Registered Number: 2604354

O2 Holdings Limited

Annual Report and Financial Statements for the year ended 31 December 2013

Contents

O2 Holdings Limited
Company information

Registered No. 2604354

Directors

Robert Harwood
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

Strategy

O2 Holdings Limited is an intermediate holding company within the Telefonica Group. The Company's strategy is integral to that of its principal subsidiaries which aims to excel in traditional mobile and fixed communications businesses through customer experience leadership and innovative value propositions and partnerships, whilst playing a wider role in the digital and online world

Further detail is provided in the consolidated accounts of the Company's immediate parent, mmO2 plc.

Performance and Development

Financial performance of the Company for the year ended 31 December 2013:

The operating loss for the Company has decreased by £573 million year on year to £37 million in 2013 (31 December 2012: loss of £610 million), largely because there was no charge for impairment of assets during the year (31 December 2012: £590 million).

The net financial income for the year was £969 million (31 December 2012: £149 million) largely due to £1,035 million dividend income from subsidiaries (31 December 2012: £215 million). As a result, the net profit after tax for the year ended 31 December 2013 was £996 million (31 December 2012: loss of £307 million).

Financial position of the Company as at 31 December 2013:

The net assets of the Company at 31 December 2013 were £4,003 million compared to £3,007 million at 31 December 2012. Details of significant movements have been detailed below:

Investments in subsidiary undertakings has increased from £10,832 million at 31 December 2012 to £10,902 million at 31 December 2013 due to a further investment of £70 million in O2 Investments Ireland Limited.

Current liabilities have decreased from £9,134 million at 31 December 2012 to £8,191 million at 31 December 2013 largely due to decrease in current borrowings driven by a technical irregularity, due to which, £642 million received from subsidiary during the previous year was treated as borrowing at 31 December 2012.This amount has been recognized as dividend income during the year ended 31 December 2013. In addition to above, current borrowings amounting to £326 million have been repaid to Telefonica Ireland Limited during the year.

Current assets have decreased by £3 million to £1,298 million due to decrease in cash and cash equivalents, which almost entirely offset by increase in trade and other receivables.

Risks and uncertainties

The Directors have satisfied themselves that it is not essential for the Company to have a separate risk management system since the Company's risk and uncertainties are integral to the principal risks and uncertainties of its key subsidiaries as listed in note 19. These risks include:

<u>Regulatory Intervention</u>: New or more onerous regulatory obligations imposed by the National Regulatory Authorities and the European Commission on wholesale and retail pricing and the exercise of commercial freedom, which could negatively affect the Company's profitability.

<u>Economy</u>: The Company's business is impacted by general economic conditions which remain weak and could undermine customer demand.

Risks and uncertainties (continued)

Managed Services/Outsourcing: The Company relies on outsourcing for the delivery of various services. Failure to manage outsourced services could result in reduced control over the quality and consistency of services.

Breach of Data Security: A failure to maintain sufficient information security processes could lead to a data protection breach, resulting in loss of customer confidence, fines and damage to brand reputation.

Network Infrastructure: Inadequate resilience in critical systems could negatively affect service delivery to customers in the event of a lengthy outage.

The key subsidiaries have a series of controls in place to mitigate these risks, both within its internal operations and in the wider external market.

Mandatory Service Level Agreements and security controls are written into outsourcing contracts and the 'Customer Plan' focuses on positively differentiating customer experience.

The key subsidiaries monitor products, prices and customer preferences so that it can compete with new products and services introduced by competitors and offers fair, pre-emptive pricing strategies which successfully deliver the cost-versus-service balance that its customers demand.

Significant event in subsidiaries

Disposal of Be Un Limited

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.

Strategic partnership

On 1 July 2013 Telefonica UK entered into a 10 year strategic partnership with Capita plc ("Capita") to outsource its customer service centres. The agreement builds on Capita's existing long-term partnership with Telefonica UK and will provide it with further support as it enhances and expands its digital service offering to its customer base.

Spectrum

Telefonica UK invested £550 million to secure 2x10MHz of spectrum at 800MHz. The acquisition of this block of spectrum underpins our commitment to ensure the widest and deepest possible reach for new services and will see our 4G network provide indoor coverage to 98% of the UK population by the end of 2017.

Disposal of Telefonica Ireland Business

On 24 June 2013, Telefonica S. A, the Company's ultimate parent, entered into agreement with Hutchison Whampoa Group, for the sale of Telefonica Ireland Limited and its subsidiaries for a total consideration of €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.

Smart Meter Implementation Programme

In September 2013 Telefonica UK was awarded two contracts by the Department of Energy and Climate Change of the UK Government to deliver communications services for the central and southern regions of Great Britain as part of the Smart Meter Implementation Programme. The contracts have combined revenue of £1.5 billion.

Post Year End Event

On 15 July 2014 the sale of Telefonica Ireland Limited and its subsidiaries to Hutchison Whampoa Group was completed upon which, initial cash consideration of €780 million was received by the Company's shareholders and an additional deferred payment of €70m will be obtained upon completion of agreed financial objectives.

The Strategic Report was approved by the Board on 10 November 2014

By Order of the Board

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

Legal Form

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.

Directors and Secretary

The Directors who held office during the year are as follows:

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

O2 Secretaries Limited served as secretary throughout the year.

Post Year End Event

On 9 July 2014 Maria Pilar López Alvarez resigned as director of the Company.

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).

Dividends

No dividend was declared or paid during the year ended 31 December 2013 (year ended 31 December 2012: (£468,975,663).

Political donations

The Company made no political donation during the year ended 31 December 2013 (2012: £nil).

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.

Employees (continued)

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.

The Company strives to create a high performing culture by targeting and rewarding our employees based on both personal and company performance. We do this through our annual bonus which encourages all employees to perform to the best of their capability to contribute to the company's ability to achieve its goals.

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.

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.

The Directors' Report was approved by the Board on 10 November 2014

By Order of the Board:

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

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 2013 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 9, 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 2013 and of its profit 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 Strategic Report and 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
13 November 2014

O2 Holdings Limited
Statement of comprehensive income
Year ended 31 December 2013

Registered No. 2604354

	Note	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Other operating income		**81**	95
Administrative expenses		**(118)**	(115)
Other non-recurring expenses	5	**-**	(590)
Operating loss	2	**(37)**	(610)
Financial income	3	**1,049**	242
Financial expense	3	**(80)**	(93)
Profit / (loss) before taxation		**932**	(461)
Taxation credit	4	**64**	154
Profit / (loss) for the year attributable to equity shareholders of the parent		**996**	(307)
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 income / (loss) for the year attributable to the equity holders of the parent		**996**	(310)

The accompanying notes are an integral part of these financial statements.

O2 Holdings Limited
Statement of financial position
As at 31 December 2013

Registered No. 2604354

	Note	31 December 2013 £m	31 December 2012 £m
Non-current assets			
Investments in subsidiary undertakings	5	**10,902**	10,832
Property, plant and equipment	7	**-**	-
Other intangible assets	8	**10**	24
Deferred tax assets	15	**3**	5
		10,915	10,861
Current assets			
Trade and other receivables	9	**1,259**	1,229
Cash and cash equivalents	10	**39**	72
		1,298	1,301
Current liabilities			
Borrowings	11	**(7,934)**	(8,822)
Trade and other payables	12	**(257)**	(311)
Provisions	13	**-**	(1)
		(8,191)	(9,134)
Net current liabilities		**(6,893)**	(7,833)
Total assets less current liabilities		**4,022**	3,028
Non-current liabilities			
Retirement benefit obligations	14	**(7)**	(6)
Borrowings	11	**(12)**	(12)
Provisions	13	**-**	(3)
		(19)	(21)
Net assets		**4,003**	3,007
Equity			
Ordinary share capital	16	**12**	12
Share premium		**-**	-
Retained earnings		**3,991**	2,995
Total equity		**4,003**	3,007

The accompanying notes are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 10 November 2014 and were signed on its behalf by:

Robert Harwood
Director

O2 Holdings Limited
Statement of changes in equity
Year ended 31 December 2013

Registered No. 2604354

Company	Ordinary share capital £m	Share premium £m	Retained earnings £m	Total Equity £m
At 1 January 2012	**12**	**-**	**3,774**	**3,786**
Dividends paid	-	-	(469)	(469)
Total comprehensive loss for the year	-	-	(310)	(310)
At 31 December 2012	**12**	**-**	**2,995**	**3,007**
Total comprehensive income for the year	-	-	996	**996**
At 31 December 2013	**12**	**-**	**3,991**	**4,003**

The accompanying notes are an integral part of these financial statements.

O2 Holdings Limited
Statement of cash flows
Year ended 31 December 2013

Registered No. 2604354

	Note	Year ended 31 December 2013 £m	Year ended 31 December 2012* £m
Profit / (loss) before taxation		**932**	(461)
Adjustment for:			
Financial income		**(1,049)**	(242)
Financial expenses		**80**	93
Operating (loss) before adjustment for working capital changes		**(37)**	(610)
Depreciation and amortisation charges	7, 8	**15**	13
(Increase) in trade and other receivables	9	**(30)**	(228)
(Decrease) in trade and other payables	12	**(54)**	(6)
(Decrease) in provisions	13	**(3)**	(10)
Other non-cash movements		**2**	837
Net cash flow used in operating activities		**(107)**	(4)
(Increase) in business investments	5	**(70)**	-
(Increase) in intangible assets	8	**(3)**	(3)
Dividends received	3	**1,035**	211
Net cash flow generated by investing activities		**962**	208
(Decrease)/increase in borrowings	11	**(885)**	340
Dividends paid	6	**-**	(469)
Interest paid		**(3)**	(4)
Net cash flow used in financing activities		**(888)**	(133)
Net (decrease) / increase in cash and cash equivalents		**(33)**	71
Cash and cash equivalents at start of the year	10	**72**	1
Cash and cash equivalents at end of the year	10	**39**	72

* The prior period statement of cash flows has been restated to reflect a change to the presentation of the statement; this change was adopted for the first time during the year ending 31 December 2013. The change has no impact to the overall movement in cash and cash equivalents or the financial statements overall.

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.

The financial statements provide comparative information in respect of the prior year. The Company restated the 2012 statement of cash flows as explained on page 15.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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.

1. **Accounting policies (continued)**

Property, plant and equipment (continued)

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.

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.

1. Accounting policies (continued)

Employee benefits (continued)

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 2013.

Share based payments

The Company 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 Company measures the services received and the liability incurred at the fair value of the liability. Until the liability is settled, the Company 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.

1. **Accounting policies (continued)**

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.

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. Dividends received from the subsidiary companies are treated as financial income and are recognized in the period in which they are received.

1. Accounting policies (continued)

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

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

Effective for annual periods beginning after 31 December 2013		
New Standards and amendments		**Effective date: annual periods beginning on or after**
IFRS 9	*Financial Instruments*	1 January 2015
Amendments to IFRS 7 and IFRS 9	*Mandatory Effective Date and Transition Disclosures*	1 January 2015
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*	1 January 2014
Amendments to IAS 36	*Recoverable amount disclosures for non-financial assets*	1 January 2014
IFRIC Interpretation 21	*Levies*	1 January 2014

The Company is currently analysing 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 standards will be adopted on the effective date mentioned in the table above.

1. Accounting policies (continued)

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

Operating loss is stated after charging / (crediting):	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m
Total amortisation of other intangible assets (note 8)	**15**	13
Management charges to Group undertakings	**(81)**	(95)
Employee benefit expense (note 22)	**27**	25

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. The brand fees is recharged to the Company by Telefonica S.A. and the Company subsequently passed it on to fellow group companies within the Group. Further details of intercompany loans and trading balances are included within note 17.

3. Net financial income

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Interest income on loans to subsidiaries and other related parties (note 17)	**13**	15
Interest income on loans to immediate parent company (note 17)	**-**	-
Dividends received from subsidiary companies	**1,035**	215
Foreign exchange differences	**1**	12
Financial income	**1,049**	242
Interest expense on borrowings from subsidiaries and other related parties (note 17)	**(67)**	(88)
Interest expense on borrowings from immediate parent company (note 17)	**-**	-
Foreign exchange differences	**(13)**	(5)
Financial expense	**(80)**	(93)
Net financial income	**969**	149

4. Taxation

The analysis of credit for the year is as follows:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Current tax - UK tax	**(60)**	(47)
Current tax - adjustments in respect of prior periods	**(6)**	(105)
Deferred tax - adjustments in respect of prior periods	**2**	(2)
Taxation (credit) for the year	**(64)**	(154)

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 2013 £m	Year ended 31 December 2012 £m
(Loss) / profit before taxation	**932**	(461)
(Loss) / profit on ordinary activities multiplied by the effective rate of UK corporation tax of 23.25% (2012: 24.5%)	**217**	(113)
Expenses not deductible for tax purposes	**3**	147
Non-taxable income	**(240)**	(49)
UK-UK transfer pricing adjustments	**(40)**	(32)
Adjustments in respect of prior periods	**(4)**	(107)
Taxation (credit) for the year	**(64)**	(154)

The main rate of corporation tax reduced from 23% to 21% effective from 1 April 2014, and it will reduce further to 20% from 1 April 2015. These changes were enacted on 17 July 2013. As a result the disclosure of deferred tax has been adjusted to reflect the enactment with no significant impact on these financial statements.

5. Investments in subsidiary undertakings

	Shares in subsidiary undertakings £m
Cost	
At 1 January 2012 and 31 December 2012	14,323
Additions	70
At 31 December 2013	**14,393**
Impairment	
At 1 January 2012	(2,901)
Charge for the year	(590)
At 31 December 2012	(3,491)
Charge for the year	-
At 31 December 2013	(3,491)
Net book value	
At 31 December 2013	**10,902**
At 31 December 2012	10,832

During the year ended 31 December 2013, a cash investment of £70 million was made in the equity shares of O2 Investments Ireland Limited, a wholly owned subsidiary of the Company, to enable O2 Investments Ireland Limited to settle its outstanding balances with Telefonica Ireland Limited,

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.

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

5. Investments in subsidiary undertakings (continued)

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.

6. Dividends paid

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Interim dividend for year ended 31 December 2013:	-	-
Interim dividend for year ended 31 December 2012: £39 per share	-	469
	-	469

No dividend was declared, or paid by the Company during the year ended 31 December 2013 (31 December 2012: £469 million).

7. Property, plant and equipment

	Computer Equipment £m
Cost	
At 1 January 2012	5
Additions	-
At 31 December 2012	5
Additions	-
At 31 December 2013	5
Amortisation and impairment	
At 1 January 2012	5
Charge for the year	-
At 31 December 2012	5
Charge for the year	-
At 31 December 2013	5
Net book value	
At 31 December 2013	-
At 31 December 2012	-

8. Other intangible assets

	Software	Assets in course of construction	Other	Total
	£m	£m	£m	£m
Cost				
At 1 January 2012	56	4	2	62
Additions	2	1	-	3
Reclassifications	-	-	-	-
At 31 December 2012	58	5	2	65
Additions	1	-	-	1
Reclassifications	5	(5)	-	-
At 31 December 2013	**64**	**-**	**2**	**66**
Amortisation and impairment				
At 1 January 2012	26	-	2	28
Charge for the year	13	-	-	13
At 31 December 2012	39	-	2	41
Charge for the year	15	-	-	15
At 31 December 2013	**54**	**-**	**2**	**56**
Net book value				
At 31 December 2013	**10**	**-**	**-**	**10**
At 31 December 2012	19	5	-	24

9. Trade and other receivables

	31 December 2013 £m	31 December 2012 £m
Amounts owed by subsidiaries (note 17)	**1,120**	1,134
Amounts owed by other related parties (note 17)	**99**	72
Prepayments	**13**	12
Other receivable	**27**	11
	1,259	1,229

10. Cash and cash equivalents

	31 December 2013 £m	31 December 2012 £m
Short term deposits	39	72
Cash and cash equivalents	**39**	72

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

Current unsecured borrowings	31-Dec 2013 £m	31-Dec 2012 £m
Amounts owed to immediate parent company (note 17)	-	-
Amounts owed to subsidiaries (note 17)	7,843	8,737
Amounts owed to other related parties (note 17)	91	85
	7,934	**8,822**
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**

Included in current borrowings are a £4,030 million (31 December 2012: £4,030 million) interest free intercompany loan from O2 Third Generation Holdings Limited and a loan from O2 Networks Limited, a subsidiary of the Company, of £2,288 million (31 December 2012: £2,249 million) with an effective interest rate of 1.59% for the year ended 31 December 2013 (31December 2012: 2.25%). Interest rate changes annually on 1 April and the rate is based on 12 months LIBOR plus 45 basis points.

On 30 September 2013, it was noted that due to a technical irregularity the amounts purportedly paid by O2 International Holdings to O2 Holdings 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 O2 Holdings Limited. During the year ended 31 December 2013, these irregularities were rectified and the aforementioned amounts were recognized as dividend income in the financial statements.

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 2013 £m	31 December 2012 £m
Trade payables	3	5
Amounts owed to immediate parent company (note 17)	3	3
Amounts owed to subsidiaries (note 17)	61	65
Amounts owed to other related parties (note 17)	135	161
Other payables	13	13
Accrued expenses	42	64
	257	311

13. Provisions

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

	31 December 2013 £m	31 December 2012 £m
Current	-	1
Non-current	-	3
	-	4

	Contractual £m	Other £m
At 1 January 2012	12	2
Utilized during the year	(10)	-
At 31 December 2012	**2**	**2**
Released during the year	(2)	(2)
At 31 December 2013	-	-

14. Pension costs

The Company participates in an unfunded defined benefit scheme. In addition, Telefónica 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 this 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.

With effect from 28 February 2013 the defined benefit sections of the Plan closed to new entrants and 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.

14. Pension costs (continued)

The Company accounts 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 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.

Actuarial valuation

A full valuation of the defined benefit sections of the Plan was undertaken as at 30 September 2011 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 valuation was completed in line with the change in the investment strategy of the plan from a predominantly performance asset basis to a predominantly corporate bond basis initiated following the 2008 valuation. As a result of the investment changes, inter-valuation experience and the development of actuarial assumptions the ongoing contribution rate was increased to 33.8% of defined benefit members' payroll. Based on the difference between the September 2011 pension asset value and the technical provisions a past service deficit of £164 million resulted. It was agreed that this deficit will be recovered by additional contributions over the period to 2016 totalling £163 million (2012: £40.5m (paid), 2013: £42.1m (paid), 2014: £40m, 2015: £25m, 2016: £16m).

These contributions are in line with the schedule of contributions contract dated 13 September 2013.

The expected amount to be paid to the Plan's defined benefit section by the Group during 2014 is £40m.

Disclosures – Telefonica PP

Disclosures of the defined benefit sections of the Plan 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 2013.

The actuarial valuation of the Plan as at 30 September 2011 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.

Movements in the present value of the various plans' (funded and unfunded) defined benefit obligations in the current and preceding period were as follows:

	31 December 2013 Funded £m	**31 December 2013 Unfunded £m**	31 December 2012 Funded £m	31 December 2012 Unfunded £m
At start of year	**923**	**6**	810	5
Total current service cost	**3**	**-**	20	-
Interest expense	**42**	**1**	40	-
Vested past service costs	**(3)**	**-**	(73)	-
Actuarial losses on demographic assumptions	**27**	**-**	8	-
Actuarial losses on financial assumptions	**64**	**-**	121	1
Actuarial losses on experience adjustments	**-**	**-**	12	-
Benefits paid	**(19)**	**-**	(15)	-
At end of year	**1,037**	**7**	923	6

14. Pension costs (continued)

Movements in fair value of the various plans' (funded and unfunded) defined benefit scheme assets in the current and preceding period were as follows:

	31 December 2013 Funded £m	**31 December 2013 Unfunded £m**	31 December 2012 Funded £m	31 December 2012 Unfunded £m
At start of year	**972**	-	811	-
Interest income	**45**	-	43	-
Return on plan assets in excess of interest income	**(16)**	-	69	-
Employer contributions	**50**	-	66	-
Employee contributions	**-**	-	-	-
Scheme expenses paid	**(1)**	-	(2)	-
Benefits paid	**(19)**	-	(15)	-
At end of year	**1,031**	-	972	-

The amounts included in the relevant statement of financial position arising from obligations in respect of the defined benefit sections of the various plans, as well as the analysis of the schemes' assets, are as follows:

	31 December 2013 Funded £m	**31 December 2013 Unfunded £m**	31 December 2012 Funded £m	31 December 2012 Unfunded £m
Fair value of assets comprises:				
– Equities	**216**	-	198	-
– Corporate bonds	**815**	-	769	-
– Cash and net current assets	**-**	-	5	-
Fair value of assets	**1,031**	-	972	-
Present value of defined benefit obligations	**(1,037)**	**(7)**	(923)	(6)
Net asset/(liability) recognised in statement of financial position of Telefonica Europe plc	**(6)**		49	
Net asset/(liability) recognised in statement of financial position of O2 Holdings Ltd		**(7)**		(6)

Plan assets are valued by reference to quoted market prices in active markets. No assets of Telefonica Europe plc are held by the Plan.

14. Pension costs (continued)

The amounts recognised in the relevant statement of comprehensive income in respect of defined benefit schemes are as follows:

	Year ended 31 December 2013 Funded £m	**Year ended 31 December 2013 Unfunded £m**	Year ended 31 December 2012 Funded £m	Year ended 31 December 2012 Unfunded £m
Analysis of the amount charged/(credited) to operating loss:				
Current service cost (employers)	**3**	**-**	21	-
Past service cost (employers)	**(3)**	**-**	(74)	-
Scheme administration expenses	**1**	**-**	2	-
Total operating charge recognised in Telefonica Europe plc	**1**		(51)	
Total operating charge recognised in O2 Holdings Ltd		**-**		-
Analysis of the amount credited to net financial income:				
Net interest on the defined benefit asset	**(3)**	**-**	(2)	-
Net interest recognised in Telefonica Europe plc	**(3)**		(2)	
Net interest recognised in O2 Holdings Ltd		**-**		-
Analysis of the amount recognised in other comprehensive income:				
(Return on plan assets in excess of interest income)	**16**	**-**	(69)	-
Actuarial loss on demographic assumptions	**27**	**-**	8	-
Actuarial loss on financial assumptions	**63**	**-**	121	1
Actuarial loss on experience adjustment	**-**	**-**	12	-
Actuarial loss recognised in Telefonica Europe plc	**106**		72	
Actuarial loss recognised in O2 Holdings Ltd		**-**		1

The main assumptions adopted for the plans (funded and un-funded) under IAS 19 are as follows:

	Year ended 31 December 2013 Funded and unfunded %	Year ended 31 December 2012 Funded and unfunded %
Nominal rate of increase in salaries	**N/A**	4.2
Nominal rate of increase of pensions in payment:		
– Pension increases with inflation	**3.4**	3.2
– Pension increases with inflation Ltd to 5 per cent p.a.	**3.25**	3.1
Discount rate	**4.5**	4.6
Inflation assumption		
-- RPI	**3.4**	3.2
-- CPI	**2.4**	2.2
Life Expectancy		
-- Male (current age 40)	**89.7**	88.2
-- Male (current age 60)	**88.3**	86.8
-- Female (current age 40)	**91.1**	90.5
-- Female (current age 60)	**89.5**	89.3

14. Pension costs (continued)

At 31 December 2013, the weighted average duration of the defined benefit obligation of the funded plan was 23 years (2012: 23 years).

The position and results reported are subject to the accuracy of the methods assumptions used.

A reduction in the discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the discount rate will have an opposite effect of similar magnitude.

An increase in the inflation rate will increase the assessed value of liabilities as a higher value is placed on benefits. A reduction in the inflation rate will have an opposite effect of similar magnitude.

There is also uncertainty around the future life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The following table summarises the estimated sensitivity of the disclosed liability value to changes in the principal assumptions that have been used in the calculations:

Change in assumption	Liabilities increase by
Decrease discount rate by 0.1%	£24m
Increase inflation rate by 0.1%	£22m
Increase life expectancy by 1 year	£19m

15. Deferred taxation

Provision for deferred tax	**Year ended 31 December 2013 £m**
Pension provision	1
Other temporary differences	2
Total provision for deferred tax	**3**

Deferred tax assets	**£m**
At 1 January 2012	5
Charge to the comprehensive income statement	2
Credit to other comprehensive income	(2)
At 31 December 2012	**5**
Charge to the comprehensive income statement	(2)
Credit to other comprehensive income	-
At 31 December 2013	**3**

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

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Share options	-	(2)
	-	(2)

There were no unrecognised deferred tax assets or liabilities at 31 December 2013 (31 December 2012: £nil).

15. Deferred taxation (continued)

The main rate of corporation tax reduced from 23% to 21% effective from 1 April 2014, and it will reduce further to 20% from 1 April 2015. These changes were enacted on 17 July 2013. As a result the disclosure of deferred tax has been adjusted to reflect the enactment with no significant impact on these financial statements.

16. Share capital

	Number of shares	31 December 2013 £m	Number of shares	31 December 2012 £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 2013, the Company entered into transactions with related parties as follows:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Financial income		
Subsidiary companies	**1,048**	241
Other related parties	**1**	1
	1,049	242
Financial expense		
Subsidiary companies	**(76)**	(87)
Other related parties	**(4)**	(6)
Total net transactions	**969**	149

17. Related party disclosures (continued)

At 31 December 2013 the Company had the following balances arising from transactions with related parties:

	31 December 2013 £m	31 December 2012 £m
Receivables from related parties		
Subsidiary companies	**1,120**	1,134
Other related parties	**99**	72
	1,219	1,206
Payables to related parties		
Parent company	**(3)**	(3)
Subsidiary companies	**(7,904)**	(8,802)
Other related parties	**(238)**	(258)
	(8,145)	(9,063)

Included within receivables from subsidiary companies is an outstanding balance due from O2 Networks Limited. The interest rate of this loan was 1.3% at 31 December 2013 (31 December 2012: 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 £2,264 million (31 December 2012: £2,213 million) with an interest rate of 1.4% (31 December 2012: 2.3%).

There is a balance due to O2 Limited included within payables to subsidiary companies, which represents intercompany loan balances with an interest rate of 2.3% at 31 December 2013 (31 December 2012: 2%).

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 2013 are detailed below.

Name	Country of incorporation and operation	Activity	Portion of ordinary shares held %
Telefonica UK Ltd	England and Wales	Mobile cellular telephone system provider and operator	100
Telefonica Ireland Ltd	Ireland	Mobile cellular telephone system provider and operator	100
Tesco Mobile Ltd	England and Wales	Mobile cellular telephone distributor JV with Tesco	50
Tesco Mobile Ireland Ltd	Ireland	Mobile cellular telephone distributor JV with Tesco	50
Weve Ltd	England and Wales	Development mobile services JV with Vodafone and EE	33
Cornerstone Telecommunications Infrastructure Ltd	England and Wales	Mobile infrastructure network JV with Vodafone	50
Wayra UnLtd Ltd	England and Wales	Venture capitalist entity	50
Giffgaff Ltd	England and Wales	Mobile communications network	100
Telefonica Financial Services UK Ltd	England and Wales	Financial services for O2 portfolio products	100
O2 Mobiles Ltd	England and Wales	Intermediate holding company	100
O2 Networks Ltd	England and Wales	Intermediate holding company	100
O2 Investment Ireland	Ireland	Intermediate holding company	100
O2 Pine Ltd	England and Wales	Intermediate holding company	100
O2 Willow Ltd	England and Wales	Intermediate holding company	100
Kilmaine Ltd	Isle of Man	Intermediate holding company	100
O2 International Holdings Ltd	England and Wales	Intermediate holding company	100
O2 Credit Vouchers Ltd	England and Wales	Selling of Mobile phone credit vouchers	100
Telefonica UK Pension Trustee Ltd	England and Wales	Corporate trustee of the O2 Pension Plan	100
Telefonica O2 UK Ltd	England and Wales	Dormant entity	100
Cellular Radio Ltd	England and Wales	Dormant entity	100
Movistar Ltd	England and Wales	Dormant entity	100
O2 Secretaries Ltd	England and Wales	Dormant entity	100
O2 Communications Ltd	England and Wales	Intermediate holding company	100
O2 Transactions Ltd	England and Wales	Dormant entity	100
O2 Solutions Ltd	England and Wales	Dormant entity	100
Call Connections Ltd	England and Wales	Dormant entity	100
O2 (Online) Ltd	England and Wales	Marketing and customer relations services	100
O2 (Online) Netherlands BV	Netherlands	Intermediate holding company	100
O2 (Online) Hong Kong Ltd	England and Wales	Marketing and customer relations services	100
O2 (Online) Ltd Malaysia	England and Wales	Marketing and customer relations services	100
O2 (Online) Ltd Singapore Branch	England and Wales	Dormant entity	100
O2 (Netherlands) Holdings BV	Netherlands	Intermediate holding company	100
O2 Ltd	England and Wales	Intermediate holding company	100
O2 Telecommunication BV	Netherlands	Provision of financing to group	100
Cellular World Ltd	Ireland	Provision of mobile phones	100
Liffey Telecom Ltd	Ireland	Dormant entity	100
Telefonica Ireland Retail Ltd	Ireland	Retail of mobile phones and consumer related products.	100
Centurion Collections Ltd	Ireland	Dormant entity	100
TU Products Ltd	England and Wales	Dormant entity	100
O2 Redwood Ltd	England and Wales	Dormant entity	100
Wayra Ireland Ltd	Ireland	Venture capitalist entity	100

18. Subsidiary undertakings, joint ventures and associates (continued)

Name	Country of incorporation and operation	Activity	Portion of ordinary shares held %
O2 Communications (Ireland) Ltd	Ireland	Dormant entity	100
Genie Internet Ltd	England and Wales	Dormant entity	100
O2 Cedar Ltd	England and Wales	Intermediate holding company	100
Pacific Shelf 873 Ltd	Scotland	Dormant entity	100
DX Communications Ltd	Scotland	Dormant entity	100
DX Communications (Edinburgh) Ltd	Scotland	Dormant entity	100
The Link Stores Ltd	England and Wales	Dormant entity	100
Link FS Ltd	England and Wales	Dormant entity	100
Jajah Ltd	England and Wales	Dormant entity	100
Lumina Holdings Ltd	England and Wales	Dormant entity	100
O2 Unify Ltd	England and Wales	Dormant entity	100
Cellphones Direct (Holdings) Ltd	England and Wales	Dormant entity	100
Cellphones Direct (Investments) Ltd	England and Wales	Dormant entity	100
Cellphones Direct Ltd	England and Wales	Dormant entity	100
Telefonica Global Resources Ltd	England and Wales	Dormant entity	100
Telefonica Digital Ltd	Ireland	Dormant entity	100
Cellphones Direct International Holdings BV	Netherlands	Provision of financing to group	100
O2 (UK) Ltd	England and Wales	Dormant entity	100
Wayra UK Ltd	England and Wales	Venture capitalist entity.	100
Digital Mobile Spectrum Ltd	England and Wales	Provision of services in relation to spectrum auction obligations	25
O2 Third Generation Holdings Ltd	Isle of Man	Intermediate holding company	100
Computershare Trustees Ltd	Jersey	Management of Telefonica pension fund	100
The Mobile Phone Store Ltd	England and Wales	Dormant entity	100
O2 Third Generation	England and Wales	Dormant entity	100
Telefonica Europe People Services Ltd	Ireland	European HR services, support functions and administration provider	100

The accounting reference date of the principal operating subsidiary undertakings is 31 December 2013. No subsidiary undertakings are listed on any public exchange.

On 24 June 2013, The Group entered into an agreement with H3G, the Irish subsidiary of Hutchison Whampoa to dispose of its 100% stake in Telefonica Ireland Ltd and its subsidiaries.

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 2013, 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 2013 and 31 December 2012.

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

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

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
Audit of the Company financial statements	**43**	43
Other fees:		
- local statutory audits of subsidiaries	**272**	239
- other services pursuant to legislation	**24**	-
Total auditors' remuneration	**339**	282

The fees in the current and previous year were paid to Ernst & Young LLP.

21. Key management and director compensation

The directors of the company are also directors of other companies within Telefonica Group. The directors received total remuneration for the year of £1.78 million.

The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the holding and fellow subsidiary companies.

During the year, four directors accrued retirement benefits under a defined contribution pension plan.

Aggregate emoluments	31 December 2013 £m	31 December 2012 £m
Remuneration in respect qualifying services	1,750	1,826
Contributions to pensions schemes	37	79
Total net transactions	**1,787**	1,905

Aggregate emoluments of highest paid director	£m	£m
Remuneration in respect qualifying services	747	724
Contributions to pensions schemes	4	5
Total net transactions	**751**	729

22. Employees

	Year ended 31 December 2013 No.	Year ended 31 December 2012 No.
Average number of full time employee equivalents (including Directors) by class of business:		
Finance	**43**	43
Other businesses and administration	**143**	127
Total employees	**186**	170

The benefit expenses incurred in respect of these employees were:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Wages and salaries	**19**	18
Social security costs	**3**	3
Share based payments (note 23)	**2**	1
Pension costs (note 14)	**3**	3
Total employee benefit expense	**27**	25

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 2013 was as follows:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Equity settled share based payments	**2**	1
Total share based payments	**2**	1

The liability recognised in the statement of financial position for share based payments at 31 December 2013 totalled £3 million (31 December 2012: £7 million).

23. Share based payments (continued)

Share award plans

The share award plans operated by the company during the year ended 31 December 2013 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%

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 2013 is nil (year ended 31 December 2012: 162,928).

In July 2013 the second tranche of share awards granted in 2010 vested. At the date of vesting the weighted average share price was €15.66 (2012: €15.41). The total number of shares which vested was nil (2012: nil).

This share plan is closed to new entrants, the share awards granted in 2011 and 2012 are due to vest in 2014 and 2015 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 began on July 1, 2013 (with delivery of the related shares from July 1, 2016).

23. Share based payments (continued)

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").

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 30, 2015
3rd phase July 2013	243,847	€ 6.40	June 30, 2016

Telefonica Performance Cash Plan

This plan mirrors the conditions of the Telefonica Performance Investment 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 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 Telefonica Performance Investment 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 was nil (2012: nil). There was no grant during the 2013 year.

Global Employee Share Plan

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. Under the Plan the possibility of acquiring shares of Telefonica S.A. is offered with the commitment of the latter to allot free of charge to the participants in the Plan a certain number of shares of Telefonica S.A., provided certain requirements are met.

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) and the minimum contribution to be made by each participant shall be 300 euros (or the local currency equivalent). Shares were delivered upon vesting of the plan, as from December 1, 2014, 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.

The purchasing period began in December 2012 ending in November 2013. At December 31, 2012, 66 employees had adhered to the plan. At December 31, 2013, a total of 6 employees had left the plan. This plan will be equity-settled via the delivery of shares to the employees by December 2014.

24. Parent company and controlling party

At 31 December 2013 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 2013 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

At 15th July 2014 Telefonica announced that once the relevant regulatory authorizations had been obtained, the sale of Telefonica Ireland to H3G, the Irish subsidiary of Hutchison Whampoa, had been completed. The value of the sale amounted to €850 million, including an initial cash consideration of €780 million received at the close of the transaction and an additional deferred payment of €70m based on the completion of agreed financial objectives.

O2 Holdings Limited, had an indirect investment in Telefonica Ireland Limited, an operating business of the Group.