclosures of the defined benefit sections of the Telefonica PP are provided in note 14 Additional disclosure in line with the requirements of IAS 19 for both the current and previous accounting periods is provided in the consolidated Annual Report and financial Statements of mmO2 plc for the year ended 31 December 2012

## 1. Accounting policies (continued)

### Share based payments

The Group recognises an expense for share awards and share options, which are both equity and cash settled, based on the fair value of the share awards or share options granted as compensation for the services rendered by employees The fair value is calculated at the grant date using an adjusted statistical model and excludes the impact of non-market conditions Instead, the expense is adjusted for the effect of non-market conditions at each reporting date through the number of share awards or share options expected to be exercisable The effect of market and non-vesting conditions is included in the fair value at the date of grant and is recognised as an expense irrespective of whether the market or non-vesting condition is satisfied Any proceeds received are credited to share capital and share premium when the share option or award are exercised In addition, for cash-settled share based payment transactions, the Group measures the services received and the liability incurred at the fair value of the liability Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in the consolidated statement of comprehensive income for the period

### Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable future taxable profits will be available against which deductible temporary differences can be utilised

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred income tax and current tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Income tax relating to items recognised directly in other comprehensive income is also recognised directly in other comprehensive income

### Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position

### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable than an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost

The Company recognises a provision for exceptional contractual costs when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract Restructuring provisions comprise employee termination payments, and these are recognised in the period in which the Company becomes legally or constructively committed to payment

## 1 Accounting policies (continued)

### Borrowings

Borrowings are recognised initially at fair value Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the cost and the redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis Accrued interest on borrowings is included within the carrying value

### Dividends

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

### New IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012

- IAS 12 Deferred Taxes Recovery of Underlying Assets

- IFRS 7 Financial Instruments Disclosures – Enhanced Derecognition Disclosure Requirements

The company adopted these amendments to IFRS from 1 January 2012 Adopting these amendments has had no impact on the current or prior period

At the date of preparation of the consolidated financial statements the following IFRS and IFRIC interpretations have been published, but their application is not mandatory

| Title | Effective date (annual periods beginning on or after) |
|---|---|
| IFRS 9 - Financial Instruments | 1 January 2015 |
| IFRS 10 - Consolidated Financial Statements | 1 January 2013 |
| IFRS 11 - Joint Arrangements | 1 January 2013 |
| IFRS 12 - Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13 - Fair Value Measurement | 1 January 2013 |
| IAS 27 (Revised) - Separate Financial Statements | 1 January 2013 |
| IAS 28 (Revised) - Investments in Associates and Joint Ventures | 1 January 2013 |
| Amendment to IAS 1 - Presentation of Items of Other Comprehensive Income | 1 July 2012 |
| IAS 19 (Revised) - Employee Benefits | 1 January 2013 |
| Amendment to IAS 32 - Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| Amendments to IFRS 7 - Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| Amendments to IFRS 7 and IFRS 9 - *Mandatory Effective Date and Transition Disclosures* | 1 January 2015 |
| IFRIC Interpretation 20 - *Stripping Costs in the Production Phase of a Surface Mine* | 1 January 2013 |
| Amendments to IFRS 1 - *Government Loans* | 1 January 2013 |
| Annual Improvements to IFRSs 2009-2011 Cycle | 1 January 2013 |

## 1. Accounting policies (continued)

The management is currently analyzing the potential impact of the application of the aforementioned standards, amendments and interpretations As there are a significant number of changes, it is possible that such application may have some impact on its financial statements in the initial period of application The company will adopt all applicable standards from their effective date

### Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions It also requires management to exercise judgement in the process of applying the Company's accounting policies A significant change in the facts and circumstances on which these estimates are based could have a material negative impact on the Company's earnings and financial position The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements are discussed below

***Provisions***

Provisions are recognised when an event in the past gives rise to a current obligation for the Company, the settlement of which requires an outlay that is considered probable and can be estimated reliably This obligation may be legal or constructive, deriving from regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that the Company will assume certain responsibilities The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, taking into account all available information

No provision is recognised if the amount of liability cannot be estimated reliably In this case, the relevant information is disclosed in the notes to the financial statements

Given the uncertainties inherent in the estimates used to determine the amount of provision, actual outflows of resources may differ from the amounts recognised originally on the basis of the estimates

## 2. Operating loss

| | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|
| **Operating loss is stated after charging / (crediting)** | | |
| Total amortisation of other intangible assets (note 8) | 13 | 10 |
| Management charges to Group undertakings | (95) | (90) |
| Employee benefit expense (note 22) | 25 | 30 |

Management charges to Group undertakings represent recharges for services provided to fellow group companies within the Group These services include use of the brand and other centrally provided services Further details of intercompany loans and trading balances are included within note 17

## 3. Net financial income

| | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|
| Interest income on loans to subsidiaries and other related parties (note 17) | 15 | 183 |
| Interest income on loans to immediate parent company (note 17) | - | 50 |
| Dividends received from subsidiary companies | 215 | - |
| Foreign exchange differences | 12 | 13 |
| **Financial income** | **242** | 246 |
| Interest expense on borrowings from subsidiaries and other related parties (note 17) | (88) | (86) |
| Interest expense on borrowings from immediate parent company (note 17) | - | (6) |
| Foreign exchange differences | (5) | (2) |
| **Financial expense** | **(93)** | (94) |
| **Net financial income** | **149** | 152 |

## 4. Taxation

The analysis of credit for the year is as follows

| | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|
| Current tax - UK tax | (47) | (3) |
| Current tax - adjustments in respect of prior periods | (105) | (6) |
| Deferred tax - origination and reversal of temporary differences | - | 2 |
| Deferred tax - adjustments in respect of prior periods | (2) | (2) |
| **Taxation credit for the year** | **(154)** | (9) |

## 4. Taxation (continued)

The tax assessed for the period varied from the amount computed by applying the corporation tax standard rate to profit on ordinary activities before taxation The difference was attributable to the following factors

| | **Year ended 31 December 2012 £m** | Year ended 31 December 2011 £m |
|---|---|---|
| **(Loss) / profit before taxation** | **(461)** | 125 |
| **(Loss) / profit on ordinary activities multiplied by the effective rate of UK corporation tax of 24 5% (2011 26 5%)** | **(113)** | 33 |
| Expenses not deductible for tax purposes | **147** | 1 |
| Non-taxable income | **(49)** | - |
| UK-UK transfer pricing adjustments | **(32)** | (35) |
| Adjustments in respect of prior periods | **(107)** | (8) |
| **Taxation – charge/(credit) for the year** | **(154)** | (9) |

The statutory rate of corporation tax in the UK reduced to 23% from 24% with effect from 1 April 2013 Deferred tax assets and liabilities in the UK have been re-calculated at the tax rate appropriate to when they are expected to reverse

## 5. Investments in subsidiary undertakings

| | **Shares in subsidiary undertakings £m** |
|---|---|
| **Cost** | |
| At 1 January 2011 and 31 December 2011 | 14,323 |
| Additions | - |
| **At 31 December 2012** | **14,323** |
| | |
| **Impairment** | |
| At 1 January 2011 and 31 December 2011 | (2,901) |
| Charge for the year | (590) |
| **At 31 December 2012** | **(3,491)** |
| | |
| **Net book value** | |
| **At 31 December 2012** | **10,832** |
| At 31 December 2011 | 11,422 |

An impairment loss must be recognized whenever an asset's recoverable amount is less than its carrying amount For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units")

As at 31 December 2012, the continued deterioration of the mobile market and the economic situation in Ireland, led to an impairment of the carrying value of the Company's investment in Telefonica Ireland Limited

The recoverable amount of the Ireland cash-generating unit (CGU) has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period The projected cash flows have been updated to reflect evolution in the demand for products and services The pre-tax discount rate applied to cash flow projections is 10 31% and cash flows beyond the five-year period are extrapolated using a 0 97% growth rate

**5. Investments in subsidiary undertakings (continued)**

On 24th June 2013 Telefonica S A , ultimate parent company of O2 Holdings Limited, announced that agreement had been reached with Hutchison Whampoa Group for the sale of Telefonica Ireland Limited It was concluded that the fair value less cost to sell did not exceed the value in use As a result of the analysis, management has recognised an impairment charge in the amount of £590m This adjustment was reflected under "Other non-recurring expenses" in the income statement for 2012

Telefonica Ireland Limited is owned 2 94% by Kilmaine Limited and indirectly 97 06% by O2 International Holdings Limited

**Main assumptions used in calculating value in use**

Once the business plans for the various CGUs are prepared, the Group calculates value in use It takes certain variables, such as OIBDA margin and long-term CAPEX, discount rates and perpetuity growth rates

*OIBDA margin and long-term CAPEX*
The OIBDA margin and long-term CAPEX ratio used to calculate terminal value, expressed as a percentage of revenue, are based on the business plans approved for each CGU, as well as external estimates of trends in operating indicators, and the outlook for the various businesses and markets

*Discount rate*
The discount rate, applied to measure free cash flow, is the weighted average cost of capital (WACC), determined by the weighted average cost of equity and debt according to the finance structure established for each CGU

*Perpetuity growth rate*
Cash flow projections to the end of the asset's useful life are estimated using a rate of growth for the future years

Terminal value is calculated from the projected cash flows in the period, taking as the perpetuity growth rate consensus estimates among analysts for each business and country based on the maturity of the industry depending on technology and the degree of development of each country

The ranges of discount and perpetuity growth rates for the Group's main CGU's are as follows

| | Discount rate | Perpetuity growth rate |
|---|---|---|
| Year ended 31 December 2012 | 5 8% - 10 3% | 0 7% - 1 1% |
| Year ended 31 December 2011 | 5 9% - 11 2% | 0 6% - 1 1% |

***Sensitivity to changes in assumptions***

The Group carries out its sensitivity analysis of the impairment test by considering reasonable changes in the main assumptions used in calculating value in use, considered on an individual basis, assuming the following increases or decreases in the assumptions, expressed in percentage points

- Discount rate (-1p p / +1p p )
- Perpetuity growth rates (+0 25p p / -0 25p p)
- OIBDA Margin (+3p p / -3p p )
- Ratio of CAPEX / Revenues (+1 5p p / -1 5p p )

## 5 Investments in subsidiary undertakings (continued)

The differences obtained in the sensitivity analysis with respect to the value in use of the CGU considered in the impairment test are as follows

| | Discount rate | | Perpetuity growth rate | | OIBDA margin | | CAPEX | |
|---|---|---|---|---|---|---|---|---|
| | -1p p | +1p p | +0 25p p | -0 25p p | +3p p | -3p.p | +1 5p p | -1 5p p |
| Ireland | 85 | (68) | 14 | (13) | 84 | (84) | 48 | (48) |
| UK | 1,569 | (1,292) | 628 | (571) | 2,333 | (2,333) | 1,167 | (1,167) |

A complete list of subsidiary undertakings is given in note 18

## 6. Dividends paid

| | **Year ended 31 December 2012 £m** | Year ended 31 December 2011 £m |
|---|---|---|
| Interim dividend for year ended 31 December 2012 £39 per share | **469** | - |
| Interim dividend for year ended 31 December 2011 £731 per share | - | 8,775 |
| | **469** | 8,775 |

The dividend declared, approved and paid by the Company during the year ended 31 December 2012 was £469 million (31 December 2011 £8,775 million) No other dividends were approved or paid in the year ended 31 December 2012

## 7. Property, plant and equipment

| | **Computer Equipment £m** |
|---|---|
| **Cost** | |
| At 1 January 2011 | **5** |
| Additions | **-** |
| **At 31 December 2011** | **5** |
| Additions | **-** |
| **At 31 December 2012** | **5** |
| | |
| **Amortisation and impairment** | |
| At 1 January 2011 | **4** |
| Charge for the year | **1** |
| **At 31 December 2011** | **5** |
| Charge for the year | **-** |
| **At 31 December 2012** | **5** |
| | |
| **Net book value** | |
| **At 31 December 2012** | **-** |
| At 31 December 2011 | **-** |

## 8. Other intangible assets

| | Software | Assets in course of construction | Other | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| At 1 January 2011 | 24 | 19 | 2 | 45 |
| Additions | 17 | - | - | 17 |
| Reclassifications | 15 | (15) | - | - |
| At 31 December 2011 | 56 | 4 | 2 | 62 |
| Additions | 2 | 1 | - | 3 |
| Reclassifications | - | - | - | - |
| **At 31 December 2012** | **58** | **5** | **2** | **65** |
| **Amortisation and impairment** | | | | |
| At 1 January 2011 | 16 | - | 1 | 17 |
| Charge for the year | 10 | - | 1 | 11 |
| At 31 December 2011 | 26 | - | 2 | 28 |
| Charge for the year | 13 | - | - | 13 |
| **At 31 December 2012** | **39** | **-** | **2** | **41** |
| **Net book value** | | | | |
| **At 31 December 2012** | **19** | **5** | **-** | **24** |
| At 31 December 2011 | 30 | 4 | - | 35 |

## 9. Trade and other receivables

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| Amounts owed by subsidiaries (note 17) | 1,134 | 802 |
| Amounts owed by other related parties (note 17) | 72 | 170 |
| Prepayments | 12 | 29 |
| Other receivable | 11 | - |
| | 1,229 | 1,001 |

## 10. Cash and cash equivalents

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| Short term deposits | 72 | 1 |
| **Cash and cash equivalents** | **72** | 1 |

The Company's short term deposits are funds deposited with Telefónica Finanzas S A, a related party The Company's bank accounts are swept daily and deposited over night with the related party If the short term deposits account is overdrawn at year end, the balance is included within borrowings in current liabilities on the statement of financial position

## 11. Borrowings

| | 31-Dec 2012 £m | 31-Dec 2011 £m |
|---|---|---|
| **Current unsecured borrowings** | | |
| Amounts owed to immediate parent company (note 17) | - | - |
| Amounts owed to subsidiaries (note 17) | 8,737 | 8,330 |
| Amounts owed to other related parties (note 17) | 85 | - |
| | **8,822** | **8,330** |
| **Non-Current unsecured borrowings** | | |
| Amounts owed to immediate parent company (note 17) | - | - |
| Amounts owed to subsidiaries (note 17) | - | - |
| Amounts owed to other related parties (note 17) | 12 | 12 |
| | 12 | 12 |

The Company listed a £4,030 million floating rate bond in October 2005 on the Irish Stock Exchange with a maturity date of July 2006 which was subsequently extended to December 2007 Interest was based on 12 month Sterling LIBOR plus 42 basis points per annum on the outstanding principal amount (compounded annually), but was subject to a maximum 3 month Sterling LIBOR plus 200 basis points per annum

On 14 December 2007 the bond was delisted from the Irish Stock Exchange The bond was wholly held by an indirect subsidiary of the Company, O2 Third Generation Holdings Limited From the date of delisting the bond reverted to an interest free intercompany balance

Also included in current borrowings is a loan from O2 Networks Limited, a subsidiary of the Company, of £2,249 million (31 December 2011 £2,202 million) with an effective interest rate of 2 25% for the year ended 31 December 2012 (31December 2011 1 98%) Interest rate changes annually on 1 April and the rate is based on 12 months LIBOR plus 45 basis points

The Company received an amount of cash of £642m from its subsidiary O2 International Holdings Ltd that was originally proposed as a dividend Due to a technical irregularity, the receipt has been reclassified as a loan from O2 International Holdings Ltd to the company In due course the Company expects O2 International Holdings Ltd to declare a dividend for the same amount, which will offset this amount due

The remaining current borrowings comprises of several loans from other related parties The non current borrowings balance is made up of intra-group interest payable to O2 Communications Ireland

## 12 Trade and other payables

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| Trade payables | 5 | - |
| Amounts owed to immediate parent company (note 17) | 3 | - |
| Amounts owed to subsidiaries (note 17) | 65 | 45 |
| Amounts owed to other related parties (note 17) | 161 | 143 |
| Other payables | 13 | 11 |
| Accrued expenses | 64 | 118 |
| | 311 | 317 |

## 13. Provisions

A breakdown of the Company's current and non-current provisions is as follows

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| Current | 1 | 9 |
| Non-current | 3 | 5 |
| | 4 | 14 |

| | Contractual £m | Other £m |
|---|---|---|
| At 1 January 2011 | 39 | 2 |
| Utilisation for the year | (27) | - |
| **At 31 December 2011** | 12 | 2 |
| Utilisation for the year | (10) | - |
| **At 31 December 2012** | 2 | 2 |

## 14. Pension costs

The Company participates in the Telefonica Pension Plan (Telefonica PP) and an unfunded defined benefit scheme In addition, Telefonica Europe plc, its ultimate UK parent company, sponsors a group-wide defined benefit scheme, the Telefónica Pension Plan, in which employees of the Company are members and therefore the Company has been recharged the contributions payable into the scheme for the period The retirement benefit obligation of the defined benefit scheme is recorded on the statement of financial position of Telefónica Europe plc

### The Telefonica Pension Plan

The Telefonica Pension Plan (Telefonica PP) provides the pension benefits for the majority of UK employees and is divided into defined contribution and defined benefit sections Since 14 March 2005, the sponsoring employer of the scheme has been Telefonica Europe plc, prior to this the sponsoring employer was mmO2 plc As mmO2 plc was the sponsoring employer of the Telefonica PP until 14 March 2005, the full net defined benefit cost and defined benefit liability was recognised by mmO2 plc until this date After 14 March 2005 the defined benefit liability was transferred to Telefonica Europe plc, the new sponsoring employer

The defined benefit sections of the Telefonica PP are closed to new entrants and therefore the current service cost is likely to increase, as a percentage of payroll, as the members approach retirement

The Company account for the defined benefit sections of the Telefonica PP as though it were a defined contribution plan as there is no contractual arrangement or stated policy for charging out the net defined benefit cost between participating employers The net defined benefit cost of the defined benefit sections, as assessed in accordance with the advice of a qualified, independent actuary,

**14. Pension costs (continued)**

measuring actuarial liabilities using the projected unit method and taking assets at market value, is recognised by the sponsoring employer Accordingly the defined benefit liability or assets of the Telefonica PP is not recognised on the statement of financial position of the Group as the sponsoring employer is Telefonica Europe plc

With effect from 28 February 2013 the defined benefit sections of the Plan closed to further benefit accrual Members' defined benefit pensions will continue to be increased in deferment by reference to the Consumer Prices Index but will not retain the link to any future increases in salary Upon closure, members of the defined benefit sections of the Plan were given the option to become members of the defined contribution section of the Plan The defined contribution sections of the Plan remain open to new entrants and further accrual The assets of the Plan are held independently of the Company's finances

***Actuarial valuation***

A full valuation of the defined benefit sections of the Telefonica PP was undertaken as at 30 September 2008 by a suitably qualified independent actuary The valuation used the projected unit method and set a future funding plan to ensure that contributions to the Plan meeting future liabilities and past service liabilities are adequately funded

The actuarial valuation as at 30 September 2011 has not been completed as the process was delayed by discussions over the closure of the Plan from 28 February 2013 The company and Trustee are continuing to negotiate on the funding of the Plan The Pensions Regulator is aware of this delay and the Trustee will continue to keep the Regulator informed of progress in the discussions and negotiations

The September 2008 valuation was completed in conjunction with a change in the investment strategy of the Plan from a predominantly performance asset basis to a predominantly corporate bond basis As a result of the investment changes, inter-valuation experience and the development of actuarial assumptions the ongoing contribution rate was increased to 26 7% of defined benefit members' payroll Based on the difference between the September 2008 pension asset value and the technical provisions a past service deficit of £187 million resulted It was agreed that this deficit will be recovered by additional contributions over the period to 2015 totalling £243 million £40 5 million is required to be contributed annually over the period 2012 to 2015 inclusive (2011 £45 2 million, 2010 £36 million) in accordance with the schedule of contributions contract dated 19 July 2011 These contributions are in line with the preceding schedule of contributions contract dated 24 December 2009

The expected amount to be paid to the Telefonica PP defined benefit scheme by the mmO2 group during 2013 is £41 million

***Disclosures – Telefonica PP***

Disclosures of the defined benefit sections of the Telefonica PP are provided below Additional disclosure in line with the requirements of IAS 19 for both the current and previous accounting period is provided in the Annual Report and Financial Statements of Telefonica Europe plc for the year ended 31 December 2012

The actuarial valuation of the Telefonica PP as at 30 September 2008 has been updated to 31 December 2012 by an independent qualified actuary in accordance with the requirements of IAS 19 In accordance with IAS 19, the defined benefit liabilities have been measured using the projected unit method Plan assets are stated at fair value

In June 2011 a new IAS19 was published which comes into effect for accounting years beginning on or after 1 January 2013 Under the Revised IAS19 (hereafter called "IAS19R") the expected return on assets and interest cost will be replaced by the "net interest on liability" calculated with respect to the discount rate, which is likely to result in a higher Income Statement charge than under the current IAS19 (estimated to be £5 million higher in 2013) The Company will adopt IAS19R for the first time for the accounting period ending 31 December 2013

### 14. Pension costs (continued)

Movements in the present value of the Telefonica PP's defined benefit (funded) obligations in the current and preceding period were as follows

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| | **£m** | £m |
| At start of year | **810** | 785 |
| Total current service cost | **20** | 22 |
| Interest cost | **40** | 44 |
| Vested past service costs | **3** | - |
| Actuarial (gains) / losses | **141** | (23) |
| Curtailment (gain) | **(76)** | (1) |
| Benefits paid | **(15)** | (17) |
| **At end of year** | **923** | 810 |

The main assumptions adopted for the Telefonica PP (funded and Un-funded) under IAS 19 are as follows

| | **Year ended 31 December 2012** | Year ended 31 December 2011 |
|---|---|---|
| | **%** | % |
| Nominal rate of increase in salaries | **4 2** | 4 0 |
| Nominal rate of increase of pensions in payment | | |
| – Pension increases with inflation | **3 2** | 3 0 |
| – Pension increases with inflation limited to 5 per cent p a | **3 1** | 2 9 |
| Discount rate | **4 6** | 4 9 |
| Inflation assumption | | |
| -- RPI | **3 2** | 3 0 |
| -- CPI | **2 2** | 2 0 |
| Expected long-term return for | | |
| – Equities | **7 0** | 7 0 |
| – UK Government bonds | **-** | - |
| – Other bonds | **4 6** | 4 9 |
| – Hedge funds | **-** | - |
| – Active currency | **-** | - |
| – Real estate | **-** | - |
| – Other | **3 2** | 3 0 |

Mortality tables called the "00 series" have been used in both years and are based on analysis of death rates over the 4 year period from 1999 to 2002 A floor has been applied to these tables giving a minimum rate of future improvement in males and females of 0 5% per annum

The defined benefit sections of the Telefonica PP are closed to new entrants and therefore the current service cost is likely to increase, as a percentage of payroll, as the members approach retirement

### 14. Pension costs (continued)

Movements in fair value of the Telefonica PP's (funded) defined benefit scheme assets in the current and preceding period were as follows

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| At start of year | **811** | 721 |
| Expected return on scheme assets | **43** | 42 |
| Actuarial gains / (losses) | **66** | (12) |
| Employer contributions | **67** | 77 |
| Benefits paid | **(15)** | (17) |
| **At end of year** | **972** | 811 |

The amount included in the consolidated statement of financial position of Telefonica Europe plc arising from its obligations in respect of the funded defined benefit sections of the Telefonica PP, as well as the analysis of the schemes assets, is as follows

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| Fair value of assets comprises | | |
| – Equities | **198** | 160 |
| – Other bonds | **769** | 644 |
| – Other | **5** | 7 |
| Fair value of assets | **972** | 811 |
| Present value of defined benefit obligations | **(923)** | (810) |
| **Net asset recognised in statement of financial position of Telefonica Europe plc** | **49** | 1 |

**Other Group pension plans**

The Company also operates an unfunded defined benefit scheme The assumptions used for this scheme are generally consistent with those used for the Telefonica PP

The expected rate of return on pension plan assets is determined as management's best estimate of the long-term return on the relevant equities and bonds that constitute plan assets weighted by the actual allocation of assets among the categories at the measurement date

The actuarial gain/(loss) recognised in the statement of comprehensive income in respect of the unfunded defined benefit obligations is £nil (2011 £nil)

The amount included in the statement of financial position arising from the Company's obligations in respect of its unfunded defined benefit schemes is as follows

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| Present value of defined benefit obligations | **(6)** | (5) |
| **Net liability recognised in statement of financial position** | **(6)** | **(5)** |

## 14. Pension costs (continued)

Movements in the present value of defined benefit obligations in the current and preceding period were as follows

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| At start of period | 5 | 5 |
| Actuarial loss | 1 | - |
| **At end of period** | **6** | **5** |

| **History of experience gains and losses** | **Year ended 31 December 2012 £m** | Year ended 31 December 2011 £m |
|---|---|---|
| **Experience gains and losses on plan liabilities** | | |
| Amount – gain/(loss) | - | (0 5) |
| Percentage of the present value of plan liabilities | - | 9% |
| **Total amount recognised in the other comprehensive income statement** | | |
| Amount – gain/(loss) | (1) | - |
| Percentage of the present value of plan liabilities | 8% | - |

The summarised history of the Group's un-funded defined benefit pension plans since transition to IAS 19 is as follows

| | **31 Dec 2012 £m** | 31 Dec 2011 £m | 31 Dec 2010 £m | 31 Dec 2009 £m | 31 Dec 2008 £m |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | (6) | (5) | (5) | (5) | (4) |
| **Net liability recognised in the statement of financial position** | (6) | (5) | (5) | (5) | (4) |

## 15. Deferred taxation

| Provision for deferred tax | Year ended 31 December 2012 £m |
|---|---|
| Accelerated tax depreciation | - |
| Pension provision | 2 |
| Other temporary differences | 3 |
| **Total provision for deferred tax** | **5** |

**Deferred tax assets**

| | £m |
|---|---|
| At 1 January 2011 | 5 |
| Charge to the comprehensive income statement | - |
| Credit to other comprehensive income | - |
| At 31 December 2011 | 5 |
| Charge to the comprehensive income statement | 2 |
| Credit to other comprehensive income | (2) |
| **At 31 December 2012** | **5** |

The deferred income tax credited to equity during the year was as follows

| | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|
| Share options | (2) | - |
| | (2) | - |

There were no unrecognised deferred tax assets or liabilities at 31 December 2012 (31 December 2011 £nil)

The main rate of corporation tax reduced from 24% to 23% effective from 1 April 2013 This change was enacted on 17 July 2012 As a result the disclosure of deferred tax has been adjusted to reflect the enactment with no significant impact on these financial statements

The main rate of corporation tax will reduce from 23% to 21% effective from 1 April 2014, and will reduce further to 20% effective from 1 April 2015 These changes were enacted on 17 July 2013 As this legislation was not enacted or substantively enacted by the balance sheet date it has not been reflected within these financial statements However it is expected that the changes would not have a significant impact on the value of the company's deferred tax balances at the balance sheet date

## 16 Share capital

| | Number of shares | 31 December 2012 £m | Number of shares | 31 December 2011 £m |
|---|---|---|---|---|
| **Called up, allotted and fully paid** | | | | |
| Ordinary shares of £1 each | **12,000,600** | **12** | 12,000,600 | 12 |

The Company has a single class of share capital, comprising ordinary shares of £1 each Subject to the Company's articles of association, and applicable law, the Company's ordinary shares confer on the holder, the right to receive notice of and vote at general meetings of the Company, the right to receive any surplus assets on a winding up of the Company and an entitlement to receive any dividend declared on ordinary shares but not the right of redemption of shares

## 17. Related party disclosures

Details of the nature of related party relationships are included in note 18

During the year ended 31 December 2012, the Company entered into transactions with related parties as follows

| | Year ended 31 December 2012 £m | Year ended 31 December 2011 £m |
|---|---|---|
| **Financial income** | | |
| Parent company | - | 50 |
| Subsidiary companies | 241 | 15 |
| Other related parties | 1 | 168 |
| | 242 | 233 |
| **Financial expense** | | |
| Parent company | - | (6) |
| Subsidiary companies | (87) | (86) |
| Other related parties | (6) | - |
| | (93) | (92) |
| **Total net transactions** | 149 | 141 |

At 31 December 2012 the Company had the following balances arising from transactions with related parties

| | 31 December 2012 £m | 31 December 2011 £m |
|---|---|---|
| **Receivables from related parties** | | |
| Parent company | - | - |
| Subsidiary companies | 1,134 | 802 |
| Other related parties | 72 | 170 |
| | 1,206 | 972 |
| **Payables to related parties** | | |
| Parent company | (3) | - |
| Subsidiary companies | (8,802) | (8,375) |
| Other related parties | (258) | (155) |
| | (9,063) | (8,530) |

Included within receivables from subsidiary companies is an outstanding balance due from O2 Networks Limited The interest rate of this loan was 2% at 31 December 2012 (31 December 2011 2%)

Included within payables to subsidiary companies are a £4,030 million floating rate bond held by O2 Third Generation Holdings Limited and a sterling denominated loan from O2 Networks Limited of £2,213 million (31 December 2011 £2,169 million) with an interest rate of 2% (31 December 2011 2%)

There is a balance due to O2 Limited included within payables to subsidiary companies, which represents intercompany loan balances with an interest rate of 2% at 31 December 2012 (31 December 2011 2%) Related party transactions with Directors and key management are detailed in note 21

Included in payables to subsidiaries there is an interest free loan to O2 International Holdings Ltd which represents an amount of cash of £642m from its subsidiary O2 International Holdings Ltd that was originally proposed as a dividend, however, due to a technical irregularity, the receipt has been reclassified as a loan from O2 International Holdings Ltd to the company

Related party transactions with Directors and key management are detailed in note 21

## 18. Subsidiary undertakings, joint ventures and associates

The operating subsidiary undertakings at 31 December 2012 are detailed below

| Name | Country of incorporation | Activity | Portion of shares held % |
|---|---|---|---|
| Telefonica UK Limited[1] | England and Wales | Mobile cellular telephone system | 100 |
| Be Un Limited[1] | England and Wales | Internet services provider | 100 |
| Giffgaff Limited[1] | England and Wales | Mobile communications network | 100 |
| Telefonica Financial Services UK Limited[1] | England and Wales | Financial services for O2 portfolio products | 100 |
| Telefónica Ireland Limited[1] | Ireland | Mobile cellular telephone system provider and operator | 100 |
| O2 Mobiles Limited | England and Wales | Intermediate holding company | 100 |
| O2 Networks Limited | England and Wales | Intermediate holding company | 100 |
| O2 Investments Ireland | Ireland | Intermediate holding company | 100 |
| O2 Pine Limited | England and Wales | Intermediate subsidiary company | 100 |
| O2 Willow Limited | England and Wales | Intermediate subsidiary company | 100 |
| Kilmaine Limited | Isle of Man | Intermediate holding company | 100 |
| O2 International Holdings Limited | England and Wales | Intermediate holding company | 100 |
| O2 Credit Vouchers Limited | England and Wales | Selling of Mobile phone credit vouchers | 100 |
| Telefonica UK Pension Trustee Limited | England and Wales | Corporate Trustee of the O2 Pension Plan | 100 |
| Telefonica O2 UK Limited | England and Wales | Dormant entity | 100 |
| Cellular Radio Limited[1] | England and Wales | Dormant entity | 100 |
| Movistar Limited | England and Wales | Dormant entity | 100 |
| TU Products Limited | England and Wales | Dormant entity | 100 |
| O2 Secretaries Limited | England and Wales | Dormant entity | 100 |
| O2 Communications Limited | England and Wales | Intermediate holding company | 100 |
| Wayra UK Limited[1] | England and Wales | Intermediate investment company | 100 |
| Weve Limited[1] | England and Wales | Development mobile services JV with Vodafone and EE | 33 |
| Tesco Mobile Ireland Limited[1] | Ireland | Mobile cellular telephone distributor JV with Tesco | 50 |
| Cornerstone Telecommunications Infrastructure Limited[1] | UK | Mobile Infrastructure network JV with Vodafone | 50 |
| Digital Mobile Spectrum Limited[1] | England and Wales | Spectrum interference services JV with Vodafone,EE, and 3G Hutchison | 25 |
| Tesco Mobile Limited[1] | England and Wales | Mobile cellular telephone distributor JV with Tesco | 50 |
| O2 Transactions Limited[1] | England and Wales | Dormant entity | 100 |
| O2 Solutions Limited[1] | England and Wales | Dormant entity | 100 |
| Call Connections Limited[1] | England and Wales | Dormant entity | 100 |
| O2 (Online) Limited[1] | England and Wales | Marketing and customer relations services | 100 |
| O2 (Online) Netherlands BV[1] | Netherlands | Intermediate holding company | 100 |
| O2 (Online) Limited Malaysia [1] | England and Wales | Marketing and customer relations services | 100 |
| O2 (Online) Limited Singapore Branch[1] | England and Wales | Dormant entity | 100 |
| O2 (Netherlands) Holdings BV[1] | Netherlands | Intermediate holding company | 100 |
| O2 Limited[1] | England and Wales | Intermediate holding company | 100 |
| O2 Telecommunication BV[1] | Netherlands | Provision of financing to group | 100 |

| | | | |
|---|---|---|---|
| Cellular World Limited[1] | Ireland | Provision of mobile phones and related products to business customers | 100 |
| Liffey Telecom Limited[1] | Ireland | Dormant entity | 100 |
| Telefonica Ireland Retail Limited[1] | Ireland | Retail of mobile phones and consumer related products | 100 |
| Centurion Collections Limited[1] | Ireland | Dormant entity | 100 |
| O2 Redwood Limited[1] | England and Wales | Dormant entity | 100 |
| Wayra Ireland Limited | Ireland | Venture capitalist entity | 100 |
| O2 Communications (Ireland) Limited | Ireland | Dormant entity | 100 |
| Genie Internet Limited[1] | England and Wales | Dormant entity | 100 |
| O2 Cedar Limited[1] | England and Wales | Intermediate holding company | 100 |
| Pacific Shelf 873 Limited[1] | Scotland | Dormant entity | 100 |
| DX Communications Limited[1] | Scotland | Dormant entity | 100 |
| DX Communications (Edinburgh) Limited[1] | Scotland | Dormant entity | 100 |
| The Link Stored Limited[1] | England and Wales | Dormant entity | 100 |
| Link FS Ltd[1] | England and Wales | Dormant entity | 100 |
| Jajah Limited[1] | England and Wales | Dormant entity | 100 |
| Lumina Holdings Limited[1] | England and Wales | Dormant entity | 100 |
| Lumina Limited[1] | England and Wales | Dormant entity | 100 |
| Cellphones Direct (Holdings) Limited[1] | England and Wales | Dormant entity | 100 |
| Cellphones Direct (Investments) Limited[1] | England and Wales | Dormant entity | 100 |
| Cellphones Direct Limited[1] | England and Wales | Dormant entity | 100 |
| Telefonica Global Resources Limited[1] | England and Wales | Dormant entity | 100 |
| Telefonica Digital Limited[1] | Ireland | Dormant entity | 100 |
| Cellphones Direct International Holdings BV[1] | Netherlands | Provision of financing to group | 100 |
| O2 (UK) Limited[1] | England and Wales | Dormant entity | 100 |
| O2 Third Generation Holdings Limited[1] | Isle of Man | Intermediate holding company | 100 |
| Computershare Trustees Limited[1] | Jersey | Management of Telefonica pension fund | 100 |
| O2 Third Generation[1] | England and Wales | Dormant entity | 100 |
| Telefonica Europe People Services Limited | Ireland | European HR services, support functions and administration provider | 100 |

[1]Investments are indirect

On 30 April 2013, Telefonica UK disposed of its UK consumer broadband and fixed-line telephony business, Be Un Limited, to British Sky Broadcasting Limited

With effective date of 12 February 2013, Lumina Limited changed its name to O2 Unify Limited

The accounting reference date of the principal operating subsidiary undertakings is 31 December 2012 No subsidiary undertakings are listed on any public exchange

## 19 Financial instruments

### Financial risk factors and management

The Company's operations expose it to a variety of financial risks including foreign currency risk, fair value risk, interest rate risk, credit risk and liquidity risk

The principal financial risks of the Company and how the Company managed these risks are discussed below

### Credit risk

The Company does not have a significant exposure to credit risk The Company's main credit balances are held with group companies within the Telefónica S A group

### Liquidity risk

Management of the Company's liquidity risk is achieved mostly through being a part of the larger Telefónica group, which operates group wide policies in this area The Company also maintains its own committed borrowing facilities, and holds financial assets primarily in short-term deposits with a central Telefónica group company that are readily convertible to known amounts of cash These measures help keep liquidity risk low

### Foreign currency risk

The Company operates primarily in the United Kingdom and therefore there is low exposure to transactional foreign currency risk The Company has foreign currency assets and liabilities held with group companies which expose it to translation risk This risk is managed through being part of the larger Telefónica group, which operates group wide policies in this area If the Pound Sterling lost 10 percent against the Euro at 31 December 2012, this would have no material impact on the statement of comprehensive income of the Company

### Interest rate risk

The Company's interest rate risk arises primarily from the effects of movements in interest rates on the value of the Company's borrowings and financial assets During the period it was a policy to fix or protect expected interest flows where Company profits or key financial ratios would be materially at risk from interest rate movements

### Fair value of financial instruments

The carrying value and fair value of the Company's financial assets and financial liabilities are not deemed to be materially different at 31 December 2012 and 31 December 2011

### 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

## 20. Auditors' remuneration

Audit fees for the company were borne by another company within the Telefónica S A group and have not been allocated across the group

## 21 Key management and director compensation

The key management of the Company are deemed to be the key management of the Telefonica Europe plc group The compensation of key management for the year ended 31 December 2012 was as follows

| | **Year ended 31 December 2012 £000** | Year ended 31 December 2011 £000 |
|---|---|---|
| Salaries and short-term employee benefits | **7,635** | 9,001 |
| Post-employment benefits | **134** | 206 |
| Share based payments | **100** | 2,956 |
| Termination benefits | **-** | - |
| **Total key management compensation** | **7,869** | 12,163 |

The key management compensation analysed above represents compensation earned by senior managers

Directors' emoluments are borne by other companies within the Telefónica S A Group for the year ended 31 December 2012 and the year ended 31 December 2011 The directors of the company are also directors of other companies within the group The directors do not believe that it is practicable to apportion their remuneration between their services as directors of the company and their services as directors of other companies within the group

## 22 Employees

| | **Year ended 31 December 2012 No** | Year ended 31 December 2011 No. |
|---|---|---|
| Average number of full time employee equivalents (including Directors) by class of business | | |
| Finance | **43** | 37 |
| Other businesses and administration | **127** | 138 |
| **Total employees** | **170** | 175 |

The benefit expenses incurred in respect of these employees were

| | **Year ended 31 December 2012 £m** | Year ended 31 December 2011 £m |
|---|---|---|
| Wages and salaries | **18** | 20 |
| Social security costs | **3** | 3 |
| Share based payments (note 23) | **1** | 7 |
| Pension costs (note 14) | **3** | - |
| **Total employee benefit expense** | **25** | 30 |

## 23 Share based payments

The share schemes that are currently in operation in O2 Holdings Limited are the Telefonica Performance Share Plan, the Telefonica Performance Cash Plan, the Global Employee Share Plan and the Telefonica Performance Investment Share Plan which replaces the Performace Share Plan from 2011 These are described in more detail below

The costs of share options and awards are charged to the statement of comprehensive income over the vesting period, based upon the fair value of the share award or option at the award date adjusted for the likelihood of non-market vesting conditions being met under the share award or option plan

The amounts recognised in operating income for share based payment transactions with employees for the year ended 31 December 2012 was as follows

| | **Year ended 31 December 2012 £m** | Year ended 31 December 2011 £m |
|---|---|---|
| Equity settled share based payments | **1** | 4 |
| Cash settled share based payments | **-** | 3 |
| **Total share based payments** | **1** | 7 |

The liability recognised in the statement of financial position for share based payments at 31 December 2012 totalled £7 million (31 December 2011 £8 million)

### Share award plans

The share award plans operated by the company during the year ended 31 December 2012 are

***Telefónica Performance Share Plan***

The Telefonica Performance Share Plan was approved at the Telefónica S A AGM held on 21 June 2006 and awards shares in Telefónica S A to participants subject to the achievement of certain performance criteria

The plan had an expected duration of seven years which is divided into five cycles of three years each, with the first cycle commencing on 1 July 2006 At the inception of each cycle, a number of shares are awarded to each participant in the plan, with the final number of shares vesting being based on the level of achievement against the performance criteria This plan has been superseded by the Telefonica Performace Investment Share Plan for the 2011 share grant and is closed to new entrants

Award of shares is subject to a number of conditions

- The beneficiary must continue to work for the company throughout the three-year duration of each phase
- The actual number of shares awarded at the end of each phase will depend on success in meeting targets and the maximum number of shares assigned to each executive Success is measured by comparing the Total Shareholder Return (TSR) offered by Telefonica shares with the TSRs offered by a basket of listed telecoms companies

| **TSR ranking** | **% Shares Vest** |
|---|---|
| Below median | 0% |
| Median | 30% |
| Upper quartile | 100% |

**23. Share based payments (continued)**

Vesting occurs on a straight line basis between median and upper quartile performance

The number of shares Telefónica S A granted under this plan to directors and senior management in the year ended 31 December 2012 is 162,928 (year ended 31 December 2011 390,918)

As this plan will be settled by the physical delivery of Telefónica, S A shares to employees, the charge for the year ended 31 December 2012 of £1 million has been recognised against equity (year ended 31 December 2011 £4 million)

The fair value of the rights granted to the participants at the 2012 grant date is €5 87 (year ended 31 December 2011 €8 28) This value has been established by reference to the price of an instrument with the same conditions and requirements of the plan, which was acquired by Telefónica, S A from a financial institution This is the best estimate of the fair value of the rights granted to the employees, as it results from a current market transaction

In July 2012 the second tranche of share awards granted in 2009 vested At the date of vesting the weighted average share price was €15 41 (2011 €15 11) The total number of shares which vested was nil (2011 352,955)

This share plan is closed to new entrants, the share awards granted in 2010 and 2011 are due to vest in 2013 and 2014 respectively

***Telefonica Performance Investment Share Plan***

At the General Shareholders' Meeting held on May 18, 2011, a new long-term share-based incentive plan called "Performance and Investment Plan" was approved for Telefonica Group directors and executive officers This plan will take effect following completion of the Performance Share Plan

Under this plan, a certain number of shares of Telefonica, S A will be delivered to plan participants selected by the Company who decide to participate on compliance with stated requirements and conditions

The plan lasts five years and is divided into three independent three-year phases (i e delivery of the shares for each three-year phase three years after the start date) The first phase began on July 1, 2011 (with the delivery of the related shares from July 1, 2014) The second phase began on July 1, 2012 (with delivery of the related shares from July 1, 2015) The third phase will begin on July 1, 2013 (with delivery of the related shares from July 1, 2016)

The specific number of Telefonica, S A shares deliverable within the maximum amount established to each member at the end of each phase will be contingent and based on the Total Shareholder Return ("TSR") of Telefonica, S A shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in the Dow Jones Global Sector Titans Telecommunications Index For the purposes of this Plan, these companies make up the comparison group ("Comparison Group")

**23 Share based payments (continued)**

The TSR is the indicator used to determine the Telefonica Group's medium- and long-term value generation, measuring the return on investment for each shareholder For the purposes of this Plan, the return on investment of each phase is defined as the sum of the increase or decrease in the Telefonica, S A share price and dividends or other similar items received by the shareholder during the phase in question

At the beginning of each phase, each participant is allocated a notional number of shares According to the plan, the number of shares to be delivered will range from

30% of the number of notional shares if Telefonica, SA s TSR is at least equal to the median of the Comparison Group, and

100% if Telefonica S As TSR is within the third quartile or higher than that of the Comparison Group The percentage is calculated using linear interpolation when it falls between the median and third quartile

No shares will be delivered if Telefonica, S As TSR is below the Comparison Groups median

The plan includes an additional condition regarding compliance by all or part of the participants with a target investment and holding period of Telefonica, S A shares through each phase ("Co-Investment"), to be determined for each participant, as appropriate, by the Board of Directors based on a report by the Nominating, Compensation and Corporate Governance Committee Participants meeting the coinvestment requirement will receive an additional number of shares, provided the rest of the requirements established in the plan are met

In addition, and independent of any other conditions or requirements that may be established, in order to be entitled to receive the corresponding shares, each participant must be a Telefonica Group employee at the delivery date for each phase, except in special cases as deemed appropriate

Shares will be delivered at the end of each phase (in 2014, 2015, and 2016, respectively) The specific delivery date will be determined by the Board of Directors or the committee or individual entrusted by the Board to do so

| Phase | No of shares assigned | Unit fair value | End date |
|---|---|---|---|
| 1st phase July 2011 | 186,325 | € 8 28 | June 30, 2014 |
| 2nd phase July 2012 | 130,341 | € 5 87 | June 20, 2015 |

***Telefonica Performance Cash Plan***

This plan mirrors the conditions of the Telefonica Performance Share Plan and awards employees a given number of notional shares in Telefónica S A These notional shares entitle the beneficiary to a cash payment equivalent to their market value on vesting The cash payment is capped at three times the value of the notional shares at the date of award The value of the notional shares is set using a weighted average trading price for the 30 days prior to the start of each cycle As an exception, the value of those notional shares awarded in the first cycle was determined using the weighted average share price for the 30 days prior to 11 May 2006 As such their notional value is €12 83

This plan also has an expected duration of 7 years with 5 cycles of 3 years each commencing on 1 July

**23. Share based payments (continued)**

As with the Telefónica Performance Share Plan, the entitlement to a payment at the end of each cycle is dependent on the TSR of Telefónica S A in relation to the comparator group over a fixed three year period as follows

| TSR ranking | % Shares Vest |
|---|---|
| Below median | 0% |
| Median | 30% |
| Upper quartile | 100% |

Vesting occurs on a straight line basis between median and upper quartile performance

The number of notional shares awarded in 2012 was nil (2011 62,500)

There was no grant during the 2012 year The fair value of the rights granted to the participants at the 2011 grant date was €13 39 This value has been established based on the market value of Telefónica S A shares at the measurement date, taking into consideration the expected TSR performance of Telefónica S A This fair value is updated at each statement of financial position date to reflect current market values

In July 2012 the second tranche of share awards granted in 2009 vested At the date of vesting the weighted average share price at vesting was €10 37 (2011 €15 72) The total number of shares vesting in the tranche was nil (2011 27,001)

***Global Employee Share Plan***

At the June 23, 2009 General Shareholders' Meeting of Telefonica, S A , the shareholders approved the introduction of a Telefonica, S A share incentive plan for all employees of the Telefonica Group worldwide, with certain exceptions Under this plan, participants who meet certain requirements are offered the possibility of acquiring shares in Telefonica, S A , which takes up the obligation to give them a certain number of free shares

The total term of the plan is two years Employees joining the plan could acquire Telefonica, S A shares through maximum monthly instalments of 100 euros (or the local currency equivalent), up to a maximum of 1,200 euros over a period of 12 months (acquisition period) Shares were delivered upon vesting of the plan, as from September 1, 2012, subject to a number of conditions

- The beneficiary must continue to work for the company throughout the two-year duration of the plan (consolidation period), subject to certain special conditions related to departures
- The actual number of shares to be delivered at the end of the consolidation period depended on the number of shares acquired and retained by each employee Each employee who is a member of the plan and remained a Group employee, and retained the shares acquired for an additional twelve-month period after the acquisition date, would be entitled to receive one free share per share acquired and retained at the end of the consolidation period

At the consolidation date of the Plan, 2,682 shares were awarded (corresponding to a total of 4,386 of gross shares of which 1,704 shares were retained at the request of the employees to meet their tax commitments) to the 83 employees participating in the plan who were with the company on that date

At the May 18, 2011 General Shareholders' Meeting of Telefonica, S A , the shareholders approved the introduction of a Telefonica, S A share incentive plan for all employees of the Telefonica Group worldwide, with certain exceptions The characteristics and conditions of this plan are similar to those of the first edition of the Global Employee Share Plan Where applicable, shares will be delivered after vesting of the plan, as of December 1, 2014

The acquisition period began in December 2012 At December 31, 2012, 66 employees had adhered to the plan This plan will be equity-settled via the delivery of shares to the employees

### 24 Parent company and controlling party

At 31 December 2012 the immediate parent company was mmO2 plc, a company incorporated in England and Wales, which prepares consolidated financial statements Due to this, O2 Holdings Limited presents only stand-alone financial statements whereas the mmO2 plc consolidated financial statements may be obtained from The Secretary, mmO2 plc, 260 Bath Road, Slough, Berkshire, SL1 4DX

The ultimate parent company and controlling party at 31 December 2012 was Telefónica, S A , a company incorporated in Spain Copies of the financial statements of Telefónica, S A may be obtained from Gran Via 28, Madrid, Spain

### 25 Subsequent event

On 30 April 2013, one of the Company's intermediate subsidiaries, Telefonica UK disposed of its UK consumer broadband and fixed-line telephony business, Be Un Limited, to British Sky Broadcasting Limited

On 24 June 2013, Telefonica S A, the Company's ultimate parent, announced that an agreement had been reached with Hutchison Whampoa Group, for the sale of its subsidiary Telefonica Ireland Limited The value of the sale totals €850 million, including an initial cash consideration of €780 million at closing of the transaction, and an additional deferred payment of €70 million based on the completion of agreed financial objectives

O2 Holdings Limited, currently has an indirect investment in Telefonica Ireland Limited, an operating business of the Group

The transaction is subject, among other conditions, to the relevant competition approvals

On 30 September 2013, it was noted that due to a technical irregularity the amounts purportedly paid from O2 International Holdings Limited as dividends of £642m, paid on December 2012 and £384m paid on June 2013, were deemed to be held in trust for O2 International Holdings Limited The parties agreed that these amounts were to be reclassified as an interest free loan repayable on demand by the Company