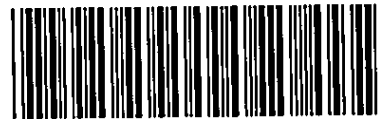


Registered Number. 4247143

O2 (Europe) Limited

**Annual Report and Financial Statements
11 months ended 31 December 2006**

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O2 (Europe) Limited

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O2 (Europe) Limited

Directors and advisers

Directors

R Harwood
D Melcon Sanchez-Frera

Secretary and registered office

O2 Secretaries Limited
Wellington Street
Slough
Berkshire SL1 1YP

Registered auditors

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

O2 (Europe) Limited

Directors' Report

The Directors present their annual report and the audited financial statements for the 11 months ended 31 December 2006

Corporate Structure

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. It is a wholly owned subsidiary of Telefónica O2 Europe plc, a company incorporated in England and Wales. The ultimate holding company is Telefónica S A, a company incorporated in Spain.

The principal activity of the Company is to act as an intermediate holding company in the Telefónica O2 Europe 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 (€).

Post balance sheet events

The Company has changed its accounting reference date from 31 January to 31 December.

Between 11 January 2007 and 25 September 2007, the Company issued a total of 699 shares to its shareholder, O2 Holdings Ltd for a total consideration of €341,578,540.

Results and proposed dividend

The Company's profit after taxation for the financial period was €15,487,000 (period ended 31 January 2006: €11,051,000).

The Directors do not recommend the payment of a dividend for the 11 months ended 31 December 2006 (Period ended 31 January 2006: nil).

Directors and Secretary

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

C Fletcher Smith	resigned 29 June 2006
R Harwood	
D Melcon Sanchez-Friera	appointed 31 August 2007
J Riches	appointed 29 June 2006, resigned 31 August 2007

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

Directors' liability insurance and indemnities

Telefónica O2 Europe plc, the Company's ultimate UK parent Company, has granted an indemnity in the form permitted by the Qualifying Third Party Indemnity Provisions of the Companies Act 1985 to directors of its subsidiary companies and the Directors of the Company are accordingly covered by this indemnity. The indemnity was in place throughout the period to 31 December 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

Political and charitable contributions

The Company made no political or charitable contributions during the period (period ended 31 January 2006 nil)

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the 11 months ended 31 December 2006 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that 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 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.

The auditors' responsibilities are stated in their report on page 6.

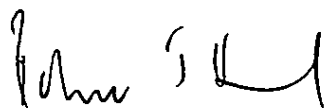
Auditors

PricewaterhouseCoopers LLP ("PwC") were the auditors of the Company until 25 September 2006 when they resigned and were replaced by Ernst & Young LLP. In accordance with Section 394 of the Companies Act 1985, PwC confirmed that there were no circumstances connected with their resignation which they considered should be brought to the notice of the shareholders or creditors of the Company. This change of auditors was done in order to ensure consistency with the rest of the Telefónica group of companies.

Pursuant to a shareholders' resolution under Section 386 of the Companies Act 1985, the Company is not obliged to re-appoint its auditors annually.

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 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 auditors are aware of that information.

By Order of the Board



Robert Harwood
Company Secretary
22 October 2007

O2 (Europe) Limited

Independent auditors' report to the members of O2 (Europe) Limited

We have audited financial statements of O2 (Europe) Limited for the period ended 31 December 2006 which comprise Income Statement, the Balance Sheet, and the related notes 1 to 11. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) 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).

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 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company have 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 is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and 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.

O2 (Europe) Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the period then ended,
- the company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements

A handwritten signature in black ink, appearing to read "Ernst & Young LLP", with a stylized flourish at the end.

Ernst & Young LLP
Registered auditor
London
23 October 2007

O2 (Europe) Limited

Income statement 11 months ended 31 December 2006

	Note	11 months ended 31 December 2006 €'000	10 months ended 31 January 2006 €'000
Financial income	3	15,487	11,051
Profit before taxation		15,487	11,051
Tax on profit on ordinary activities	4	-	-
Profit for the period attributable to equity shareholders	8	15,487	11,051

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 December 2006

	Note	31 December 2006 €'000	31 January 2006 €'000
Non-current assets			
Investments	5	6,689,948	5,723,307
Current assets			
Receivables – amounts owed by Group undertakings	6	302,909	287,423
Net current assets		302,909	287,423
Net assets		6,992,857	6,010,730
Capital and reserves			
Called up share capital	7	1,239,005	1,239,004
Share premium account	8	13,541,673	12,575,035
Retained earnings	8	(7,787,821)	(7,803,309)
Total equity	8	6,992,857	6,010,730

These financial statements were approved by the Board of Directors on 22 October 2007 and signed on its behalf by

D Melcon Sanchez-Friera
Director



O2 (Europe) Limited

Notes to the financial statements 11 months ended 31 December 2006

1 Accounting policies

Basis of preparation

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 to 31 December to align it with that of Telefónica S.A. ("Telefonica"). Accordingly amounts presented for the current period are for the eleven month period from 1 February 2006 to 31 December 2006. Comparative information is for the ten months from 1 April 2005 to 31 January 2006.

The accounting policies of O2 (Europe) Limited applied in the preparation of these financial statements are set out below.

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 Telefonica O2 Europe plc.

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.

O2 (Europe) Limited

Notes to the financial statements 11 months ended 31 December 2006

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.

3 Net financial income

	11 months ended 31 December 2006 €'000	10 months ended 31 January 2006 €'000
Interest income from group undertakings	12,901	10,549
Foreign exchange gain on financing	2,586	502
	<u>15,487</u>	<u>11,051</u>

4 Taxation

	11 months ended 31 December 2006 €'000	10 months ended 31 January 2006 €'000
Current tax	-	-
	<u>-</u>	<u>-</u>

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:

	11 months ended 31 December 2006 €'000	10 months ended 31 January 2006 €'000
Profit before taxation	<u>15,487</u>	<u>11,051</u>
Profit before taxation at the UK corporation tax rate of 30%	4,646	3,315
Group relief received for nil consideration	<u>(4,646)</u>	<u>(3,315)</u>
Taxation	<u>-</u>	<u>-</u>

O2 (Europe) Limited

Notes to the financial statements 11 months ended 31 December 2006

5 Investments

	Shares in subsidiary undertakings €'000
Cost	
At 1 April 2005	5,471,585
Additions	382,062
	<hr/>
At 31 January 2006	5,853,647
Additions	966,641
	<hr/>
At 31 December 2006	6,820,288
	<hr/>
Provisions for impairment	
At 1 April 2005, 31 January 2006 and 31 December 2006	130,340
	<hr/>
Net book value	
At 31 December 2006	6,689,948
	<hr/>
At 31 January 2006	5,723,307
	<hr/> <hr/>

The Company's principal subsidiary undertakings and joint ventures at 31 December 2006 are detailed below

Name	Country of incorporation	Principal activity	Shareholding (%)
O2 (Germany) GmbH & Co OHG ⁽¹⁾	Germany	Mobile cellular telephone system provider and operator	100
Telefonica Deutschland GmbH ⁽¹⁾	Germany	Internet services provider	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
Tchibo Mobilfunk GmbH & Co KG ⁽²⁾	Germany	Telecommunications equipment retailer	50

⁽¹⁾ Investments are indirect

O2 (Europe) Limited

Notes to the financial statements 11 months ended 31 December 2006

6 Receivables

	31 December 2006 €000	31 January 2006 €000
Amounts owed by parent company	139,689	130,777
Amounts owed by Group undertakings	163,220	156,646
	<u>302,909</u>	<u>287,423</u>

7 Called up share capital

	31 December 2006 €	31 January 2006 €
Authorised		
1,300,000,000 ordinary shares of €1	<u>1,300,000,000</u>	<u>1,300,000,000</u>
Called up and fully paid		
1,239,005,001 ordinary shares of €1	<u>1,239,005,001</u>	<u>1,239,004,100</u>

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 31 January 2006		
Allotted, called up and fully paid	<u>1,239,004,100</u>	<u>1,239,004</u>
Ordinary shares €1 each at 31 December 2006		
Allotted, called up and fully paid	<u>1,239,005,001</u>	<u>1,239,005</u>

O2 (Europe) Limited

Notes to the financial statements 11 months ended 31 December 2006

8 Reconciliation of changes in equity

	Called up share capital €'000	Share premium €'000	Retained earnings €'000	Total equity €'000
At 31 January 2006	1,239,004	12,575,035	(7,803,309)	6,010,730
Total recognised income relating to the period	-	-	15,488	15,488
Issue of shares	1	966,638	-	966,639
At 31 December 2006	<u>1,239,005</u>	<u>13,541,673</u>	<u>(7,787,821)</u>	<u>6,992,857</u>

9 Related party disclosures

	11 months ended 31 December 2006 €'000	10 months ended 31 January 2006 €'000
Financial income from related parties		
O2 Holdings Limited	6,328	5,345
O2 Communications (Ireland) Limited	6,573	5,204
Total net transactions	<u>12,901</u>	<u>10,549</u>
	31 December 2006 €'000	31 January 2006 €'000
Receivables from related parties		
O2 Holdings Limited	139,689	130,777
O2 Communications (Ireland) Limited	163,220	156,646
Total net transactions	<u>302,909</u>	<u>287,423</u>

Amounts owed by parent company represent a Euro denominated loan to O2 Holdings Limited which has an effective interest rate of 5.3% (31 January 2006 5.5%). 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 4.5% (31 January 2006 3.8%). Interest changes annually on 1 April and is based on 12 month EURIBOR. This loan is unsecured and repayable on demand.

O2 (Europe) Limited

Notes to the financial statements 11 months ended 31 December 2006

10 Contingent liabilities

The Company has a voluntary capital contribution promise to O2 (Germany) Verwaltungs GmbH of €4,168,318,163 (31 January 2006 €4,555,959,400) to be remitted to them on first demand by O2 (Germany) Verwaltungs GmbH

11 Parent company and controlling party

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

At 31 December 2006, the ultimate parent company and controlling party was Telefonica, S A , a company incorporated in Spain. Copies of the financial statements of Telefónica, S A may be obtained from Gran Vía 28, Madrid, Spain