

Registered Number: 3900219

O2 Third Generation

Annual Report and Financial Statements Year ended 31 December 2013



O2 Third Generation

Registered No. 3900219

Directors

Ronan Dunne
Mark Evans

Secretary

O2 Secretaries Limited

Registered office

260 Bath Road
Slough
Berkshire
SL1 4DX

Auditor

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

Directors' report**Legal form**

O2 Third Generation is a company with unlimited liability status, registered in England and Wales under the registered number 3900219. The registered address is 260 Bath Road, Slough, Berkshire, SL1 4DX. It is a wholly owned subsidiary of O2 Third Generation Holdings Limited, a company incorporated in the Isle of Man. Its ultimate UK parent is Telefónica Europe plc, ("the Group") a company incorporated in England and Wales. The ultimate holding company is Telefónica S.A., a company incorporated in Spain.

The Company has not traded in the year ended 31 December 2013, and the Directors do not believe that this will change for the foreseeable future. The income reported in the Statement of comprehensive income arises due to interest being receivable on loans to other group companies.

Directors and secretary

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

Edward Augustus Smith
Robert Harwood
Jesus Perez de Urquien

The Secretary who held the office during the year was O2 Secretaries Limited.

Subsequent events

On 30 April 2014, Edward August Smith, Robert Harwood and Jesus Perez de Urquien resigned as directors of the Company and Ronan Dunne and Mark Evans were appointed directors of the Company.

Group simplification

During the first half of 2014, the Group reached the decision to undertake a corporate simplification project, with the following aims; (1) enabling the efficient flow of dividends from within the Group, (2) rationalisation of the corporate structure within the UK, including eliminating, as far as possible, dormant and non-trading entities; and (3) establishing a sub-group of trading companies held directly by Telefónica Europe plc. Although plans have not yet been finalised, the expected impact on the Company will be the settlement of certain intercompany balances, a subsequent distribution of reserves and a change of ownership within the Group.

Directors' liability insurance and indemnities

Telefónica 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).

Going concern

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

Political donations

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

Directors' report (continued)

Statement as to disclosure to Auditor

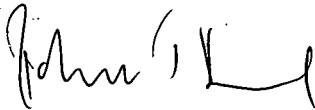
So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that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

Small companies' exemption

In preparing the Directors Report for the year ended 31 December 2013, the Company has taken advantage of the small companies' exemption under section 415 (A) of the Companies Act 2006 for reduced disclosures. The Directors have also taken advantage of the exemption under section 414 (B) not to prepare a Strategic Report.

The Directors' report was approved by the Board on 1 July 2014

By Order of the Board

A handwritten signature in black ink, appearing to read 'Robert Harwood', written over a horizontal line.

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

**Statement of Directors' responsibilities
Year ended 31 December 2013**

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and regulations.

Company law required the directors to prepare Company financial statements for each financial year. Under that law the Directors are required to prepare Company financial statements under IFRSs as adopted by the European Union. Under Company Law, the directors must not approve the Company 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 Company financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the company
- 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 whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union.
- make judgements and estimates that are reasonable

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 Company 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 Third Generation

We have audited the financial statements of O2 Third Generation 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, and the related notes 1 to 11. 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 Directors' Responsibilities Statement on page 4, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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.

Opinion on other matter prescribed by the Companies Act 2006

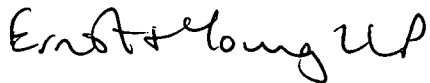
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of O2 Third Generation (continued)

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; or
- the Directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a Strategic Report and take advantage of the small companies' exemption in preparing the Directors' Report.



Neil Cullum (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
2 July 2014

Statement of comprehensive income
Year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Financial income	3	9,301	12,899
Profit before taxation		9,301	12,899
Taxation	4	(2,163)	(3,161)
Profit for the year attributable to equity shareholders		7,138	9,738
Total comprehensive income for the year		7,138	9,738

The accompanying notes on pages 10 to 13 are an integral part of these financial statements.

There was no recognised income or expense other than those shown above.

Statement of financial position
As at 31 December 2013

	Note	2013 £'000	2012 £'000
Current assets			
Trade and other receivables	5	594,184	584,883
Current liabilities			
Trade and other payables	6	(33,859)	(31,696)
Net current assets		560,325	553,187
Net assets		560,325	553,187
Equity			
Share capital	7	86,000	86,000
Retained earnings		474,325	467,187
Total equity		560,325	553,187

The accompanying notes on pages 10 to 13 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 1 July 2014 and were signed on its behalf by:



Mark Evans
 Director

Statement of changes in equity
Year ended 31 December 2013

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2012	86,000	457,449	543,449
Total comprehensive income for the year	-	9,738	9,738
At 31 December 2012	86,000	467,187	553,187
Total comprehensive income for the year	-	7,138	7,138
At 31 December 2013	86,000	474,325	560,325

The accompanying notes on pages 10 to 13 are an integral part of these financial statements.

Notes to the financial statements
Year ended 31 December 2013**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.

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.

Going concern

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

Cash flow statement

The transactions of the Company in the current or prior year do not require the use of cash or cash equivalents. Consequently, the Company has not presented a statement of cash flow.

Taxation

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

Trade and other receivables

Trade and other receivables are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Provisions are made based on an analysis of balances by age, previous losses experienced, disputes and ability to pay. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows. Changes in the provision against receivables are recognised in the statement of comprehensive income within cost of goods sold.

Financial risk factors and management

The Company's operations expose it to a variety of financial risks including liquidity risk. The Company's overall risk management policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Company's financial performance and net assets.

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

Fair value estimation

The fair value of the trade and other receivables approximate to the book carrying value due to the short-term or on demand maturity of these instruments.

Notes to the financial statements

Year ended 31 December 2013

1. Accounting policies (continued)

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

The Company does not expect that the first-time adoption of the IFRS and IFRIC interpretations that have been published at the date of preparation of the financial statements will have a significant impact on its financial statements.

2. Auditor's remuneration

Auditor's remuneration for the year ended 31 December 2013 and the year ended 31 December 2012 was borne by a fellow group company.

3. Financial income

	2013 £'000	2012 £'000
Interest income from other group companies	9,301	12,899

4. Taxation

Analysis of tax charge in year

	2013 £'000	2012 £'000
Current tax on income for the year	2,163	3,161
Total taxation	2,163	3,161

The tax assessed for the year 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:

	2013 £'000	2012 £'000
Profit before tax	9,301	12,899
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 23.25% (2012: 24.5%)	2,162	3,160
Effects of:		
Transfer pricing adjustments	1	1
Total taxation	2,163	3,161

Notes to the financial statements

Year ended 31 December 2013

5. Trade and other receivables

	2013 £'000	2012 £'000
Amounts owed by other group companies	594,184	584,883

Amounts owed by other group companies relate to financing activities and are unsecured, interest free and repayable on demand with the exception of one loan amount of £588,091,000 (2012: £574,796,000) that bears an effective rate of interest of 1.60% (2012: 2.25%). The interest rate is based on LIBOR plus 45 basis points. This loan is repayable on demand and the purpose of the loan was for the provision of general trading activities.

6. Trade and other payables

	2013 £'000	2012 £'000
Amounts owed to other group companies	33,859	31,696

Amounts owed to other group companies relate to financing activities, are unsecured, interest-free, repayable on demand and include balances due for tax losses claimed by way of group relief.

7. Share capital

	Number of shares	2013 £'000	Number of shares	2012 £'000
Called up, allotted and fully paid				
Ordinary shares of £1 each	86,000,000	86,000	86,000,000	86,000

The Company has one class of authorised and issued 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.

8. Related party disclosures

Related party transactions with Directors and key management are detailed in note 9.

Other related party transactions are detailed in notes 3, 5 and 6.

9. Key management and Directors compensation

No emoluments or other benefits were paid to Directors in respect of qualifying services during the year ended 31 December 2013 (2012: £nil). The Directors are employees of other companies in the Telefónica Group, and are remunerated for their services to the Telefónica Group as a whole.

There are no employees of the Company.

10. Parent company and controlling party

The Company's immediate parent company is O2 Third Generation Holdings Limited. At the end of the year the ultimate parent company and controlling party 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, 28013, Madrid, Spain.

**Notes to the financial statements
Year ended 31 December 2013**

11. Subsequent events

Group simplification

During the first half of 2014, the Group reached the decision to undertake a corporate simplification project, with the following aims; (1) enabling the efficient flow of dividends from within the Group, (2) rationalisation of the corporate structure within the UK, including eliminating, as far as possible, dormant and non-trading entities; and (3) establishing a sub-group of trading companies held directly by Telefónica Europe plc. Although plans have not yet been finalised, the expected impact on the Company will be the settlement of certain intercompany balances, a subsequent distribution of reserves and a change of ownership within the Group.