Registered Number: 5310128

Telefonica O2 Holdings Limited
(Formerly known as Telefonica Europe Plc)

Financial Statements

Year ended 31 December 2019

7-8-20

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COMPANY INFORMATION

Directors

Mark Evans
Patricia Cobian

Secretary

O2 Secretaries Limited

Registered office

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Slough
Berkshire
SL1 4DX

Independent Auditors

PricewaterhouseCoopers LLP
The Atrium
1 Harefield Road
Uxbridge, Middlesex
UB8 1EX

STRATEGIC REPORT

Telefonica O2 Holdings Limited (the "Company") is a member of the Telefónica group of companies (the Telefonica Group). The company changed its name from Telefonica Europe Plc to Telefonica O2 Holdings Limited on 14 October 2019. The ultimate parent company is Telefónica S.A. headquartered in Spain and primarily listed on the Spanish stock exchange.

Business Model and Strategy

The Company does not trade and does not have any significant suppliers. Its purpose is to act as an intermediate holding company for the majority of the Telefonica Group operations in the UK most notably through its subsidiary undertakings, and joint ventures and joint arrangements. The Directors' aim is to maintain close scrutiny of these operations, the most significant of which are described below. This Strategic Report is relevant to Telefonica O2 Holdings Limited and its subsidiaries.

Telefonica UK Limited (O2)

Telefonica UK's purpose is to make every day better through personal experience that count. Its strategy is to be customer led mobile first. Its values are to be bold, open and trusted.

Telefonica UK's key objective is to enhance and enrich the everyday lives of its customers by embracing new technology through its commitments to:

(1) **Customers:** focussing on delivering a simple and personal customer experience, helping customers get the most out of mobile connectivity through our customer promise.

(2) **Propositions:** offering mobile phones, tablets and wearable devices to customers as well as a range of mobile services and products, including mobile voice, messaging and data services. O2 also provide Wi-Fi, cloud services, digital payment services, fixed-line services for businesses and some insurance products.

(3) **Sales and Service:** providing its products and services through a multitude of channels and work in partnership with a portfolio of strong brands to support delivery of our commitment to our customers.

(4) **People:** O2 has a diverse and inclusive workforce. O2's ambition is to create an employee experience, centred on our values of Bold, Open and Trusted, that sets O2 apart in the eyes of our current and future talent.

(5) **Technology:** continuing to invest in network infrastructure, and the technology to innovate whilst making sure we operate in an efficient and cost-effective way.

(6) **Corporate responsibility:** O2's sustainability approach centres on doing the right thing for its customers, its people and society. As a responsible business, O2 continues helping to reduce O2's (and O2's customers') impact on the environment while increasing the positive social impact we deliver. O2 continues to work closely with all our regulatory authorities to ensure we influence on areas which matter to our customers and our business.

O2 believes its strategy will help it to drive clarity, ambition and pace whilst continuing to deliver a strong financial performance that will generate the cash flow required by its business model and provide a suitable return for our shareholders.

STRATEGIC REPORT (CONTINUED)

giffgaff Limited (giffgaff)

giffgaff is a wholly owned subsidiary of Telefonica UK. It is a mobile virtual network operator running on the O2 network, providing telecommunication services to the consumer mobile segment.

Its purpose is to grow a member-run mobile communications network that utilises and rewards the collective resources of its members. This mutuality principle, combined with a predominantly online and SIM only business model, keeps costs low and allows savings to be passed on to members.

giffgaff aimed to deliver this in 2019 through increasing the availability of its SIMs in the retail sector and online to attract new members; enhancing its monthly SIM only plans; creating more engagement with members; developing technology capability to allow the provision of enhanced experiences to members; completing the initial development of a personal finance management tool.

Cornerstone Telecommunications Infrastructure Limited (Cornerstone)

In 2012, Telefonica UK and Vodafone pooled their respective networks into an evenly split joint operation, Cornerstone, with the purpose of creating a joint single national grid of sites of passive assets.

Cornerstone is engaged in maintaining and managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone Limited (Vodafone) and Telefonica UK. Telefonica UK and Vodafone are seeking to generate efficiencies in the deployment and operation of their networks in order to provide the best mobile network in the UK and reduce the environmental impact of their operations.

In 2017 legislation enabling the updated Electronic Communications Code came into force. Cornerstone believes this will help drive investment and stimulate the growth, rollout and maintenance of communication technology infrastructure.

Tesco Mobile Limited (Tesco Mobile)

Tesco Mobile is a joint venture owned equally by the Tesco Plc Group and the Telefonica S.A. Group. Tesco Mobile Operates as the provider of pre and post pay mobile communications and related services to consumers including insurance under the Tesco Mobile brand, using the Tesco retail network for handset distribution and subscriber acquisition, and Telefonica UK's mobile communications network for airtime services.

Digital Mobile Spectrum Limited (DMSL)

DMSL is a joint venture arrangement with other MVNOs to set up to mitigate anticipated disruption to digital terrestrial television (DTT) signal resulting from the reallocation of 800 Mhz spectrum from DTT to 4G (LTE). The requirement to solve DTT interference was a condition for the 4G licences issued by Ofcom. The formal obligation ceased in December 2018 although individual licence holders are still required to mitigate the impact on their spectrum on adjacent users.

On March 2020 DMSL, the Mobile Network Operators, Government and Ofcom entered into an arrangement to invest in the Share Rural Network, helping to deliver 4G coverage across rural areas of the UK spurring economic growth and closing the digital divide across the country through better connectivity.

STRATEGIC REPORT (CONTINUED)

Telefonica UK Pension Plan (the Plan)

The Company is a Participating Employer in the Telefonica UK Pension Plan, details of which are included in the notes to the financial statement.

Performance and Development

After dividend income of £550m (2018: £270m) the Company has generated a profit before tax of £550m in 2019 (2018: £108m). Dividends of £550m (2018: £550m) were declared in 2019 and paid in cash in the year.

The net assets of the Company as at 31 December 2019 were £9,462m compared to £9,462m at 31 December 2018.

Given that the Company mainly operates as a holding company, the performance of the Company is reliant on 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.

Details about the operating performance of the Company's main subsidiaries can be found on the consolidated Annual Report of O2 Holdings Limited published on O2 trading website.

Principal 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 risks and uncertainties are reliant on the performance of the principal risks and uncertainties of its key subsidiaries, and the Directors of the Company are the same as the Directors of the principal subsidiary, Telefonica UK.

At O2 we operate 4 x principal risk categories and related sub-categories, through which all risks are identified, linked and managed.

Our approach is aligned to Group and its other operating businesses (OBs). This ensures we collectively undertake aligned micro and macro analysis of our OBs, the external environments and the markets in which we operate to determine and manage applicable risks to our strategy.

We have updated the categories shown here to align to the current principle risks used within O2 and the Group. As we drive continual improvement to our risk management practices and culture, these new categories better reflect the interconnections between our managed risks.

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Principle Risk Categories	Sub-categories of Risk
Global risk: Possible loss of value or results derived from events that affect in a global way the entire Group in terms of its corporate reputation and sustainability, communication, corporate public relations, marketing strategy, brand, sponsorship and innovation.	Sustainability Compliance Reputation
Business risk: Possible loss of value or results derived from changes in the business, competition and market scenario, changes in the regulatory framework or strategic uncertainty.	Strategy (including Market, Economic & Political Environment, Business Model & Adaptation) Regulation
Financial risk: Possible loss of value or results derived from adverse movements in financial variables and the inability of the Company to meet its obligations or convert its assets into cash, as well as commercial credit and fiscal risks.	Finance Fiscal
Operational risk: Possible loss of value or results derived from events caused by inadequacies or failures in customer service, processes, human resources, business teams and IT systems, security, enforcing contracts, laws and regulations, or due to external factors.	Customer Systems & Network Security Supply Chain Operational Management Legal Human Resources

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Perceived most significant and emerging risks to our strategy:

Risk category	Risk	Why this is important	How we manage it	Trend
Global: Sustainability	Reputation & Sustainability	At O2 our Blueprint plan underpins our ambition to help people live better with technology and to deliver our long-term commitment of delivering responsibility leadership. We believe in operating our business in a sustainable way and putting our customers at the heart of everything we do.	We operate an ethical approach to all aspects of our business, underpinned by Our Blueprint and our core business principles.	Stable
Global: Compliance and Business: Regulation	Compliance & Regulation	As a customer centric company that operates in a market subject to many different regulations and laws, it is important that O2 operates within the regulatory obligations and delivers positive customer journeys and outcomes.	We continually monitor the legal and regulatory requirements applicable to O2 and apply these requirements to our operations and change activities.	Increased: Due to increased complexity of regulations and intervention from regulators
Business: Strategy	Market & Competition	The market continues to evolve at pace in relation to multiple factors e.g. technology, customer demands, product offerings, new sub-markets, new competitors, and it is important to O2 to remain relevant and attractive.	In 2019 we rolled out our 5G network to 21 towns and cities. O2 also released Unlimited Data tariffs on its Custom Plans	New: This new category has been created to recognise previous risks which are interconnected.

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Perceived most significant and emerging risks to our strategy (continued)

Risk category	Risk	Why this is important	How we manage it	Trend
Business: Strategy	Economic & Political Environment	Economic and political factors present a dynamic set of challenges and risks for O2 to consider, relating to market, strategy and operations factors.	2019 has been an uncertain time in the UK both politically and economically, predominantly due to Brexit. Early indications in 2020 are that this uncertainty only increases due to the Covi-19 pandemic and the next phase of the UK leaving the EU. O2 has and continues to plan for different political and economic scenarios, which include Brexit and the Covid-19 pandemic. This planning is to ensure we continue to be successful in executing our strategy and operations as planned and to minimise negative impact to our customers and stakeholders.	Increased: Due to the increased and extended uncertainty caused by Brexit.
Business: Strategy	Transformation	Constant change at pace is an inherent requirement due to the technological evolution in the markets we operate and the healthy competition. It is therefore vital that we deliver constant change and transformational activities.	O2 is currently delivering a transformation programme which is delivering substantial technology evolution and ensuring we are well placed for the future.	New

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Perceived most significant and emerging risks to our strategy (continued)

Risk category	Risk	Why this is important	How we manage it	Trend
Financial: Finance & Fiscal	Finance & Fiscal	The financial performance, liquidity and financial going concern of the company are inherent risks to the organisation, including continued access to lending markets in the UK.	We maintain strong banking relationships across a number of key banks, also leveraging our relationship at a Group level. 2019 has seen a strong financial performance by the organisation, as reflected in our financial results. We operate continuous monitoring of credit risks through our financial and procurement processes.	Stable
Operational: Systems & Network, and Security	Cyber & System Security	As a company who facilitates the communication of data and whose customers are enthused by our services and increasingly dependent on connectivity, we recognise this as one of our greatest areas of risk. Cyber-crime is increasing in both frequency and sophistication, and presents potential impacts to service, data loss, data integrity, data accessibility, and fraud.	We work collaboratively with our regulators to understand our cyber threat landscape and we are proactive in creating security standards that will help protect us and the industry in the future.	Increased: In recognition that the implications of this risk materialising has increased, for example costs to address sophisticated cyber-crime.
Operational: Systems & Network	System availability & capacity	Customers have an ever increasing demand for our services and products. In order to continually deliver excellent customer experiences across our network and products it is key that our systems keep pace with demand and service expectations.	At O2 our Strategy and Business Plans anticipate and plan for future market direction and demand. Our operational teams then work tirelessly to deliver the functionality needed.	Stable

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Perceived most significant and emerging risks to our strategy (continued)

Risk category	Risk	Why this is important	How we manage it	Trend
Operational: Supply Chain	Suppliers, partnerships & Third Parties	O2 is a highly collaborative organisation that has many important relationships with third parties, in order to deliver its products and services.	We employ strong contractual requirements to ensure the quality of procured products and services and adopt a sustainable procurement strategy that drives our suppliers to greater social contribution, environmental protection and compliance to a clear and detailed supplier code of conduct. In addition we use risk based due diligence to assess and develop our supply chain aligning their capability to our business needs. This is managed via mature procurement, supply chain management processes, and a considered third party governance framework. We are certified to operate ISO44001-compliant Collaborative Working Relationships with certain key partners.	**New** This new category has been created to recognise previous risks which are interconnected.
Operational: Operational Management	Operational Management	This broad area of risk is of significance to O2 given it covers factors such as; customer service, processes, human resources, fraud, laws and intellectual property.	At O2 we operate an internal control framework which places responsibilities across the business to execute effective management of the Company. These internal controls and responsibilities are integrated into our daily activities to deliver assurance across all the areas of operational risk mentioned here, and more.	Stable

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Perceived most significant and emerging risks to our strategy (continued)

Risk	Why this is important	How we manage it	Trend	Principal Risk Category
		This is managed via mature procurement, supply chain management process and a considered third party governance framework. We are certified to operate ISO44001-compliant Collaborative Working Relationships with certain key partners.		
Operational Management	This broad area of risk is of significance to O2 given it covers factors such as; customer service, processes, human resources, fraud, laws and intellectual property.	At O2 we operate an internal control framework which places responsibilities across the business to execute effective management of the Company. These internal controls and responsibilities are integrated into our daily activities to deliver assurance across all the areas of operational risk mentioned here, and more.	Stable	Operational

Changes year on year:

As we continue to ever evolve and enhance our risk management practices, the following shows where risks from our last report have moved under new categories due to them being related /interconnected.

Risks Moved into New Categories due to them being related/interconnected:

- Network Spectrum/Capacity – moved under 'System availability & capacity'
- 5G deployment plan – now considered under 'Market & Competition', 'System availability & capacity' and 'Transformation'.
- Legacy Systems architecture – moved under 'System availability & capacity'
- Breach of Data Security – moved under 'Compliance & Regulation'
- Data Privacy – moved under 'Compliance & Regulation'
- Loss of FCA Authorisation to sell FCA Regulated products - moved under 'Compliance & Regulation'.
- Child Protection – moved under 'Reputation & Sustainability'.
- Smart Metering – considered under 'System availability & capacity' and 'Compliance & Regulation'.
- Economic/Political Instability – renamed to Economic & Political Environment

STRATEGIC REPORT (CONTINUED)

172(1) Statement

The Directors in the performance of their statutory duties detailed in Section 172(1) of the Companies Act 2006, have a responsibility to act in a way they consider, in good faith would most likely promote the success of the Company, for the benefit of the shareholders as a whole. In doing the Directors have had regard to:

1. The likely consequences of any decisions in the long term;
2. The interests of Company's employees;
3. The need to foster the Company's business relationship with suppliers, customers and others;
4. The impact of the Company's operation on the community and environment;
5. The desire of the Company maintaining a reputation of high standard of business conduct; and
6. The need to act fairly between shareholders of the Company (there are no minority shareholders).

The Company does not trade and does not have a significant number of employees. The 172 (1) Statement is required as the Company is part of a larger group. The significant arrangement during the period is in respect of the payment of dividend to its shareholders. The directors of the Company are of the opinion that they fulfilled their obligations when determining the amount of dividend distribution, in particular taking into account the long term consequences of paying the dividend, its obligations to the small number of employees including the pension scheme. In doing so the directors ensured that proposed dividend amount was lawful and that the Company continues to be well positioned to meet its obligations in the near future.

STRATEGIC REPORT (CONTINUED)

Post Balance Sheet Events

Regulatory intervention

Under Ofcom rules, O2 introduced End of Contract Notification and will introduce Annual Best Tariff Notification (ABTN) by February 2021. The ECN obligation is to send a notification within 10 to 40 days before the customer's contract end date and for ABTN to send another notification at least every 12 months from the date the customer received the ECN if the customer has not acted, or if out of contract, one notification in every 12 month period. We will comply with the regulation for when it comes into force and change tone of narrative.

O2 and Virgin Media Joint Venture

On 7 May 2020, Telefonica SA and Liberty Global announced that both companies had entered into an agreement together to create a 50:50 joint venture in the UK, bringing together the Telefonica UK (O2) and Virgin Media businesses. The arrangement is still subject to regulatory clearance and has been agreed in order to create a national connectivity champion capable of competing at the highest level with the combined mobile and home connections. It is anticipated that closing of the transaction, subject to regulatory clearance, is expected to take place around the middle of 2021.

Covid 19

Given that the Company does not trade, does not have any employees or suppliers, and there was no activity in the Company in the year, the Directors believe that the impact of the global health pandemic will be limited.

The Directors have assessed the Company's assets for impairment indicators as at December 2019 and noted no impairment. The business appears to be performing well in light of the global pandemic and the Directors will continue to assess our investments for impairment as the situation develops.

The Strategic Report was approved by the Board on 5 August 2020.

By Order of the Board

Vivienne Aziba
For and on behalf of O2 Secretaries Limited

DIRECTORS' REPORT

The Directors of the Company present their report and the audited financial statements for the year ended 31 December 2019.

Legal form & Principal Activities

Telefonica O2 Holdings Limited ("the Company") is a Private Company limited by shares registered in England and Wales under the registered number 5310128. The registered address is 260 Bath Road, Slough, Berkshire, SL1 4DX. It is a wholly owned private company, a company incorporated, domiciled and registered in England and Wales. The parent company is Telefonica S.A., a company incorporated in Spain. The Company acts as an intermediate holding company for the majority of the Telefonica Group operations in the UK.

On 14 October 2019 the name of the Company was changed to Telefonica O2 Holdings Limited and then re-registered as a private limited company to reflect its status within the wider Telefonica Group.

Reference to Group means Telefonica O2 Holdings Limited (formerly Telefonica Europe plc) and its subsidiaries and reference to Telefonica Group means Telefonica S.A and its subsidiaries.

Future Developments

The company continues to perform its activities as an intermediate holding company for the majority of the Telefonica Group operations in the UK. Details of proposed O2/Virgin Media joint venture arrangement is on page 14 of the Strategic report.

Directors and Secretary

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

Patricia Cobian
Mark Evans

The Secretary who held office during the year was Robert Harwood. Robert Harwood resigned as Secretary on 27 March 2020 and was replaced by 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 Telefonica Group and the Directors of the Company are covered by this insurance. The insurance was in force throughout the last financial year and is currently in force. The Company also granted an indemnity in the form permitted by the UK Companies Act to its Directors on 19 March 2019 which also remains in force.

DIRECTORS' REPORT (continued)

Dividends

During the year ended 31 December 2019 the Directors paid an interim dividend of £550m (2018: £550m).

Political donations

No political donations were made or political expenditures incurred in accordance with the Companies Act 2006, in respect of political parties during the financial year ended 31 December 2019.

Employees

The Company is committed to employment policies that follow good practice, based on equal opportunities for all, and recognise diversity, including fair treatment of people with disabilities in relation to their recruitment, training and development. The Company supports the health and wellbeing of its employees and, specifically, is committed to making improvements to the issue of mental health in the workplace as well as providing a range of occupational health and employee support services to employees.

These policies include guidance for line managers and employees about recruitment processes and additional arrangements which can be made as required due to any disability, such as:

- Making reasonable adjustments and practical considerations relating to disabilities.
- Increasing the accessibility of our services making them more inclusive for disabled people.
- Drawing attention to the importance of diversity and ensuring that discrimination does not occur.
- Drawing attention to the importance of focussing on what people can do rather than what they cannot and challenging stereotypes about people with disabilities.
- Providing e-learning available to all Company employees to highlight the legal and behavioural aspects of Diversity & Inclusion.

Financial risk management objectives, policies and exposure

Details of the Group's approach to financial risk management objectives and policies are set out in the financial statements in note 17 "Financial instruments".

Important events since the end of the financial year

The Strategic report set out on page 4 details of the important events affecting the Company which have occurred since the financial year end.

Capital structure and rights attached to shares

The details of the Company's capital structure including the rights attached to shares are detailed in note 15 of the financial statements.

DIRECTORS' REPORT (continued)

Going concern

The Company's business activity is to act as an intermediate holding company within the Telefonica Group. The financial position of the Company is described in the Strategic Report. In addition, note 17 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk, liquidity risk and interest rate risk.

Because the Company has net current liabilities, the Directors have received the commitment from the parent company to continue providing financial support. As a result 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.

The Directors believe that Covid-19 has not impacted their assessment of the Company's ability to continue as a going concern.

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.

The Directors' report was approved by the Board on 5 August 2020.

By Order of the Board

Vivienne Aziba
For and on behalf of O2 Secretaries Limited

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 judgments 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Statement of Directors' responsibilities was approved by the Board on 5 August 2020.

By Order of the Board

Vivienne Aziba
For and on behalf of O2 Secretaries Limited

Independent auditors' report to the members of Telefonica O2 Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Telefonica O2 Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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 Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; 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 where:

- 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 2019 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 18, 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

Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
5 August 2020

Statement of comprehensive income
For the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Other income		-	1
Impairment of investment in subsidiaries	4	-	(160)
Operating loss		-	(159)
Financial costs	6	-	(3)
Dividend income	6	550	270
Profit before taxation		**550**	108
Taxation	7	-	-
Profit for the year		**550**	108
Other comprehensive income/ (loss):			
<u>Items that will not be reclassified subsequently to profit and loss:</u>			
Actuarial gain/(loss) on pensions		-	179
Other comprehensive income for the year, net of tax		-	179
Total comprehensive income for the year		**550**	287

The accompanying notes on pages 25 to 39 are an integral part of these financial statements.

Telefonica O2 Holdings Limited | **Registered Number: 5310128**

Statement of financial position
As at 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Investments	9	9,462	9,462
		9,462	9,462
Current assets			
Other receivables	10	6	33
Cash and cash equivalents	11	17	12
		23	45
Current liabilities			
Trade and other payables	12	(23)	(45)
Net current assets		-	-
Total assets less current liabilities		**9,462**	9,462
Non-current liabilities		-	-
Net assets		**9,462**	9,462
Equity			
Share capital	13	9	9
Share premium	13	440	440
Retained earnings		9,013	9,013
Total equity attributable to equity holders		**9,462**	9,462

The accompanying notes on pages 25 to 39 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 5 August 2020. They were signed on its behalf by:

Patricia Cobian
Director

Statement of changes in equity
For the year ended 31 December 2019

	Share capital (Note 13) £m	Share premium (Note 13) £m	Retained earnings £m	Total equity £m
Balance as at 1 January 2018	**9**	**440**	**9,276**	**9,725**
Profit for the year	-	-	108	108
Other comprehensive loss	-	-	179	179
Total comprehensive income for the year	-	-	287	287
Dividends paid (Note 8)	-	-	(550)	(550)
Balance as at 31 December 2018	**9**	**440**	**9,013**	**9,462**
Profit for the year	-	-	550	550
Other comprehensive loss	-	-	-	-
Total comprehensive income for the year	-	-	550	550
Dividends paid (Note 8)	-	-	(550)	(550)
Balance as at 31 December 2019	**9**	**440**	**9,013**	**9,462**

The accompanying notes on pages 25 to 39 are an integral part of these financial statements.

Telefonica O2 Holdings Limited

Registered Number: 5310128

Statement of cash flows
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit before taxation from continuing operations		550	108
Profit before taxation		**550**	108
Adjustment for:			
Impairment of investment in subsidiaries	9	-	160
Financial income	6	(550)	(267)
Operating cash flows before movements in working capital		**-**	1
Decrease / (Increase) in other receivables	10	27	269
(Decrease) / Increase in trade and other payables	12	(22)	19
Cash generated by operations		**5**	288
Net cash inflow from operating activities		**5**	288
Dividends received	6	550	270
Net cash inflow from investing activities		**550**	270
Dividends paid	8	**(550)**	(550)
Net cash outflow from financing activities		**-**	(280)
Net increase in cash and cash equivalents		**5**	8
Cash and cash equivalents at beginning of year		12	4
Cash and cash equivalents at end of year	11	**17**	12

The accompanying notes on pages 25 to 39 are an integral part of these financial statements.

Notes to the financial statements (continued)
For the year ended 31 December 2019

1. General information

Telefonica O2 Holdings Limited (the "Company") is a public limited company registered in England and Wales under the number 5310128. The registered address is 260 Bath Road, Slough, Berkshire SL1 4DX. The principal activity of the Company is to act as an intermediate holding company within the Telefónica S.A. Group.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Standards Interpretations Committee ("IFRS IC") 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.

2.2 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 consolidated financial statements of Telefónica, S.A., the ultimate EU Registered parent company, for the year ended 31 December 2019.

2.3 Going concern

The Directors have received the commitment from the parent company to continue providing financial support and therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Directors believe that Covid-19 has not impacted their assessment of the Company's ability to continue as a going concern.

2.4 Functional currency

These financial statements are presented in pounds sterling, which is also the functional currency, because that is the currency of the primary economic environment in which the Company operates.

2.5 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.

2.6 Other expenses

Other expenses principally consists of pension scheme expenses.

2. Significant accounting policies (continued)

2.7 Pension obligations

During the year ended 31 December 2019, the company did not operate as part of the Telefonica UK Pension Plan ("Plan") as the Plan was transferred to TUK in 2018. During the 2018 financial year period, the Plan had both defined benefit and defined contribution schemes. A defined benefit plan is a pension plan that sets the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. On 28 February 2013 the defined benefit scheme of the Plan closed to further benefit accrual. Member benefits of the defined benefit scheme of the Plan will continue to be increased in deferment by reference to the Consumer Prices Index (see note 14) but will not retain the link to any future increases in salary. Upon closure, members of the defined benefit scheme of the Plan were given the option to become members of the defined contribution scheme of the Plan. The defined contribution scheme of the Plan remain open to new entrants and further accrual.

2.8 Financial income and expense

Financial income principally consists of interest income on Company deposits and gains arising from foreign exchange rate hedging instruments. Financial expense principally consists of interest expense on Company borrowings and losses arising from foreign exchange rate hedging instruments. The Company utilises foreign exchange rate hedging instruments to hedge foreign exchange rate exposure principally in respect of Euro and US dollar payments.

2.9 Taxation

Taxation expense for the period comprises current tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents relates entirely to cash at bank only.

2.11 Financial assets

The Company's financial assets relate to other receivables arising from intercompany transactions and are measured at amortised cost. From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk or probability of default for balances repayable on demand.

2. Significant accounting policies (continued)

2.12 Dividend income and distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the 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.

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

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for
Certain new accounting standards and interpretations have been published that are not mandatory for
31 December 2019 reporting periods and have not been early adopted by the Company. Those that are expected to have an impact on the Company are set out below.

Definition of Material – amendments to IAS 1 and IAS 8
The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.
In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The Group does not expect the change in definition of Material to significantly impact the financial statements however the change in definition is relevant to the user of the financial statements.

Definition of a Business – amendments to IFRS 3
The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

2. Significant accounting policies (continued)

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

Sale or contribution of assets between an investor and its associate or joint venture - amendments to IFRS 10 and IAS 28

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

3. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. A significant change in the facts and circumstances on which these estimates and judgements are based could have a material impact on the Company's earnings and financial position. There are no areas involving a higher degree of judgement or complexity which could result in a material impact in the financial statements. The estimates and assumptions which are significant to the financial statements are discussed below.

Impairment of investments- Critical accounting estimate

An impairment exists when the carrying value of an investment exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from forecasts. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as the expected cash inflows and the growth rate used for extrapolation purposes. Details of sensitivity rates and impact is shown in note 9.

Joint arrangements- Critical accounting judgement

The Company's subsidiary Telefonica UK, participates in a joint arrangement where control of the arrangement is shared with another party. Judgement is required to classify joint arrangements in a separate legal entity as either a joint operation or as a joint venture which depends on management's assessment of the legal form and substance of the arrangement taking into account relevant facts and circumstances such as whether the owners have rights to substantially all the economic outputs and, in substance, settle the liabilities of the entity.

The classification can have a material impact on the consolidated financial statements of Telefonica UK. The company accounts for their interest in their joint operation by recognising the assets and liabilities and the related revenues, expenses and share of commitments in proportion to the company's contribution to and participation in the joint operation.

Notes to the financial statements (continued)
For the year ended 31 December 2019

Brexit

The Company is continuing to monitor the UK's decision to leave the EU. Given that the Company is looking to wind down its activities, the Directors believe that the impact of Brexit will be limited.

4. Operating profit

Company operating profit from continuing activities is stated after charging:

	2019 £m	2018 £m
Impairment of investment in subsidiaries (note 9)	-	(160)

The aggregate fees paid to auditors during the year for audit and other services are analysed below:

	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	21	21

5. Directors and employees

No directors are remunerated through the Company. Directors' remuneration, including benefits, are met by Telefonica UK Ltd, since the Directors' services are provided to that company. Number of employees in the company were nil (2018:nil).

6. Investment income and finance cost

	2019 £m	2018 £m
Dividends received	550	270
Investment income	**550**	270
Other financial costs	-	(3)
Net investment income	**550**	267

7. Taxation

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:

	2019	2018
	£m	£m
Profit before tax from continuing operations	550	108
Profit before taxation	**550**	108
Profit on ordinary activities multiplied by the rate of UK corporation tax of 19% (2018: 19%)	106	50
Expenses not deductible for tax purposes	-	-
Income not taxable for tax purposes [a]	(106)	(51)
Deferred tax not recognised	-	1
Taxation – (credit)/charge for the year	-	-

[a] Income not taxable relates to dividends received

The Finance Act 2015 set the main rate of corporation tax to 19% with effect from 1 April 2017. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

8. Dividends paid

	2019	2018
	£m	£m
Dividend – 6.2p (2018:6.2p) per share	**550**	550

Dividends of £550m (2018: £550m) were declared in 2019 and paid in cash in the year.

9. Investments in subsidiary undertakings

	2019	2018
	£m	£m
Investments in subsidiary undertakings:		
Beginning of the financial year	**9,462**	9,599
Impairment during the financial year	-	(160)
Investment in Telefonica UK Limited	-	23
Balance as at the end of the financial year	**9,462**	9,462

9. Investments in subsidiary undertakings (continued)

Investments in subsidiary undertakings are tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable. The potential impairment loss is determined by assessing the recoverable amount of the investments in subsidiary undertakings. If this recoverable amount is less than the carrying amount, an impairment loss is recognised.

The balance at 31 December 2019 comprised the investment in O2 Holdings Limited of £9,339m (2018: £9,339m), with the remaining net book amount of £100m (2018: £100m) related to investment in mmo2 Limited. The Company also has a direct investment of £23m (2018: £23m) which relates to the capital contribution transfer made to Telefonica UK in 2018.

In the year ended 31 December 2019 there was no impairment loss recognised by the Company. However, in the prior year an impairment loss of £160m was recognised. The loss was recognised in relation to the investment in mmo2 Limited, a subsidiary undertaking. The impairment arose following a reduction in the net assets of mmo2 Limited after a payment of dividend by mmo2 Limited in 2018.

The recoverable amount of the investments in mmo2 Limited has been assessed based on the net assets of mmo2 at 31 December 2019, and it was concluded to be not less than the net book amount.

The recoverable amount of the investments in O2 Holdings Limited has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period. An impairment assessment was performed using the company's five year approved business plan of its principal trading subsidiaries, applying a pre-tax discount rate of 7.7 % (2018: 7.6%) to the cash flows determined using a perpetuity growth rate of 0.8% (2018: 1%). There was no impairment in the year ended 31 December 2019.

Value in use
Value in use is calculated based on the approved business plan and taking into account certain variables such as operating profit before depreciation and amortisation (OIBDA) margin, capital expenditure

OIBDA margin and long-term CAPEX
The OIBDA margin and long-term CAPEX ratio used to calculate terminal value, expressed as a percentage of revenue, are based on the business plan approved for the investment, as well as external estimates of trends in operating indicators, and the outlook for the various businesses and markets.

9. Investments in subsidiary undertakings (continued)

Discount rate
The discount rate used by management, applied to measure free cash flow, is the pre-tax weighted average cost of capital (WACC), determined by the weighted average cost of equity and debt according to the finance structure established for each investment.

Perpetuity growth rate
Cash flow projections to the end of the asset's useful life are estimated using a rate of growth for the future years.

Terminal value
Terminal value is calculated from the projected cash flows in the period, taking as the perpetuity growth rate consensus estimates among analysts for the business and the country based on the maturity of the industry depending on technology and the degree of development. Each indicator is compared to the forecasted long-term GDP growth adjusted for any specific characteristics of the business.

Sensitivity to changes in assumptions

The Company carries out its sensitivity analysis of the impairment test by considering reasonable changes in the main assumptions used in calculating value in use assuming the following increases or decreases in the assumptions, expressed in percentage points:

Assumption	Change	Valuation impact	Change	Valuation impact
Discount rate	-0.50p.p.	£1,614 million	+0.50p.p.	-£1,341 million
Perpetuity growth rates	-0.50p.p.	-£1,119 million	+0.50p.p.	£1,347 million
Terminal OIBDA Margin	-0.50p.p.	-£381 million	+0.50p.p.	£381 million
Terminal ratio of CAPEX / Revenues	-0.50p.p.	£471 million	+0.50p.p.	-£471 million

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the cash-generating unit to materially exceed its recoverable amount.

Details of the Company's subsidiaries are provided in note 14.

Notes to the financial statements (continued)
For the year ended 31 December 2019

10. Other receivables

	2019 £m	2018 £m
Amounts owed by group and related undertakings	**6**	33

Amounts owed by subsidiaries represent receivables due from Telefonica UK and O2 Holdings Limited, All intercompany balances are interest free and repayable on demand.

11. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank	**17**	12

Cash and cash equivalents represents balances held with Telfisa Global BV, a related party.

12. Trade and other payables

	2019 £m	2018 £m
Amounts owed to group and related undertakings	**23**	45

Amounts owed to Company undertakings represent amounts owed to Telefonica UK Limited and mmo2 Limited. All amounts are interest free and repayable on demand.

13. Share capital and reserves

	2019		2018	
Share capital	**Number of shares**	**£m**	**Number of shares**	**£m**
Authorised				
Ordinary shares of 0.1 pence each	20,000,000,000	20	20,000,000,000	20
Called up, allotted and fully paid				
Ordinary shares of 0.1 pence each	8,880,812,164	9	8,880,812,164	9

The Company has one class of authorised and issued share capital, comprising ordinary shares of 0.1 pence each. Subject to the Company's articles of association, and applicable law, the Company's ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any right of redemption.

Share premium

The share premium account represents the premium on shares issued. The reserve is non-distributable.

	2019		2018	
Share premium	**Number of shares**	**£m**	**Number of shares**	**£m**
Share premium of 0.0495 pence each	8,880,812,164	440	8,880,812,164	440

14. Subsidiary undertakings and joint arrangements

A complete list of the Company's subsidiary undertakings at 31 December 2018 is detailed below.

Name	Country of incorporation and operation	Principal activity	Portion of ordinary shares held
O2 Holdings Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Intermediate holding company	100
mmO2 Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Active non trading company	100
Telefonica UK Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Mobile cellular telephone system provider and operator	100
Tesco Mobile Limited Shire Park, Welwyn Garden City, AL7 1GA	England and Wales	Mobile cellular telephone distributor JV with Tesco plc	50
Weve Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Mobile marketing and commerce services	100
Cornerstone Telecommunications Infrastructure Limited Hive 2, 1530 Arlington Business Park. Theale Reading Berkshire RG7 4SA	England and Wales	Mobile infrastructure network JV with Vodafone Limited	50
Cellular Radio Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Active non trading	100
GIFFGAFF LIMITED 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Mobile communications services	100
O2 Networks Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Active non trading	100

14. Subsidiary undertakings and joint arrangements (continued)

Telefonica Europe People Services Limited Hanover Court Erne Street Lower Dublin 2	Republic of Ireland	HR Services	100
DX Communications Limited The Ca'D'Ore, 45 Gordon Street, Glasgow, United Kingdom, G1 3PE	Scotland	Dormant	100
The Mobile Phone Store Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Dormant	100
O2 Cedar Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Active non trading	100
O2 Communications Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Intermediate holding company	100
Telefonica UK Pension Trustee Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Corporate trustee of the Telefonica UK Pension Plan	100
O2 Unify Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Information Communication Technology Solution	100
O2 Secretaries Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Dormant	100
O2 Redwood Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Dormant	100
Digital Mobile Spectrum Limited 83 Baker Street London W1U 6AG	England and Wales	Services in relation to the Spectrum auction obligation	25
Statiq Limited 260 Bath Road Slough Berkshire SL1 4DX	England and Wales	Digital services	100

14. Subsidiary undertakings and joint arrangements (continued)

The shares held in O2 Holdings Limited and mmO2 Limited are held directly by the Company and all other investments are held indirectly. The Company has a direct investment in Telefonica UK Limited as a result of the transfer of the Telefonica UK Pension Plan.

15. Financial instruments

Financial risk factors and management

The Company's principal financial liabilities comprise intercompany trade and other payables. The purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as intercompany receivables and cash. The principal financial risks of the Company and how the Company manages these risks are discussed below:

Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

(i) Risk management

The Company's principal credit risks are attributable to its other financial assets which mostly comprise intercompany receivables and cash and cash equivalents. Credit risk is managed on a Telefónica Group basis.

(ii) Intercompany receivables

Intercompany receivables are considered to have a low credit risk and no loss allowance is recognised. Management consider 'low credit risk' to be when they have a low risk of default and the issuer has a strong capacity to meet is contractual cash flow obligations in the near term or on demand.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.

Management of the Company's liquidity risk is reduced through being a part of the larger Telefónica Group.

Market risk

(i) Foreign currency risk

The Company also has a small amount of transactional exposure. Such exposure arises from intercompany receivables and payables other than the unit's functional currency. Significant exposures are managed through the use of foreign exchange contracts and the Telefónica group managing positions on a group wide basis.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

15. Financial instruments (continued)

Market risk (continued)

The Company's interest rate risk arises primarily from the effects of movements in interest rates on the value of the Company's long-term borrowings and interest received on cash and cash equivalents. The Company's long term borrowings and other financial assets are at fixed interest rates. The majority of the Company's cash and cash equivalents are deposited with a central Telefónica group company that pays interest at variable market rates.

16. Parent company and controlling party

The Company's ultimate parent company and controlling party is Telefónica, S.A., a company incorporated in Spain, which prepares consolidated financial statements. Consolidated financial statements of Telefónica, S.A. may be obtained from Gran Via 28, Madrid, Spain.

17. Contingent Liabilities

Legal proceedings have been issued in the High Court against the Company by the Administrators of Phones 4u. The Company has vigorously denied the allegations and filed its defence to this claim in April 2019. No provision has been made in relation to this matter.

18. Post Balance Sheet Events

Regulatory intervention

Under Ofcom rules, O2 introduced End of Contract Notification and will introduce Annual Best Tariff Notification (ABTN) by February 2021. The ECN obligation is to send a notification within 10 to 40 days before the customer's contract end date and for ABTN to send another notification at least every 12 months from the date the customer received the ECN if the customer has not acted, or if out of contract, one notification in every 12 month period. We will comply with the regulation for when it comes into force and change tone of narrative.

O2 and Virgin Media Joint Venture

On 7 May 2020, Telefonica SA and Liberty Global announced that both companies had entered into an agreement together to create a 50:50 joint venture in the UK, bringing together the Telefonica UK (O2) and Virgin Media businesses. The arrangement is still subject to regulatory clearance and has been agreed in order to create a national connectivity champion capable of competing at the highest level with the combined mobile and home connections. It is anticipated that closing of the transaction, subject to regulatory clearance, is expected to take place around the middle of 2021.

Notes to the financial statements (continued)
For the year ended 31 December 2019

18. Post Balance Sheet Events (continued)

Covid 19 (continued)

Given that the Company does not trade, does not have any employees or suppliers, and there was no activity in the Company in the year, the Directors believe that the impact of the global health pandemic will be limited.

The Directors have assessed the Company's assets for impairment indicators as at December 2019 and noted no impairment. The business appears to be performing well in light of the global pandemic and the Directors will continue to assess the investments for impairment as the situation develops.