

Registered Number: 04247143

O2 (Europe) Limited

Annual Report and Financial Statements Year ended 31 December 2017



O2 (Europe) Limited

Registered number: 04247143

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O2 (Europe) Limited Company Information

Registered number: 04247143

Directors

Robert Harwood
Enrique Medina Malo
Mark Hardman

Secretary

O2 Secretaries Limited

Registered office

260 Bath Road
Slough
Berkshire
SL1 4DX
UK

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium
1 Harefield Road
Uxbridge
Middlesex
UB8 1EX

Strategic Report**Strategy**

O2 (Europe) Limited ("the Company") acts as a holding company for Telefonica's telecommunication companies in Germany. As such its strategy is integral with that of Telefonica Deutschland Holding AG and its subsidiary companies (Telefonica Deutschland Group or the German Group).

Telefonica Deutschland Group

Telefonica Deutschland Group is the largest mobile communication provider in Germany, setting the pace for the telecommunication industry. During 2017, Telefonica further consolidated its position by increasing its shareholding in the business by a further 6%. The aim is to become the leading digital telecommunications company, during the pursuit of which customer orientation is key – with highest demands made of our customers' experience of the network, products and services. The marketing and sales strategy follows a consistent and multi brand strategy which enables the group to address the whole spectrum of customers with tailored product offerings, sales and marketing thereby increasing its potential revenue. Telefonica Deutschland Group offers private and business customers a wide range of quality mobile services and fixed line product with the core brand O2. Large international business are addressed through the Telefonica brands and with its secondary and partner brands and through wholesale channels Telefonica Deutschland is able to reach further large groups of customers that it does not target with the O2 brand. The secondary brands includes Blau, AY YILDIZ and Ortel Mobile. In addition, by means of joint activities and strategic partnerships the group is able to offer further mobile services brands such as ALDI TALK, in cooperation with MEDION mobile and TCHIBO Mobil.

Mobile services is the main revenue stream. Telefonica Deutschland Group operates a state of the art network that provides high quality network experience particularly in urban and suburban areas. Customers benefit from the combined strength of the O2 and E-Plus networks and can make even better use of mobile data applications. In addition there is a fixed line business which offers full services based on future-proof infrastructure. The group also sells a large variety of mobile phones and other hardware to customers independent of mobile communications contracts.

The performance of the Company is dependent on the financial performance of its investment in Telefonica Deutschland Group. Financial KPIs of Telefonica Deutschland Group include Mobile Service Revenue, Operating results adjusted for exceptional items and capital expenditure and free cashflow. Other non-financial KPIs are net leverage ratio, net adds in mobile communication business, customer satisfaction and employee satisfaction. In 2017, in response to the increasing demand on large data bundles the O2 Free portfolio was updated setting new standards for the mobile freedom of Telefonica Deutschland Group's customers. The group is focusing on stimulating customer data usage and continue to invest in the core brand thus strengthening its market positioning.

In 2018, the aim is to continue to make the customers the focus of the business. In particular, Telefonica Deutschland Group want to meet their customers' needs with regard to the network and service. Their aim is to be better, quicker and simpler for their customers. To achieve this, Telefonica Deutschland Group has a clear strategy in place. Initially, the aim is to create the foundation for optimising the customer experience by optimising the fundamental success factors of the business. This in particular includes very strong performance in the areas of network and customer service in addition to stable IT systems and effective organisation. The second priority lies in transforming and digitalising the business so as to create a fantastic customer experience. This will position the business as the Mobile Customer and Digital Champion in the German market. This leads to the third priority: to take the businesses stand out customer service capability and translate this into new growth which will lead to positive developments in profitability and shareholders value.

Strategic Report (continued)**Financial Performance**

The financial performance of the company is reported in the Director's Report

Risks and uncertainties

The Directors have satisfied themselves that it is not essential for the Company to have a separate risk management system since the Company's risk and uncertainties are integral to the principal risks and uncertainties of the Telefonica Deutschland Group.

The risk management framework is a component of the decision-making processes within the Telefonica Deutschland Group. The procedure ensures that risk evaluations are taken into account in decision-making and measures to minimise and deal with risks are taken at an early stage.

The risk management framework is designed to identify, assess, manage, monitor and mitigate significant risks that could adversely affect the future success of the subsidiaries through a well-established network of risk managers' bottom up approach who comply with the unified Risk Register guidance. As part of the creation of the Risk Register, it is ensured that risks of a similar type or of cumulative effect are aggregated and thus provided for overall consideration. In addition, the top down approach ensures that risk which can only be identified at the highest level or on the basis of group-wide considerations are also captured. In a formal forward-looking process, the risk register of Telefonica Deutschland Group is the subject of regular reporting to the Management Board. The Supervisory Board (Audit Committee) is regularly informed about risks and their development.

The principal risks and uncertainties of the Telefonica Deutschland Group are:

Competitive markets and changing customer demands

Telefonica Deutschland g operate in markets characterised by a high level of competition and continuous technological developments. The Group faces increasing competition from alternative telecommunications service providers – among them cable operators, MVNOs and entertainment electronics companies – and also competes with alternative telecommunications services like OTT (over-the-top). There is the risk that growth targets and planned revenues will not be reached. In order to prevail against these companies and developments, the Group must also continue to provide competitive services and successfully market products in the future. In doing so, the group must systematically observe new customers' needs, competitors' business activities, technological changes, and take into account with planning, the general economic, political and social conditions.

Regulatory environment

The Group operates in a strongly regulated market environment. Decisions made by the regulatory authorities can directly and critically influence services, products and prices.

Licences and frequencies

The licences and frequency usage rights are limited in time and depend on a preceding assignment, which represents a significant risk to the operation and development of the network. If the Group does not extend or cannot newly obtain the licences and frequency usage rights necessary for its business or if the financial conditions for the use of these licenses and rights change significantly, this will lead to higher investment costs than planned. The potential delay to the network expansion resulting from this could also have a negative impact on expected revenues.

Strategic Report (continued)**Operational risk – Service quality**Attracting and retaining customers

The success of the Group's business activity depends on our ability to attract new customers and retain existing customers. In an environment characterized by continuous further development of products, services and tariffs the Group must also keep an eye on the performance of the network and that of the competitors. The group counters this risks by intensively monitoring and evaluating customers' satisfaction and by extensively monitoring the network elements.

Technical fault

There is a significant risk that lasting or repeated disturbances or damage to the Group's mobile telecommunications or fixed networks and in the Group's technical facilities could have a negative influence on customer satisfaction and result in a loss of customers or service revenue losses. The Group implements extensive monitoring of the network elements and systems in addition, insurable risks are covered by the insurance programme.

Financial risksTaxes

Like every company, The Group is subject to regular tax audits. These include an intrinsic risk that higher subsequent tax payments for prior tax periods may be imposed if the tax authorities have a divergent opinion about the interpretations and calculation principles that form the basis of our tax declaration. Furthermore, changes in tax laws or in the interpretation of existing regulations by courts or tax authorities may also have an adverse effect on business activities as well as on the financial position and results of operations. The Group strive to counter this moderate risk by taking part in expert discussions and working groups on a regular basis in order to be able to identify changes regarding the interpretation of the tax laws at an early stage.

General financial market risks

The Telefónica Deutschland Group is exposed to various financial market risks as part of its business activity. In the context of the above-mentioned the risk management process, these risks are regarded as low. Should these financial market risks occur, they could have a negative effect on the net assets, financial position and results of operations of the Group and are therefore presented individually below. The Telefónica Deutschland Group has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. Derivative financial instruments are used solely to manage interest rate and currency risks. The Telefónica Deutschland Group has developed guidelines derived from established standards for the evaluation of risks and monitoring with regard to the use of financial derivatives.

Legal RisksLegal actions in connection with the acquisition of the E-Plus Group

Airdata AG, Stuttgart, and 1 & 1 Telecom GmbH, Montabaur, have withdrawn their action originally filed at the Court of the European Union against the European Commission's decision to approve the merger of Telefónica Deutschland Holding AG and E-Plus on 2 July 2014. The complainants sought the full revocation of the approval decision. Mass Response and Multiconnect have filed actions against the statements by the EU Commission on the extent of our 4G access obligation.

Strategic Report (continued)

As the potential financial consequences associated with the original actions of Airdata AG and 1 & 1 Telecom GmbH have reduced, The Group no longer classify this risk as significant.

Dependence on services of the major shareholder Telefonica and of KPN

The use of trademark rights on the core brand O2 in Germany is the subject of a licensing agreement with O2 Worldwide Limited, a subsidiary of Telefonica SA, A long-term agreement regarding the use of the brand BAS in Germany is in place with KPN. The trademark rights are of major significant for the group's business activity. The loss of a brand in particular could have a negative impact on customer growth and hence on revenue. Although the risk is classified as significant there are no indications of future disruptions to the contractual relationships.

Data privacy regulations

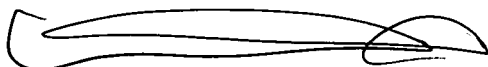
As part of its business activity, the Telefonica Deutschland Group is required to comply with a large number of laws. An infringement of legal provisions poses an intrinsic risk to the business activities, success and reputation of the company

In the course of the business activities, the Telefonica Deutschland Group also collect and handle customer data and other personal data. There is the risk of misuse or loss of these data. This could represent a breach of the relevant laws and provisions and result in fines, loss of reputation and the migration of customers, and hence the loss of revenues. There may be delays in the implementation of these measures, in particular, in the light of the General Data Protection Regulation and, consequently, the Telefonica Deutschland Group may be obliged to pay a significant fine.

Full details of Telefonica Deutschland Group annual report and financial statement can be found at <https://www.telefonica.de/investor-relations-en/annual-report.html>

The Strategic Report has been approved by the Board on 5 June 2018

By Order of the Board



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

Directors' Report**Legal Form & Principal Activity**

O2 (Europe) Limited ("the Company") is a private limited company registered in England under the number 04247143. 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 is an intermediate holding company in the Telefónica Group. At 31 December 2017, Telefonica Germany Holdings Limited (fully owned subsidiary of O2 (Europe) Ltd) directly owns 69.22% of Telefonica Deutschland Holding AG, a company listed on the German stock exchange.

Directors and Secretary

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Robert Harwood
Enrique Medina Malo
Mark Hardman

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.

Financial Performance

The Company suffered an operating loss of €86,000 during the year ended 31 December 2017, much reduced from the prior year to 31 December 2016, when a loss of €1,544,069,000 arose largely due to a charge for impairment of investments.

The Company's profit (loss) before taxation for the year ended 31 December 2017 was €363,771,000 (31 December 2016: loss €1,557,647,000).

The Company's total comprehensive income for the year ended 31 December 2017 was €368,113,000 (31 December 2016: loss €1,560,212,000).

The net assets of the Company as at 31 December 2017 were €4,874,300,000 (31 December 2016: €4,506,187,000).

The Directors are of the opinion that analysis using key performance indicators is not necessary for understanding the Company's business itself.

Future development of the company

The Directors believe the operating result will not change materially in 2018 as it is likely to remain a non-trading company.

Dividend

The Company did not pay a dividend for the year ended 31 December 2017 (2016 €nil).

Directors' Report (continued)

Financial risk management objectives, policies and exposure

Details of the Group's approach to financial risk management are set out in note 1 of the financial statements.

Political contributions

The Company made no political contributions during the year ended 31 December 2017 (31 December 2016: €nil).

Going concern

The financial position of the Company is described above. In addition, note 1 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk. Consequently, the Directors believe that the Company is well placed to manage its business risk successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Furthermore, Telefonica Group has the ability and willingness to provide continued support to the Company and hence provided the Company with a letter of support, and thus the Directors have adopted the going concern basis of accounting in preparing the annual financial statements

Statement as to disclosure to Auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are 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.

Independent Auditors

During the year, PricewaterhouseCoopers LLP were appointed as auditors in accordance with section 485 of the Companies Act 2006. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

The Directors' Report was approved by the Board on 5 June 2018
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 law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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

Report on the audit of the financial statements

Opinion

In our opinion, O2 (Europe) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

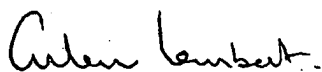
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
05 June 2018

Statement of comprehensive income
Year ended 31 December 2017

	Note	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Administrative expenses		(86)	(257)
Other non-recurring expenses	5	-	(1,543,812)
Operating loss		(86)	(1,544,069)
Financial income	3	385,230	3,387
Financial expense	3	(21,374)	(16,965)
Profit/(Loss) before taxation		363,770	(1,557,647)
Taxation credit/(charge)	4	4,343	(2,565)
Profit/(Loss) and total comprehensive income/(expense) for the year attributable to equity shareholders of the parent		368,113	(1,560,212)

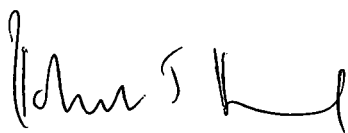
The accompanying notes on pages 17 to 30 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2017

		31 December 2017 €'000	31 December 2016 €'000
	Note		
Non-current assets			
Investments in subsidiary undertakings	5	7,027,749	7,027,749
Current assets			
Trade and other receivables	6	4,343	30,040
Cash and cash equivalents	7	32,666	7,923
Current liabilities			
Trade and other payables	8	(4,504)	(373,572)
Net current assets/(liabilities)		32,504	(335,609)
Non-current liabilities			
Borrowings	9	(2,185,953)	(2,185,953)
Net assets		4,874,300	4,506,187
Equity			
Share capital	10	1,239,007	1,239,007
Retained earnings		3,635,293	3,267,180
Total equity		4,874,300	4,506,187

The accompanying notes on pages 17 to 30 are an integral part of these financial statements.

These financial statements on pages 13 to 16 were approved and authorised for issue by the Board of Directors on 5 June 2018 and signed on its behalf by:



Robert Harwood
 Director

**Statement of changes in equity
As at 31 December 2017**

	Called up share capital	Retained earnings	Total Equity
	€'000	€'000	€'000
At 1 January 2016	1,239,007	4,827,392	6,066,399
Total comprehensive loss for the year	-	(1,560,212)	(1,560,212)
At 31 December 2016	1,239,007	3,267,180	4,506,187
Total comprehensive profit for the year	-	368,113	368,113
At 31 December 2017	1,239,007	3,635,293	4,874,300

The accompanying notes on pages 17 to 30 are an integral part of these financial statements.

Statement of cash flows
Year ended 31 December 2017

	Note	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Profit/(Loss) before taxation		363,770	(1,557,647)
Adjustment for non-operating items:			
Financial income	3	(385,230)	(3,387)
Financial expenses	3	21,374	16,965
Operating loss		(86)	(1,544,069)
Increase in trade and other payables	8	(68)	136
Other non-cash movements	5	-	1,543,812
Net cash flow used in operating activities		(154)	(121)
Financial income received	3	229	3,421
Investments in subsidiary companies	5	-	(340)
Dividends received from subsidiaries	3	15,000	9
Movement on hedges		737	-
Net cash flow generated from investing activities		15,966	3,090
Advance received from subsidiary company		-	369,000
New / (repayment) of borrowings		29,684	(355,000)
Interest paid		(20,002)	(16,010)
Net cash flow generated from/(used in) financing activities		9,682	(2,010)
Exchange loss on cash and cash equivalents		(752)	(680)
Net change in cash and cash equivalents		24,743	279
Cash and cash equivalents at start of the year	9	7,923	7,644
Cash and cash equivalents at end of the year	9	32,666	7,923

The accompanying notes on pages 17 to 30 are an integral part of these financial statements.

O2 (Europe) Limited

Notes to the financial statements

Registered number: 04247143

1 Accounting policies

Authorisation of financial statements

O2 (Europe) Limited is a private company limited by shares incorporated in England. Its registered address is 260 Bath Road, Slough, Berkshire SL1 4DX.

The Company's financial statements are presented in Euros and all values are rounded to the nearest thousand Euros (€000) except where otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group financial statements as it is a wholly owned subsidiary. These financial statements present information about the Company as an individual undertaking and not about its group.

The results of O2 (Europe) Limited are included in the consolidated financial statements of Telefónica, S.A. which are available at Gran Via 28, 28013, Madrid, Spain.

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 financial position of the Company is described in the Strategic report. In addition, note 1 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk. Consequently, the Directors believe that the Company is well placed to manage its business risk successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Furthermore, Telefonica Group has the ability and willingness to provide continued support to the Company and hence provided the Company with a letter of support, and thus the Directors have adopted the going concern basis of accounting in preparing the annual financial statements

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)

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.

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.

1 Accounting policies (continued)

Foreign 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.

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 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 2017 and 31 December 2016.

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.

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

Registered number: 04247143

Accounting policies (continued)

New IFRS, amendments and interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC)

New Standards and amendments		Effective date: annual periods beginning on or after
Improvements to IFRS 2012-2014 Cycle		1 January 2017/18
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendment to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenues from Contracts with Customers	1 January 2018
Clarifications to IFRS 15	Revenues from Contracts with Customers	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share based Payment Transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16	Leases	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred Indefinitely

Based on the analysis made to date, the Company estimates that the adoption of most of these standards, amendments and improvements will not have a significant impact.

Critical judgements and estimates in applying accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In assessing the possible impairment of investments, management has made estimates of future revenues and net profits generated by the underlying business. Impairment tests are performed annually and evaluated based on prior experience.

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

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2 Directors' emoluments and employees

No emoluments or other benefits were paid to the Directors for services to the Company during the year ended 31 December 2017 (2016: nil). The Directors are employees of other companies in the Telefónica Group, and are remunerated by other companies within the Telefónica Group for their services to the Telefónica Group.

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

The Company had no employees during the year ended 31 December 2017 (2016: nil).

3 Net financial income/(expenses)

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Interest income from group undertakings	262	12
Dividend received from subsidiary companies	384,000	9
Foreign exchange gains	969	3,366
Financial income	385,231	3,387
Interest expense from group undertakings	(20,002)	(16,010)
Foreign exchange loss	(1,145)	(680)
Interest expenses on financial liability	(226)	(274)
Other interest expenses	(1)	(1)
Financial expense	(21,374)	(16,965)
Net financial income/(expenses)	363,857	(13,578)

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

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4 Taxation

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Current tax credit/(charge)	(3,603)	1,545
Adjustments in respect of prior periods: charge/(credit)	(740)	1,020
Taxation (credit)/charge	(4,343)	2,565

The tax assessed for the year varied from the amount computed by applying the UK statutory tax rate to profit or loss on ordinary activities before taxation. The differences were attributable to the following factors:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Profit/(loss) before taxation	363,770	(1,557,647)
Profit/(loss) on ordinary activities multiplied by the effective rate of UK corporation tax of 19.25% (2016: 20%)	70,026	(311,529)
Effects of:		
Expenses not deductible for tax purposes	368	309,068
Non-taxable income	(73,920)	(2)
Foreign exchange movements	(77)	4,008
Non-taxable income	(740)	1,020
Taxation (credit)/charge for the year	(4,343)	2,565

At Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%. The expenses not deductible in 2017 relate to interest payable on which no tax deduction is available (2016: Impairments of the investments). Non-taxable income relates to dividend income.

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

Registered number: 04247143

5 Investments

Cost	Shares in subsidiary undertakings €'000
At 1 January 2016	10,196,840
Movement during the year	340
At 31 December 2016	10,197,180
Movement during the year	-
At 31 December 2017	10,197,180
Impairment	
At 1 January 2016	1,625,619
Movement during the year	1,543,812
At 31 December 2016	3,169,431
Movement during the year	-
At 31 December 2017	3,169,431
Net book value	
At 31 December 2017	7,027,749
At 31 December 2016	7,027,749

At the end of the year ended 31 December 2017, the Company conducted an impairment test on its investment in Telefonica Deutschland A.G. using the discounted future cash flows and concluded that there is no impairment to be recorded (2016: Impairment of €1,543,812,000).

A complete list of the Company's subsidiary undertakings at 31 December 2017 is given below.

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

Registered number: 04247143

Investments (Continued)

Name	Country of incorporation and registered office	Principal activity	Shareholding (%)
Telefonica Germany Holdings limited	260 Bath Road , Berkshire SL1 4DX	Intermediate holding company	100
Minodes GmbH, Berlin ⁽¹⁾	Germany Charlottenstraße 4, 10969 Berlin	Digital marketing solutions	69.22
Telefonica Germany Management GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 50, 80992 München	Holding company	69.22
TGCS Rostock GmbH ⁽¹⁾	Germany Georg-Brauchle-Ring 50 80992 München Deutschland	Customer care	69.22
Co-trade GmbH, Munich ⁽¹⁾	Germany Münchner Str. 113, 85774 Unterföhring	Operation of services	69.22
Shortcut I GmbH & Co. KG ⁽¹⁾	Germany Barmbeker Straße 5a, 22303 Hamburg	Venture capitalist entity	69.22
Telefonica Deutschland Holding AG ⁽¹⁾	Germany Georg-Brauchle Ring 23-25, 80992 München	Holding company	69.22

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

Registered number: 04247143

Investments (Continued)

Name	Country of incorporation and registered office	Principal activity	Shareholding (%)
TGCS Bremen GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 23-25, 80992 München	Customer care	69.22
TGSC Hamburg GmbH ⁽¹⁾	Germany Überseering 33, 22297 Hamburg	Customer care	69.22
Telefonica Germany GmbH & Co OHG ⁽¹⁾	Germany Georg-Brauchle Ring 50, 80992 München	Mobile cellular telephone system provider and operator	69.22
Telefonica Germany 1. Beteiligungs- gesellschaft GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 50, 80992 München	Holding company	69.22
Wayra Deutschland GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 50, 80992 München	Venture capitalist entity	69.22
Telefonica Germany Next GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 50, 80992 München	Sale of Hard – and Software, ADA (Advanced Data Analytics) related services incl., IoT (Internet of Things)	69.22
Tchibo Mobilfunk GmbH & Co KG ⁽¹⁾	Germany Überseering 18, 22297 Hamburg	Telecommunications equipment retailer	34.61
Tchibo Mobilfunk Beteiligungs GmbH ⁽¹⁾	Germany Überseering 18, 22297 Hamburg	Holding company	34.61
O2 Telefonica Deutschland Finanzierungs GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 50, 80992 München	Provision of funds to finance Germany business	69.22
TGCS Essen & Potsdam GmbH ⁽¹⁾	Germany Edison Allee 1, 14473 Potsdam	Customer care	69.22
E-Plus Services Treuhand GmbH ⁽¹⁾	Germany E-Plus-Straße 1 40472 Düsseldorf	Provision of Telecommunication	69.22

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

Registered number: 04247143

Investments (Continued)

Name	Country of incorporation and registered office	Principal activity	Shareholding (%)
TGCS Berlin GmbH ⁽¹⁾	Germany Lützowstraße 105-106 10785 Berlin	Customer care	69.22
TFS Potsdam GmbH ⁽¹⁾	Germany Edison Allee 1, 14473 Potsdam	Operation of services	69.22
Telefonica Germany Retail GmbH ⁽¹⁾	Germany E-Plus-Straße 1 40472 Düsseldorf	Telecommunications equipment retailer	69.22
Erste MVV Mobilfunk Vermögensverwaltungsgesellschaft mbH ⁽¹⁾	Germany E-Plus-Straße 1 40472 Düsseldorf	Operation of services	69.22
AY YILDIZ Communications GmbH ⁽¹⁾	Germany E-Plus-Straße 1 40472 Düsseldorf	Operation of services	69.22
TGCS Nürnberg GmbH ⁽¹⁾	Germany Georg-Brauchle Ring 23-25, 80992 München	Customer care	69.22
Ortel Mobile GmbH ⁽¹⁾	Germany E-Plus-Straße 1 40472 Düsseldorf	Operation of services	69.22
O2 International Holdings Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Intermediate holding company	100
Kilmaine Limited	Isle of Man	Active non- trading	100
Telefonica Financial Services UK Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Dormant	100
O2 Pine Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Active non-trading	100
O2 Willow Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Active non-trading	100
The Link Stores Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Dormant	100

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

Registered number: 04247143

Investments (Continued)

Name	Country of incorporation and registered office	Principal activity	Shareholding (%)
Telefonica (UK) Holdings Limited ⁽²⁾	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Active non-trading	100
O2 (Online) Netherlands BV ⁽¹⁾	Netherlands	Intermediate holding company	100
O2 Credit Vouchers	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Dormant	100
Telefonica O2 (UK) Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Dormant	100
O2 (Online) Limited	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Intermediate holding company	100
O2 (Online) Hong Kong Limited ⁽¹⁾	Hong Kong	Dormant	100
O2 Limited ⁽¹⁾	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Active non-trading	100
O2 UK Limited ⁽¹⁾	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Dormant	100
Lumina Holdings Limited ⁽¹⁾	England and Wales 260 Bath Road, Slough, Berkshire SL1 4DX	Active non-trading	100

⁽¹⁾ Investments are indirect.

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

Registered number: 04247143

6 Trade and other receivables

	31 December	31 December
	2017	2016
	€'000	€'000
Amounts owed by Group undertakings for tax losses surrendered	4,343	-
Short term loans to Group companies	-	30,040
Trade and other receivables	4,343	30,040

During the year ended 31 December 2017, The Company received the short term loan repayment in full from Telefonica UK as per the terms of the original loan agreement.

7 Cash and cash equivalents

	31 December	31 December
	2017	2016
	€'000	€'000
Short term deposits	32,666	7,923
Cash and cash equivalents	32,666	7,923

The Company's short term deposits are deposited with Telfisa Global BV, a related party.

8 Trade and other payables

	31 December	31 December
	2017	2016
	€'000	€'000
Amounts owed to subsidiary company	-	369,000
Amounts owed to Group undertakings for tax losses surrendered	4,117	4,117
Other amounts owed to Group undertakings	74	137
Other payables	313	318
Trade and other payables	4,504	373,572

During the year ended 31 December 2017 Telefonica Germany Holdings Limited, a subsidiary company declared dividends of €384 million to the Company. Part of this dividend was used to clear the payable against the same company.

9 Borrowings

	31 December	31 December
	2017	2016
	€'000	€'000
Amounts owed to Group undertakings	2,185,953	2,185,953
Non-current borrowings	2,185,953	2,185,953

Amounts owed to Group undertakings represents Euro denominated loan from Telfin Ireland Limited. The effective interest rate during 2017 was 0.66% (2016: 0.66%).

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

Registered number: 04247143

10 Share capital

	31 December 2017 €'000	31 December 2016 €'000
Issued		
Ordinary shares of €1 each	1,239,007	1,239,007
Called up and fully paid		
Ordinary shares of €1 each	1,239,007	1,239,007

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: 04247143

11 Related party disclosures

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Financial income from related parties		
Telefonica Germany Holdings Limited	384,000	-
Telfisa Global	10	12
Other subsidiary companies	1,220	9
Total financial income from related parties	385,230	21
Financial expense from related parties		
Telfisa Global	(1,372)	(1)
Telfin Ireland Ltd	(20,002)	(16,010)
Total financial expense from related parties	(21,374)	(16,011)
Financial assets with related parties		
O2 Holdings Limited	-	-
Telefonica UK Limited	4,343	30,040
Telfisa Global	32,666	7,923
Total receivables from related parties	37,009	37,963
Financial liabilities with related parties		
Telfin Ireland Ltd ⁽¹⁾	(2,185,953)	(2,185,953)
Telefonica Germany Holdings Limited	-	(369,000)
Other Group companies	(4,505)	(4,117)
Telefonica UK Limited	-	(137)
Total payables to related parties	(2,190,458)	(2,559,207)

⁽¹⁾This is an interest only intercompany loan with an interest rate of 0.9025% and with a maturity date of May 2020

12 Auditors' remuneration

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

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Audit of financial statements	11	23

13 Parent company and controlling party

At 31 December 2017, the immediate parent company and ultimate controlling party was Telefónica S.A., a company incorporated in Spain. Telefónica, S.A. is the largest and smallest group for which group financial statement are drawn up and of which the company is a member. Copies of the financial statements of Telefónica S.A. can be obtained from Gran Vía 28, Madrid, Spain.