

Registered Number: 4247143

O2 (Europe) Limited

Annual Report and Financial Statements Year ended 31 December 2014

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**O2 (Europe) Limited
Company Information**

Registered number: 4247143

Directors

Robert Harwood
Enrique Medina Malo
Robert McBreen

Secretary

O2 Secretaries Limited

Registered office

260 Bath Road
Slough
Berkshire
SL1 4DX
UK

Auditor

Ernst & Young LLP
Apex Plaza
Forbury Road,
Reading
RG1 1YE

Strategic Report**The Company**

O2 (Europe) Limited is the indirect holding company of Telefonica's telecommunication companies in Germany. As such its strategy is integral with that of Telefonica Deutschland Holding AG and its subsidiary companies. This is to enhance further Telefonica's strategic position in Germany and generate profitable growth opportunities. The priorities are to capitalise on the multi-brand portfolio and high level of customer satisfaction, to monetise mobile data and fixed broadband/convergence opportunities across all segments, to differentiate O2 as the best value-for-money Long-Term Evolution brand in the German market, and to seize opportunities in the Business Segment and for Digital Services.

Performance and Development

The Company's profit after tax for the year ended 31 December 2014 was €26.2m (2013: profit of €305.4m).

The net assets of the Company has at 31 December 2014 were €6,128.6m (31 December 2013: €6,102.4m).

Given that the Company operates as a holding company, the performance is the Company is integral to the performance of its principal trading subsidiaries and the Directors are of the opinion that analysis using key performance indicators is not necessary for understanding the Company's business itself.

Acquisition of E-Plus

On 23 July 2013, Telefonica Deutschland Holding AG ("Telefonica Deutschland"), Telefonica, S.A and Koninklijke KPN N.V. ("KPN") concluded an agreement for the acquisition of KPN's German mobile business, E-Plus-by Telefonica Deutschland. As consideration, KPN received new shares and cash ("cash purchase price") for an amount of approximately €3.6 billion. The cash component to be paid to KPN was financed via a cash capital increase of Telefonica Deutschland. The shares issued as further consideration to KPN were generated via a capital increase against contribution in kind (€1.3 billion), initially giving KPN a 24.9% stake in Telefonica Deutschland after the completion of the cash capital increase and the capital increase against contribution in kind. KPN held a stake of 4.4% of the 24.9% only on trust for Telefonica Germany Holdings Ltd as subsidiary of Telefonica, S.A. Telefonica Germany Holdings Ltd, then acquired the 4.4% share (130.880.419 shares) in Telefonica Deutschland indirectly from KPN for an amount of €1.3 billion. This resulted in a 62.1 % stake in Telefonica Deutschland held by Telefonica Germany Holdings Ltd and a 20.5% stake held by KPN immediately after the acquisition.

On 29 August 2014, Telefonica Deutschland received the EU Commission's final clearance for the acquisition of the E-Plus Group from KPN and the acquisition was completed with effect from 1 October 2014.

Strategic Report (continued)**Risks and uncertainties**

The Company's principal risks and uncertainties are integral to the risks and uncertainties of its subsidiary companies ("The business"). These are:

- Regulatory: The business operates in a highly regulated market where decisions by the regulatory authority may directly influence, services, products and prices. There is still high pressure on the reduction of termination rates and international roaming rates by the National and European Regulator. Currently, In Germany, there are pending decisions to be made on going lawsuits regarding fixed net termination rates.
- Erosion of core services: Increasing numbers of internet players, device manufacturers and IP-based players, plus a number of new applications that cannibalise voice/SMS business e.g. WAP app, viber, and OTT messaging systems could cannibalise our voice and SMS business.
- Competition: There is increasing competition from MNO's, MVNO's and alternative telecommunication providers particularly in the smartphone market. This could drive down prices and increase churn.
- Licences: The business' licenses and assigned frequency usage have finite terms. Any inability to renew or obtain new licences and frequency usage rights necessary for the business' operations as well as significant changes in the financial conditions for their usage could adversely affect the business' operations.
- Legal: The business may be unable to adequately protect its own intellectual property rights and may also be subject to claims on infringement of intellectual property rights of others.
- Breach of Information Security: Failing to maintain sufficient information security processes could lead to a data protection breach.
- Financial: The business operation is capital intensive and requires significant amounts of investments. The ability to raise additional capital to fund the business' operations can be influenced by factors such as changing market interest rates, restrictive covenants in the business' debt instruments or negative changes in the business' credit rating or the credit rating of the business' majority shareholder.
- Economy: The general economic conditions and other similar factors (access to credit, unemployment rates, consumer confidence and other macroeconomic factors) impact on the business. A challenging economic and financial situation, uncertainty regarding potential economic recovery and any other factor could undermine customer demand. A loss of customers or a decline in sales could have an adverse effect on its financial position, results of operations and cash flow and may ultimately affect its ability to meet its growth targets. Similarly, outsourcing partners are also facing these challenges and there is an increased risk of losing vendors as a result of the economic crisis.
- Managed Services/Outsourcing: The reliance on outsourcing for the delivery of various services and the reduced control this gives over the quality and consistency of services could have a negative effect on its customer experience and brand.
- Network & IT Infrastructure: Inadequate resilience in the critical networks and systems could negatively affect service delivery to its customers.

Strategic Report (continued)

Risks and uncertainties (continued)

- Reliance on Third Party – The reliance on lease sites for technical facilities could affect the Business if there is an unexpected significant increase in the number of termination of the leases as sourcing for alternate sites may be cumbersome and expensive.
- Dependence on services of the major shareholder Telefónica and KPN - The Telefónica Deutschland Group obtains services and inputs including its brand from the Telefónica, S. A. Group and KPN which cannot be purchased on the open market on favourable terms.

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

The key subsidiaries employ regulatory professionals to engage with the associated regulatory authorities on all aspects of their businesses to ensure that the impact on the subsidiaries profitability is not negatively impacted.

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

Mandatory Service Level Agreements and security controls are written into outsourcing contracts and the 'Customer Plan' focuses on positively differentiating customer experience. Governance meetings are also held with the key outsourced providers to ensure SLA's and KPI's are regularly monitored, reviewed and reported upon.

Data security is consistently monitored through the deployment of Network Access Control (NAC) and Data Loss Prevention (DLP) software. The "Security-in-Life" process is engaged with every project Incident Management process is in place and is initiated whenever a possible security incident is identified to ensure adequate security measures are taken to minimize the risk of data loss.

Group reorganisation

The Group has previously indicated its intention to undertake a corporate simplification project to rationalise the corporate structure including the elimination, where possible, of dormant and non-trading entities. The project will also involve a reorganisation of companies in preparation for the Telefonica Group's proposed disposal of the UK business as a whole, subject to clearance by the Regulatory and Competition Authorities. The group has now started this project and intends to simplify as many non trading and dormant companies and then strike off the companies that are no longer required.

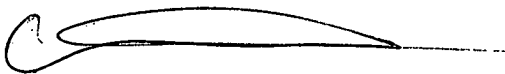
O2 (Europe) Limited
Strategic Report (continued)

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Significant Post Year End Development

As a part of the aforementioned corporate simplification project, on 10 June 2015 the Company acquired 100% of the shares in O2 International Holdings Limited and Kilmaine Limited, from O2 Holdings Limited, a fellow subsidiary, for a cash consideration of £169 million.

The Strategic Report has been approved by the Board on 28 September 2015
By Order of the Board



Vivienne Aziba
for and on behalf of O2 Secretaries Limited
Company Secretary

Directors' Report**Legal form**

O2 (Europe) Limited ("the Company") is a private limited company registered in England and Wales under the number 4247143. The registered address is 260 Bath Road, Slough, Berkshire SL1 4DX. It is a wholly owned subsidiary of Telefónica S.A., a company incorporated in Spain.

The Company act as an intermediate holding company in the Telefónica S.A. group (the "Group") which indirectly owns 62.37% of Telefonica Deutschland Holding AG, a company listed on the German stock exchange.

Directors and Secretary

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

Robert Harwood
Maria Pilar Lopez Alvarez (resigned on 9 July 2014)
Enrique Medina Malo
Jesus Perez de Uriguen (resigned on 1 December 2014)
Robert McBreen (appointed on 1 December 2014)

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

Directors' liability insurance and indemnities

Telefónica S.A., the Company's parent company, maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against Directors of companies within the Telefónica Group and the Directors of the Company are covered by this Insurance.

The Company has granted indemnities to certain Directors on the Board. The indemnities remain in place and continue until such time as any relevant limitation periods for bringing Claims (as defined in such indemnities) against the Director has expired, or for so long as the past Director, where relevant, remains liable for any losses (as defined in such indemnities).

Dividend

The Directors did not pay any dividend for the year ended 31 December 2014 (2013: €286,187,930)

Political contributions

The Company made no political contributions during the period.

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 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.

Directors' Report (continued)

Going concern

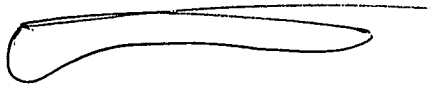
The Company's business activities together with the factors likely to affect the future development, performance and position are set out in the Strategic Report.

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.

Additionally, the Company has received a letter of parental support from Telefonica S.A. which confirms that Telefonica S.A. will continue to provide financial support to the Company for a period of twelve months from the signing of the Auditor's Report in the financial statements.

The Directors' Report has been approved by the Board on 28 September 2015

By Order of the Board



Vivienne Aziba
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 EUROPE LIMITED

We have audited the financial statements of O2 Europe Limited for the year ended 2014 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statements of Changes in Equity and the related notes 1 to 13. 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 set out on page 10, 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 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 31st December 2014 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 matters 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.

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

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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
Reading

28 September 2015

Statement of comprehensive income
Year ended 31 December 2014

	Note	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Operating profit		-	-
Financial income	3	100,082	386,505
Financial expense	3	(104,019)	(105,583)
(Loss) / profit before taxation		(39,387)	280,922
Taxation credit	4	30,165	24,474
Profit for the year attributable to equity shareholders of the parent		26,228	305,396

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

O2 (Europe) Limited

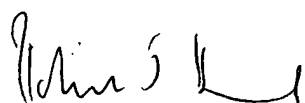
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**Statement of financial position
As at 31 December 2014**

		31 December 2014 €'000	31 December 2013 €'000
	Note		
Non-current assets			
Investments	5	8,506,826	8,506,826
Current assets			
Trade and other receivables	8	119,010	88,845
Cash and cash equivalents	9	43,728	47,665
Net current assets		162,738	136,510
Non-current liabilities			
Trade and other payables	8	(2,540,953)	(2,540,953)
Net assets		6,128,611	6,102,383
Equity			
Called up share capital	7	1,239,007	1,239,007
Retained earnings		4,889,604	4,863,376
Total equity		6,128,611	6,102,383

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

These financial statements were approved and authorised for issue by the Board of Directors on 28 September 2015 and signed on its behalf by:



Robert Harwood
Director

**Statement of changes in equity
As at 31 December 2014**

	Called up share capital	Share premium	Retained earnings	Total Equity
	€'000	€'000	€'000	€'000
At 1 January 2013	1,239,007	-	4,844,168	6,083,175
Dividends paid	-	-	(286,188)	(286,188)
Total comprehensive income for year	-	-	305,396	305,396
At 31 December 2013	1,239,007	-	4,863,376	6,102,383
Total comprehensive income for year	-	-	26,228	26,228
At 31 December 2014	1,239,007	-	4,889,604	6,128,611

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

Statement of cash flows
Year ended 31 December 2014

	Note	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
(Loss) / profit before taxation		(3,937)	280,922
Adjustment for			
Financial income	3	(100,082)	(386,505)
Financial expenses	3	104,019	105,583
Operating loss		-	-
Increase in trade and other receivables	8	(30,165)	(23,424)
Other non-cash movements		30,165	24,474
Net cash flow (used in) / from operating activities		-	1,050
Interest received	3	82	317
Dividends received from subsidiaries	3	100,000	386,188
Net cash flow from investing activities		100,082	386,505
Interest paid		(104,019)	(105,583)
Dividend paid	6	-	(286,188)
Net cash flow used in financing activities		(104,019)	(391,771)
Exchange loss on cash and cash equivalents		-	-
Net change in cash and cash equivalents		(3,937)	(4,216)
Cash and cash equivalents at start of the year	9	47,665	51,881
Cash and cash equivalents at end of the year	9	43,728	47,665

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

O2 (Europe) Limited

Notes to the financial statements (continued)

Registered number: 4247143

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.

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.

Additionally, the Company has received a letter of parental support from Telefonica S.A. which confirms that Telefonica S.A. will continue to provide financial support to the Company for a period of twelve months from the signing of the Auditor's Report in the 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 Group Telefonica. Copies of the financial statements of Group Telefonica may be obtained from Gran Via 28, 28013 Madrid, Spain.

Taxation

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

Deferred income tax is provided in full, using the statement of financial position 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, except where the timing of the reversal of the temporary difference is controlled by the Company 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 statement of financial position date 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.

O2 (Europe) Limited

Notes to the financial statements (continued)

Registered number: 4247143

Accounting policies (continued)

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").

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.

Income is recognised when the company's rights to receive the payment is established. Dividends received from subsidiary companies are recognised as finance income in the Company's financial statements in the period in which the dividends are received.

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.

Functional currency

The Company financial statements are presented in euro, 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 statement of comprehensive income and allocated to categories most appropriate for the nature of the underlying transaction. 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 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.

1 Accounting policies (continued)

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

The accounting policies applied in the preparation of the company financial statements for the year ended December 31, 2014 are consistent with those used in the preparation of the Company's financial statements for the year ended December 31, 2013, except for the application of new standards, amendments to standards and interpretations published by the IASB and the IFRIC, and adopted by the European Union, effective as of January 1, 2014, noted below:

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanism of clearing houses to qualify for offsetting.

IFRIC 21 Interpretation 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of IFRIC 21 did not have a material financial impact in the Company's financial position or results.

**IAS39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS39
Amendments to IAS 36 Impairment of Assets.**

The application of these amendments has had no impact on the Company's financial position or results.

Investments entities (Amendments to IFRS10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries –as well as investments in associates and joint ventures at fair value through profit or loss. This amendment is not relevant to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

O2 (Europe) Limited
Notes to the financial statements (continued)

Registered number: 4247143

1 Accounting policies (continued)

New standards and IFRIC interpretations issued but not effective as of December 31, 2014

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 2014

New Standards and amendments

		Effective date: annual periods beginning on or after
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
Improvements to IFRS 2010-2012		1 July 2014
Improvements to IFRS 2011-2013		1 July 2014
Improvements to IFRS 2012-2014		1 January 2016
IFRS 14	<i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2016
Amendments to IAS 1	<i>Disclosure Initiative</i>	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
IFRS 15	<i>Revenues from Contracts with Customers</i>	1 January 2017
IFRS 9	<i>Financial instruments</i>	1 January 2018
Amendments to IFRS 7	<i>Disclosures - Transition to IFRS 9</i>	1 January 2018

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.

O2 (Europe) Limited
Notes to the financial statements (continued)

Registered number: 4247143

2 Directors' emoluments and employees

The directors of the company are also directors of other companies within Telefonica Group. The directors received total remuneration for the year of €2.9 million, all of which was paid by other companies within Telefonica Group.

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.

The Company had no employees during the period ended 31 December 2014.

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Aggregate emoluments		
Remuneration in respect qualifying services	2,879	1,695
Contributions to pensions schemes	44	42
Total net transactions	2,923	1,737
Aggregate emoluments of highest paid director		€'000
Remuneration in respect qualifying services	1,219	570
Contributions to pensions schemes	3	10
Total net transactions	1,222	580

3 Net financial (expense) / income

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Interest income from group undertakings (note 8)	82	317
Dividend received from subsidiary companies	100,000	386,188
Financial income	100,082	386,505
Interest expense from group undertakings (note 8)	(104,019)	(105,583)
Foreign exchange loss on financing	-	-
Financial expense	(104,019)	(105,583)
Net financial (Expense) / income	(3,937)	280,922

O2 (Europe) Limited
Notes to the financial statements (continued)

Registered number: 4247143

4 Taxation

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Current tax charge/credit	(29,424)	- (24,474)
Adjustments in respect of prior periods	(741)	
Current tax credit	(30,165)	(24,474)

Finance Act 2013 reduced the main rate of corporation tax to 21%, with effect from 1 April 2014, with a further reduction to 20%, with effect from 1 April 2015.

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 2014 €'000	Year ended 31 December 2013 €'000
Profit before taxation	(3,937)	280,922
Profit on ordinary activities multiplied by the effective rate of UK corporation tax of 21.5% (2013: 23.25%)	(846)	65,314
Effects of:		
Expenses not deductible for tax purposes	-	-
Non-taxable income	(21,500)	(89,789)
Foreign exchange movements	(7,078)	-
Non-taxable income	(741)	-
Taxation (credit) for the year	(30,165)	(24,474)

O2 (Europe) Limited
Notes to the financial statements (continued)

Registered number: 4247143

5 Investments

Cost	Shares in subsidiary undertakings €'000
At 1 January 2013	9,964,826
Movement during the year	-
At 31 December 2013	9,964,826
Movement during the year	-
At 31 December 2014	9,964,826
Impairment	
At 1 January 2013	1,458,000
Movement during the year	-
At 31 December 2013	1,458,000
Movement during the year	-
At 31 December 2014	1,458,000
Net book value	
At 31 December 2014	8,506,826
At 31 December 2013	8,506,826

A complete list of the Company's subsidiary undertakings at 31 December 2014 is given below.

Name	Country of incorporation	Principal activity	Shareholding (%)
Telefonica Germany Holdings Limited	England and Wales	Intermediate holding company	100
Telefónica Deutschland Holdings AG ⁽¹⁾	Germany	Holding company	62.37
Telefónica Germany Customer Services GmbH ⁽¹⁾	Germany	Operation of services	62.37
Telefónica Germany Management GmbH ⁽¹⁾	Germany	Holding company	62.37
Telefónica Germany GmbH & Co OHG ⁽¹⁾	Germany	Mobile cellular telephone system provider and operator	62.37
Telefónica Germany 1. Beteiligungs-gesellschaft GmbH ⁽¹⁾	Germany	Holding company	62.37
Wayra Deutschland GmbH ⁽¹⁾	Germany	Venture capitalist entity	62.37
Fonic GmbH ⁽¹⁾	Germany	Mobile virtual network operator	62.37
Tchibo Mobilfunk GmbH & Co KG ⁽¹⁾	Germany	Telecommunications equipment retailer	31.18

O2 (Europe) Limited
Notes to the financial statements (continued)

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5 Investments (continued)

Name	Country of incorporation	Principal activity	Shareholding (%)
Tchibo Mobilfunk Beteiligungs GmbH ⁽¹⁾	Germany	Holding company	31.18
O2Telefonica Deutschland Finanzierungs GmbH ⁽¹⁾	Germany	Provision of funds to finance Germany business	62.37
E-Plus Mobilfunk GmbH & Co. KG, Dusseldorf1	Germany	Mobile cellular telephone system provider and operator	62.37
E-Plus Services Treuhand GmbH, Dusseldorf	Germany	Holding company	62.37
E-Plus Service GmbH & Co. KG, Potsdam1	Germany	Operation of services	62.37
E-Plus Customer Operations GmbH, Dusseldorf	Germany	Operation of services	62.37
E-Plus Customer Support GmbH, Potsdam	Germany	Operation of services	62.37
E-Plus Retail GmbH, Dusseldorf	Germany	Telecommunications equipment retailer	62.37
Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH, Dusseldorf	Germany	Operation of services	62.37
WiMee-Plus GmbH, Dusseldorf	Germany	Operation of services	62.37
WiMee-Connect GmbH, Dusseldorf	Germany	Operation of services	62.37
AY YILDIZ Communications GmbH, Dusseldorf	Germany	Operation of services	62.37
simyo GmbH, Dusseldorf	Germany	Mobile cellular telephone system provider	62.37
Cash & Phone GmbH, Dusseldorf	Germany	Operation of services	62.37
Gettings GmbH, Dusseldorf	Germany	Operation of services	62.37
Ortel Mobile GmbH, Dusseldorf	Germany	Operation of services	62.37
BLAU Mobilfunk GmbH, Hamburg	Germany	Mobile cellular telephone system provider	62.37
Blau Service GmbH, Hamburg	Germany	Operation of services	62.37
yourfone GmbH, Hamburg	Germany	Mobile cellular telephone system provider	62.37
Go Clever GmbH, Stuttgart	Germany	Operation of services	62.37
E-Plus Financial Services GmbH, Potsdam	Germany	Operation of services	62.37
Shortcut I GmbH & Co. KG, Dusseldorf	Germany	Venture capitalist entity	56.13

O2 (Europe) Limited
Notes to the financial statements (continued)

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5 Investments (continued)

Name	Country of incorporation	Principal activity	Shareholding (%)
E-Plus 1.Beteiligungsgesellschaft mbH, Munich	Germany	Holding company	62.37
Montan GmbH Assekuranz-Makler, Dusseldorf	Germany	Operation of services	0.62
MNP GbR, Cologne	Germany	Operation of services	15.60

(1) Investments are indirect.

6 Dividends paid

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Interim dividend for year ended 31 December 2014	-	-
Interim dividend for year ended 31 December 2013: €0.23 per share	-	286,188
	-	286,188

7 Called up share capital

	31 December 2014 €	31 December 2013 €
Called up and fully paid		
Ordinary shares of €1 each	1,239,007,100	1,239,007,100

The Company has one class of 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.

Capital management

The Company's capital comprises share capital, share premium 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 Group may pay dividends to its shareholders, return capital to its shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

O2 (Europe) Limited
Notes to the financial statements (continued)

Registered number: 4247143

8 Related party disclosures

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Financial income from related parties		
Telefonica Germany Holdings Limited	100,000	386,188
Telfisa Global	82	302
Telfisa	-	15
Total financial income from related parties	100,082	386,505
Financial expense from related parties		
Telfisa Global	-	-
Telfin Ireland Ltd	104,019	105,583
Total financial expense from related parties	104,019	105,583
Financial assets with related parties		
O2 Holdings Limited	119,010	88,845
Total receivables from related parties	119,010	88,845
Financial liabilities with related parties		
Telfin Ireland Ltd	2,540,953	2,540,953
Total payables to related parties	2,540,953	2,540,953

The €111 million receivable due from O2 Holdings Limited relates to payment for tax losses surrendered by way of group relief and the balance is other receivables.

Amounts owed to Telfin Ireland Limited represent three Euro denominated loans which have an interest rate of 4.06% as of December 2014. The effective interest rate during 2014 was 4.04% (2013: 4.1%).

O2 Holdings Limited, Telefónica Ireland Limited and Telfin Ireland Limited are fellow subsidiaries in the Telefónica S.A. Group.

9 Cash and cash equivalents

	31 December 2014 €'000	31 December 2013 €'000
Cash at Intra-group accounts	43,728	47,665
Cash and cash equivalents	43,728	47,665

The Company's cash at Intra-group accounts are funds deposited with Telfisa Global B.V., a related party.

O2 (Europe) Limited
Notes to the financial statements (continued)

Registered number: 4247143

10 Auditor's remuneration

Audit fees for the Company were borne by another company within the Telefónica S.A. group and have been allocated across the group.

	Period ended 31 December 2014 €'000
Audit of financial statements	19

11 Financial risk factors and management

The Company's operations expose it to a variety of financial risks including interest rate risk, credit risk, liquidity risk and risk related to the fair value of financial instruments.

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. All of the Company's credit balances are held with 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.

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 year it was 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 2014 and 31 December 2013.

O2 (Europe) Limited
Notes to the financial statements (continued)

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12 Significant post year end development

On 10 June 2015 the Company acquired 100% of the shares in O2 International holdings Limited and Kilmaine Limited, from O2 Holdings Limited, a fellow subsidiary, for a cash consideration of £169 million.

13 Parent company and controlling party

At 31 December 2014, the immediate parent company was Telefonica S.A., a company incorporated in Spain. Copies of the financial statements of Telefonica S.A. can be obtained from Gran Via 28, Madrid, Spain.