

Registered Number: 4247143

**O2 (Europe) Limited**

**Annual Report and Financial Statements  
for the 10 months ended 31 January 2006**



## **O2 (Europe) Limited**

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## **O2 (Europe) Limited**

### **Company information**

#### **Directors**

R Harwood  
J Riches

#### **Secretary and registered office**

O2 Secretaries Limited  
Wellington Street  
Slough  
Berkshire SL1 1YP

#### **Registered auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

## **O2 (Europe) Limited**

### **Directors' report**

The Directors present their annual report and the audited financial statements for the 10 months ended 31 January 2006.

#### **Corporate structure and principal activity**

O2 (Europe) Limited ("the Company") is a private limited company registered in England and Wales under the number 4247143. The registered address is Wellington Street, Slough, Berkshire SL1 1YP.

The principal activity of the Company is to act as an intermediate holding company in the O2 plc group (the "Group"). The Directors expect the Company to continue to act as an intermediate holding company for the foreseeable future. The Company's functional currency is the Euro and therefore all figures in these financial statements are presented in Euros (€).

#### **Results and proposed dividend**

The Company's profit for the year, after taxation, was €11,051,000 (31 March 2005: loss of €5,539,777,000). The Directors do not propose the payment of a dividend (2005: nil).

#### **Post balance sheet events**

On 4 April 2006, 17 May 2006, 1 June 2006 and 1 August 2006, the Company issued 100 ordinary shares of €1 each for consideration of €20,048,000, €124,987,500, €7,629,237 and €539,000,000 respectively.

#### **Directors and secretary**

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

C Fletcher Smith (resigned 30 June 2006).

R Harwood

J Riches (appointed 29 June 2006)

O2 Secretaries Limited served as Secretary throughout the period.

#### **Directors' indemnities**

On 19 July 2005, O2 plc granted an indemnity to directors of its subsidiary companies and the Directors of the Company are accordingly covered by this indemnity. The indemnity remains in place during the period from the date of grant to 31 January 2006 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).

## O2 (Europe) Limited

### Directors' report (continued)

#### Beneficial interests

On 31 October 2005, the Boards of Telefónica, S.A. ("Telefónica") and O2 plc jointly announced that they had agreed the terms of a recommended cash offer to be made on behalf of Telefónica for the entire issued and to be issued share capital of O2 (the "Telefónica Offer"). Shareholders were offered £2 cash or a Loan Note Alternative for every one O2 Share which they held in the Company. The Telefónica Offer was declared wholly unconditional on 23 January 2006 at which time Telefónica became the Company's ultimate holding company.

The Register of Directors' Interests indicated that the Directors who held office at the end of the financial period had the following interests in O2 plc's ordinary shares of 0.1p each.

	At 1 April 2005 No.	Acquired No.	Disposed No.	At 31 January 2006
C Fletcher Smith	8,182	134,708	142,890	-
R Harwood	8,835	62,969	71,804	-

The Register of Directors' Interests indicated that the Directors who held office at the end of the financial period had no interests in Telefónica S.A.'s ordinary shares of €1 each (31 March 2005: nil).

#### Long-term incentives

Certain directors of the Company are permitted to participate in a number of long-term incentive plans as set out below. Further details of the terms and conditions applicable to these plans are contained in the O2 plc annual report. Copies of this report may be obtained from the Secretary, O2 plc, Wellington Street, Slough, Berkshire, SL1 1YP.

#### Executive Share Options

The table below shows the options granted under the O2 Share Option Plan. Vesting is subject to the satisfaction of certain performance criteria as detailed in the O2 plc annual report.

	At 1 April 2005 No.	Granted No.	Exercised No.	Lapsed No.	At 31 January 2006 No.	Exercise price	Dates between which exercisable
C Fletcher Smith	35,863	-	-	-	35,863	87p	23/11/04-23/03/06
C Fletcher Smith	133,695	-	133,695	-	-	46p	25/7/05-23/03/06
R Harwood	61,956	-	61,956	-	-	46p	25/7/05-23/03/06

## O2 (Europe) Limited

### Directors' report (continued)

#### Sharesave Options

The table below shows the options over O2 plc ordinary shares held by Directors during the year, through their participation in the O2 Sharesave Plan:

	At 1 April 2005 No.	Granted No.	Exercised No.	Lapsed No.	At 31 January 2006 No.	Exercise price	Dates between which exercisable
C Fletcher Smith	21,477	-	-	-	21,477	44p	13/2/06-23/03/06
R Harwood	21,477	-	-	-	21,477	44p	13/2/06-23/03/06

The closing market price of O2 plc shares at 31 January 2006 was 199.5p and the range from 1 April 2005 to that date was 114p to 209.25p.

#### Performance Share Plan

Under the O2 Performance Share Plan ("PSP"), C Fletcher Smith and R Harwood have been granted contingent awards of 161,435 and 44,090 shares respectively (1 April 2005: 113,766 and 29,260 shares respectively). Entitlement to these shares at the end of a three-year period was dependent upon the continued employment of the participant by O2 plc or one of its subsidiaries, and was subject to the satisfaction of certain performance criteria as detailed in the O2 plc annual report. These awards vested early as a result of the acquisition by Telefónica; however, the shares were not transferred out of the trust until after the period end and so formed part of the directors' beneficial interests in the shares of the company at 31 January 2006. Awards made in 2005 vested in full, but the offer proceeds for these O2 Shares will only be released on the first anniversary of the Unconditional Date subject to the participant (i) not having given notice to resign their employment, and (ii) not having been dismissed for cause in accordance with their service contract, in both cases prior to such first anniversary.

#### Non-beneficial interests

At 31 January 2006, C Fletcher Smith and R Harwood both had a non-beneficial interest in 4,970,553 shares held in trust by Hill Samuel Offshore Trust Company Limited as trustee of the PSP (31 March 2005: 956,316).

#### Political and charitable contributions

The Company made no political or charitable contributions during the period (year ended 31 March 2005: nil).

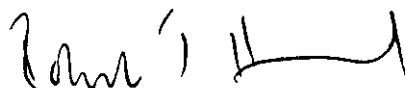
**Directors' report (continued)**

**Auditors**

PricewaterhouseCoopers LLP ("PwC") were the auditors of the Company for the 10 months ended 31 January 2006. It is proposed that PwC resign as auditors at the conclusion of the audit of the financial statements of O2 plc and its subsidiaries and that Ernst & Young LLP will be appointed from that time.

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

By Order of the Board:



Authorised signatory  
for and on behalf of O2 Secretaries Limited  
Company Secretary  
7 August 2006

**Statement of directors' responsibilities**

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the period and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with International Financial Reporting Standards as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 (Europe) Limited**

We have audited the financial statements of O2 (Europe) Limited for 10 months ended 31 January 2006 which comprise the income statement, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

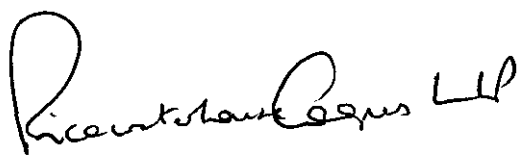
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Independent auditor's report to the members of O2 (Europe) Limited (continued)**

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 January 2006 and of its profit for the 10 months then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", with a horizontal line underneath.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
7 August 2006

## O2 (Europe) Limited

### Income statement 10 months ended 31 January 2006

	Note	10 months ended 31 January 2006 €'000	Year ended 31 March 2005 €'000
Exceptional item – loan waiver	2	-	(5,668,435)
<b>Operating loss</b>	2	-	(5,668,435)
Financial income	3	11,051	128,658
<b>Profit/(loss) before taxation</b>		11,051	(5,539,777)
Tax on profit/(loss) on ordinary activities	4	-	-
<b>Profit/(loss) for the period attributable to equity shareholders</b>	8	11,051	(5,539,777)

The Company has no other recognised gains and losses other than those presented in the income statement and therefore no separate statement of recognised income and expense has been presented.

## O2 (Europe) Limited

### Balance sheet As at 31 January 2006

	Note	31 January 2006 €'000	31 March 2005 €'000
<b>Non-current assets</b>			
Investments	5	5,723,307	5,341,245
<b>Current assets</b>			
Receivables – amounts owed by Group undertakings	6	287,423	276,372
<b>Net current assets</b>		<u>287,423</u>	<u>276,372</u>
<b>Net assets</b>		<u>6,010,730</u>	<u>5,617,617</u>
<b>Capital and reserves</b>			
Called up share capital	7	1,239,004	1,239,002
Share premium account	8	12,575,035	12,192,975
Retained earnings	8	(7,803,309)	(7,814,360)
<b>Total equity</b>	8	<u>6,010,730</u>	<u>5,617,617</u>

These financial statements were approved by the Board of Directors on 7 August 2006 and signed on its behalf by:



**J Riches**  
**Director**

## **O2 (Europe) Limited**

### **Notes to the financial statements 10 months ended 31 January 2006**

#### **1 Accounting policies**

##### **Basis of preparation**

O2 (Europe) Limited (the "Company") has adopted International Financial Reporting Standards ("IFRS") as its primary basis of accounting for the 10 months ended 31 January 2006 in place of UK Generally Accepted Accounting Principles ("UK GAAP"). Up to and including 31 March 2005, the Company has prepared and presented its financial statements in accordance with UK GAAP.

These financial statements have been prepared in accordance with 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 1985 applicable to companies reporting under IFRS. The financial statements have been prepared using historical cost principles.

The Company has changed its accounting reference date from 31 March to 31 January in order to align the accounting reference date more closely to the date Telefónica S.A. ("Telefónica") acquired the Group. Accordingly amounts presented for the current period are for the ten month period from 1 April 2005 to 31 January 2006. Comparative information is for the twelve months from 1 April 2004 to 31 March 2005.

The accounting policies of O2 (Europe) Limited applied in the preparation of these financial statements are set out below. The IFRS accounting policies have been applied consistently to all periods presented and in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to IFRS.

The Company reported under UK GAAP in its previously prepared financial statements for the year ended 31 March 2005. There were no adjustments as a result of adopting IFRS, consequently, the net assets and profits as reported under UK GAAP as at 31 March 2005 are the same as the net assets and profits reported under IFRS in these financial statements.

##### *Taxation*

Taxation represents current tax only as there are no temporary differences. Tax currently payable is based on profit for the year adjusted for income or expenses that never deductible and accrued at tax rates applicable to corporation tax.

##### *Investments*

Investments are stated at cost less provision for impairment. An impairment loss is recognised for the amount by which the investments 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.

##### *Consolidated financial statements*

In accordance with s228 of the Companies Act 1985, consolidated financial statements have not been prepared as the Company and its subsidiaries are included in the group financial statements of O2 plc.

## O2 (Europe) Limited

### Notes to the financial statements 10 months ended 31 January 2006

#### *Foreign currencies*

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 balance sheet 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.

#### *Cash flow statement*

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

### **2 Operating loss**

None of the Directors received any emoluments in respect of their services to the Company for either the current period or prior year. The Company had no employees in the current period or prior year. Audit fees for the Company were borne by another Group undertaking.

In the year ended 31 March 2005, the Company recognised an exceptional charge of €5,668,435,000, being the waiver of an amount owed by a subsidiary undertaking.

### **3 Net financial income**

	10 months ended 31 January 2006 €'000	Year ended 31 March 2005 €'000
Interest income from group undertakings	10,549	130,120
Foreign exchange gain/(loss) on financing	502	(1,462)
	<hr/>	<hr/>
	11,051	128,658
	<hr/>	<hr/>

## O2 (Europe) Limited

### Notes to the financial statements 10 months ended 31 January 2006

#### 4 Taxation

	10 months ended 31 January 2006 €'000	Year ended 31 March 2005 €'000
Current tax	-	-

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

	10 months ended 31 January 2006 €'000	Year ended 31 March 2005 €'000
Profit/(loss) before taxation	11,051	(5,539,777)
Profit/(loss) before taxation at the UK corporation tax rate of 30%	3,315	(1,661,933)
Non-deductible waiver of loan	-	1,700,531
Group relief received for nil consideration	(3,315)	(38,598)
Taxation	-	-

## O2 (Europe) Limited

### Notes to the financial statements 10 months ended 31 January 2006

#### 5 Investments

	Shares in subsidiary undertakings €'000
<b>Cost</b>	
At 1 April 2005	5,471,585
Additions	382,062
	<hr/>
At 31 January 2006	5,853,647
	<hr/>
<b>Provisions for impairment</b>	
At 1 April 2005 and 31 January 2006	130,340
	<hr/>
<b>Net book value</b>	
At 31 January 2006	5,723,307
	<hr/>
At 1 April 2005	5,341,245
	<hr/>

The Company's principal subsidiary undertakings are detailed below:

Name	Country of incorporation	Principal activity	Shareholding (%)
O2 (Germany) GmbH & Co OHG <sup>(1)</sup>	Germany	Mobile cellular telephone system provider and operator	100
O2 (Germany) Holding GmbH	Germany	Holding company	100
O2 (Germany) Management GmbH	Germany	Holding company	100
O2 (Germany) Verwaltungs GmbH	Germany	Holding company	100

<sup>(1)</sup> Subsidiary is indirectly owned.

#### 6 Receivables

	31 January 2006 €000	31 March 2005 €000
Amounts owed by parent company	130,777	56,450
Amounts owed by Group undertakings	156,646	219,922
	<hr/>	<hr/>
	287,423	276,372
	<hr/>	<hr/>



## O2 (Europe) Limited

### Notes to the financial statements 10 months ended 31 January 2006

#### 7 Called up share capital

	31 January 2006 €	31 March 2005 €
<b>Authorised</b>		
1,300,000,000 ordinary shares of €1	1,300,000,000	1,300,000,000
<b>Called up and fully paid</b>		
1,239,004,200 (31 March 2005: 1,239,001,767) ordinary shares of €1	1,239,004,100	1,239,001,767

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.

	Number of shares	€'000
Ordinary shares €1 each at 1 April 2005	1,239,001,767	1,239,002
Allotted, called up and fully paid	2,333	2
Ordinary shares €1 each at 31 January 2006	1,239,004,100	1,239,004

#### 8 Reconciliation of changes in equity

	Called up share capital €'000	Share premium €'000	Retained earnings €'000	Total equity €'000
At 1 April 2005	1,239,002	12,192,975	(7,814,360)	5,617,617
Total recognised income relating to the period	-	-	11,051	11,051
Issue of shares	2	382,060	-	382,062
At 31 January 2006	1,239,004	12,575,035	(7,803,309)	6,010,730

## O2 (Europe) Limited

### Notes to the financial statements 10 months ended 31 January 2006

#### 9 Related party disclosures

	10 months ended 31 January 2006 €'000	Year ended 31 March 2005 €'000
<b>Financial income from related parties</b>		
O2 Holdings Limited	5,345	2,800
O2 Communications (Ireland) Limited	5,204	7,319
O2 Germany GmbH & Co OHG	-	120,001
	<hr/>	<hr/>
<b>Total net transactions</b>	<b>10,549</b>	<b>130,120</b>
	<hr/>	<hr/>
	31 January 2006 €'000	31 March 2005 €'000
<b>Receivables from related parties</b>		
O2 Holdings Limited	130,777	56,449
O2 Communications (Ireland) Limited	156,646	219,923
	<hr/>	<hr/>
<b>Total net transactions</b>	<b>287,423</b>	<b>276,372</b>
	<hr/>	<hr/>

Amounts owed by parent company represent a Euro denominated loan to O2 Holdings Limited which has an effective interest rate of 5.5% (31 March 2005: 5.2%). Interest changes annually on 1 April and is based on 12 month EURIBOR. This loan is unsecured and repayable on demand.

Amounts owed by other group undertakings represent a Euro denominated loan from O2 Communications (Ireland) Limited which has an effective interest rate of 3.8% (31 March 2005: 3.4%). Interest changes annually on 1 April and is based on 12 month EURIBOR. This loan is unsecured and repayable on demand.

Amounts owed by O2 Germany was waived in 2005. Interest was based on a 12 month EURIBOR and in the year ended 31 March 2005, the effective interest rate was 2.14%.

#### 10 Contingent liabilities

The Company has a voluntary capital contribution promise to O2 (Germany) Verwaltungs GmbH of €4,555,959,400 (31 March 2005: €4,938,021,200) to be remitted to them on first demand by O2 (Germany) Verwaltungs GmbH.

## **O2 (Europe) Limited**

### **Notes to the financial statements 10 months ended 31 January 2006**

#### **11 Parent company and controlling party**

At 31 January 2006, the immediate parent company was O2 Holdings Limited.

Until 23 January 2006, O2 plc was the ultimate parent company.

On 31 October 2005, the Boards of Telefónica, and O2 plc jointly announced that they had agreed the terms of recommended cash offer to be made on behalf of Telefónica for the entire issued and to be issued share capital of O2. Shareholders were offered £2 cash or a loan note alternative for every one O2 share which they held in O2 plc. The Telefónica offer was declared wholly unconditional on 23 January 2006 at which time Telefónica became the Company's ultimate holding Company.

Therefore at 31 January 2006, 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 Calle Gran Vía 28, Madrid, Spain.

#### **12 Post balance sheet events**

On 4 April 2006, 17 May 2006, 1 June 2006 and 1 August 2006, the Company issued 100 ordinary shares of €1 each for consideration of €20,048,000, €124,987,500, €7,629,237 and €539,000,000 respectively.