Registered Number: 5310128

Telefonica O2 Holdings Limited

Annual Report and Financial Statements

Year ended 31 December 2020

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COMPANY INFORMATION

Directors

Thomas de Albuquerque
Guillermo Martinez Maside
Luis Angel Prendes Arroyo

Registered office

260 Bath Road
Slough
Berkshire
SL1 4DX

Independent Auditors

PricewaterhouseCoopers LLP
40 Clarendon Road
Watford
Hertfordshire
WD17 1JJ

STRATEGIC REPORT

Telefonica O2 Holdings Limited (the "Company") is a member of the Telefónica group of companies (the Telefonica Group). The ultimate parent company is Telefónica, S.A. headquartered in Spain and primarily listed on the Spanish stock exchange. In accordance with section 400 of the Companies Act 2006, a consolidated set of financial statements has not been prepared as the Company and its subsidiaries (O2 Group) are included in the consolidated Annual Report of Telefónica, S.A., the immediate and ultimate parent company, for the year ended 31 December 2020.

O2 and Virgin Media Joint Venture

On 7 May 2020, Telefónica, S.A. 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 O2 and Virgin Media businesses. On 1 June 2021, following the receipt of regulatory approval from the Competition and Markets Authority, Telefónica, S.A. and Liberty Global completed on the agreement to combine the O2 and Virgin Media businesses to create a 50:50 joint venture in the UK. Telefonica O2 Holdings Limited, contributed its entire issued share capital in O2 Holdings Limited and its group (O2 Group) as consideration for shares in VMED O2 UK Limited the newly created and jointly controlled group. At the same time Liberty Global Group contributed the same for the Virgin Media Group. As a result, the associated assets in O2 Holdings Limited have been presented as held for sale as at 31 December 2020.

The purpose of the joint venture is reimagining connectivity which will give UK customers more choice and better value.

Business activities

During the year the purpose of the Company was to act as an intermediate holding company for the O2 Group. The Company's main activities during the year were firstly, to continue to maintain operational oversight of the O2 Group, in particular the implications of the COVID-19 pandemic and the wider economic uncertainties on the Businesses. Details of the activities of the significant companies within the O2 Group are summarised below. Secondly, the Board focused on matters pertaining to the proposed joint venture arrangement regulatory clearance in addition to the implementation of certain pre-completion matters as contemplated by the in the contribution agreement in readiness for the proposed joint venture arrangement subject to regulatory clearance.

Telefonica UK Limited (O2 Group)

The purpose of O2 is to make every day better through personal experiences that count. Our daily activities are underpinned by our company values (Bold, Open and Trusted) and our Business Principles with the continuing focus of putting our customers at the heart of everything we do.

As a result of the COVID-19 pandemic, 2020 in general, was a challenging year for the economy, employees and businesses in the UK and the rest of the World. We were not immune to the challenges presented by the pandemic and our resilience was demonstrated by our strong financial performance and the level of support we provided to our customers, our people and the nation as a whole.

We continued to invest in and grow our network to help keep people connected whilst maintaining market-leading levels of customer loyalty and satisfaction. Our continuing focus is to play a bigger role in helping to get the UK back on its feet. Connectivity has never been more important and O2 provides one of the UK's most valued services and is playing a significant part to help rebuild Britain.

STRATEGIC REPORT (CONTINUED)

Telefonica UK Limited (O2) (continued)

O2's priorities in 2020 was influenced by the situation businesses and the nation found themselves in, as a result of the pandemic. The main focus areas were:

(1) Customer Experience: Our simple and personal customer experience is industry leading. We continue to invest in digitalising our **Customer Service** and our transformation programme **Accelerate O2**. Our **Information Technology** and **Data** strategies underpin our core strategies such as customer experience, accelerating B2B growth opportunity and investment in future capabilities.

(2) Customer Propositions: Our product and service offerings are tailored to suit different customer segments in order to help us deliver on the specific needs of our customers. Our customer segments are split between

Consumer and Business. The Business segment includes: **Small Medium Business Enterprise including Multi-National Corporations and Public Sector. Commercial partnerships** are fundamental to how we deliver the best products, services and experiences to our customers. Through our **Sponsorships** we aim to make our customers feel special, creating unforgettable live experiences whereby our brand partnerships, together with our products and services, are intrinsically linked to enhancing customer experience.

(3) Sales and service channels: Our omni-channel approach allows customers to engage with us through any channel of choice, including **Online, Telesales, My O2** (Digital Self-Serve) and **Stores**, as we continue to improve on our Customer Journey. As a result of the national restrictions during lockdown, we have adapted our Online channel to support the increased demand in traffic and continued to improve our self-serve experiences to meet the growing needs of our customers. We also have other routes to market through our **Indirect Partners (Consumer, MVNO and Wholesale)**.

(4) Network: The demand for mobile connectivity continues to grow rapidly every year and we continue to invest a significant amount of money in making our network even better. We play our part in helping the UK digitalisation goals through the **Smart Meter Implementation Programme**. In addition, we have championed the **Shared Rural Network** arrangement, which brings mobile network operators, the regulator Ofcom and the government together on a mission to boost current 4G landmass coverage from 67% to 84%.

(5) People: The pandemic accelerated our move towards a more agile and digital way of working and our focus was on the well-being of our people during these unprecedented times. In addition, we have set our sight on becoming a truly diverse and inclusive business and we continue to make steady progress on our bold and transparent commitments through various **Diversity and Inclusive** initiatives and external partnerships.

(6) Corporate Responsibility: Our Blueprint is our responsible business plan that sets out our commitments to operate fairly and ethically, tackle climate change and help society thrive. Our three key strategic aims focus on the issues where we believe we can make the greatest difference: **Build a Greener network, Help Society thrive** and **Lead by example**.

STRATEGIC REPORT (CONTINUED)

giffgaff Limited (giffgaff)

The purpose of our giffgaff brand is to harness the power of people, to challenge the established way and improve it. giffgaff is an online MVNO which runs on the O2 network providing telecommunication services to the consumer mobile segment. giffgaff does not have any call centres or shops instead giffgaff works with its members (customers) to source ideas and feedback; to provide frontline service support through its community and be a source of growth through the giffgaff member get member scheme. We call it 'Run by you'. In response to the challenges posed by the pandemic giffgaff created the goodybank scheme to invite its members to join them in helping vulnerable people on its membership base and in the community in partnership with the charity Neighbourly. In addition, it hosted events for the local elderly community and helping young people from local schools learn more about software engineering as a career.

Cornerstone Telecommunications Infrastructure Limited (Cornerstone)

Cornerstone is an equally owned joint venture arrangement between the Telefónica Group and Vodafone Group. Cornerstone is engaged in managing the non-radio (passive) assets supporting the mobile wireless network of Vodafone and O2. Both shareholders are seeking to improve efficiencies in the deployment and operations of their networks to provide the best performing mobile network in the UK and reduce their environmental impact.

In January 2021, O2 Group announced a new Master Services Agreements for cornerstone which will provide operational simplicity and efficiency, in addition it will enable Cornerstone to generate revenue by offering space on infrastructure to third parties.

Tesco Mobile Limited (Tesco Mobile)

Tesco Mobile is a joint venture equally owned by the Tesco Plc Group and the Telefónica, S.A. Group. Tesco Mobile Limited provides pre and post pay mobile communications and related services to consumers including insurance, using the Tesco retail estate for handset distribution and subscriber acquisition, and O2 mobile communications network for airtime and related services.

Digital Mobile Spectrum Limited (DMSL)

O2 owns a quarter of DMSL which is a joint venture arrangement with other MVNOs set up as a condition of the 4G Spectrum licence to mitigate anticipated disruption to digital terrestrial. On March 2020 DMSL, the Mobile Network Operators, Government and Ofcom entered into an arrangement to invest in the Share Rural Network, helping to boost the current 4G landmass coverage from 67% to 84%. In addition, each Mobile Network Operator has committed to providing 4G to at least 90% of the country's landmass, with over 1,800sq miles of the country getting 4G for the first time. This work will result in partial Not Spots being virtually eliminated. Delivery of this part of the programme will be the focus throughout 2021.

STRATEGIC REPORT (CONTINUED)

Performance and Development

After dividend income of £469m (2019: £550m) the Company has generated a profit before tax of £469m in 2020 (2019: £550m). Dividends of £4,070m (2019: £550m) were declared in 2020. The company has paid £570m in cash in the year and the remaining £3,500m has been deferred. The £3,500m was subsequently paid on 1 June 2021 following completion of the Joint Venture transaction, through a dividend distribution from O2 Holdings Limited.

The net assets of the Company as at 31 December 2020 were £5,861m compared to £9,462m at 31 December 2019.

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 subsidiary, Telefonica UK Limited, can be obtained from that company's financial statements and from the financial results releases of the Company's ultimate shareholder, Telefónica, S.A.

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, O2. The principal risks and uncertainties of the O2 Group are the aggregate significant risks of the wholly owned trading subsidiaries; O2 and giffgaff.

We operate four principal risk categories and related sub-categories, through which all risks are identified, linked and managed. Our approach is aligned to Telefonica Group and its other operating businesses (OBs). This ensures we collectively undertake aligned micro and macro analysis of our business, the external environments and the markets in which we operate to determine and manage applicable risks to our strategy.

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

Principle Risk Categories	Sub-categories of Risk
Business risk: Possible losses in value or results derived from the situation of the competition and the market, changes in the business model, innovation, strategic uncertainty, the regulatory framework, as well as events that affect the sustainability and reputation of the Company.	• Strategy, including: Market & Competition Economic & Political Environment Business Model Adaptation & Innovation • Regulation • DPO (Data Privacy) • Sustainability • Reputation
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.	• Liquidity
Operational risk: Possible losses of value or results derived from the events caused by the inadequacy or failure of the network and computer systems, security, customer service, human resources, as well as operational management.	• Customer • Systems & Network • Security • Supply Chain • Operational Management • People
Legal & Compliance risk: Possible losses of value or results derived from the events caused by the inadequacy or failure of the network and computer systems, security, customer service, human resources, as well as operational management.	• Legal • Compliance

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
Business risk	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 us to remain relevant and attractive as a business.	Expanded our 5G network to over 150 towns and cities. Added Disney+ to our O2Extras offer, to keep customers and families entertained. The joint venture between O2 and Virgin Media. Pledges on investment, skills and the levelling up agenda to create a National Connectivity Champion that benefits even more consumers and businesses	**Stable**: Due to our response to the market through competitive market offerings and completion of the new joint venture.
Business risk	Strategy: Economic & Political Environment	Economic and political factors present a dynamic set of challenges and risks for us to consider, relating to market, strategy and operational factors. We are resilient but not immune, for example, the magnitude of the enduring impacts of COVID-19 on consumer and business behaviour is currently unknown.	We continue to plan for different political and economic scenarios, which include the continuing impact of the pandemic and Brexit. This is to ensure we continue to be successful in executing our strategy and operations as intended to minimise negative impact to our customers and stakeholders.	**Increased**: Due to the economic impact of the pandemic and the implications of the UK exit from the European Union.

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 risk	Strategy: Business Model, Adaptation & Innovation	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.	We continue to deliver on our AO2 transformation programme which is delivering substantial technology evolution and ensuring we are well placed for the future. Details of the transformation programme can be found on pages 4 &5.	**Stable**: We are confident that plans are in place to react to any moves in the market
Business Legal and Compliance risk	Legal Compliance Regulation Data Privacy	As a customer centric company that operates in a market subject to many different regulations and laws, it is important that we operate within the regulatory obligations and deliver positive customer journeys and outcomes.	We continually monitor the legal and regulatory requirements applicable to us and apply these requirements to our operations and change activities	**Increased**: Due to increased complexity of regulations and intervention from regulators
Financial risk	Liquidity	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.	Despite the impacts of COVID-19, we have seen a strong financial performance as reflected in our financial results. We continue to maintain strong banking relationships across a number of key banks and leverage our relationship at a Group level. We operate continuous monitoring of credit risks through our financial and procurement processes	**Stable**: We are confident that access to long term liquidity will continue to be available.

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 risk	Customer	In a highly competitive market where customers are facing unprecedented challenges to their daily lives it is more important than ever we understand how their needs are changing so we can adapt, remain relevant and find new revenue opportunities.	Our strategy is built on a framework where commercial challenges were pitted against the customer's needs to that strategic initiatives had to solve both. These customer needs were then translated into a North Star vision which is now used as a reference point for all in the business from product innovation to advertising narrative. Additionally, we take special care to ensure that it has appropriate and agreed Marketing consent from all of its customers and conducts a range of customer experience surveys to obtain feedback from them.	**Decreased**: The industry standard measurement for customer experience is Net Promotor Score (NPS). By our own scoring we significantly improved in 2020 and also in independent scoring by Ofcom, we came top amongst the Mobile Network Operators in 2020.
Operational risk	Systems & Network	Customers have an ever increasing demand for our products and services. 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.	Our Strategy and Business Plans anticipate and plan for future market direction and demand. Our approach to strategic planning and investment is considerate of prioritisation of risk mitigation whilst mindful of the upcoming benefits of planned transformation programmes.	**Stable**: We have applied conscious focus and investment in key areas in 2020 and have seen positive risk exposure control and reductions in many areas of our network and systems, as well as effectively addressing the COVID-19 related risks.

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 risk	Security (including Cyber)	Globally cyber-crime is increasing in both frequency and sophistication. This presents potential impacts in our ability to provide services, prevent data loss and to ensure the continued confidentiality, integrity, and availability of data.	We work collaboratively with our regulators to understand our cyber risk landscape and we are proactive in implementing security standards and controls to help mitigate these risks. We routinely benchmark our cyber security capability, and we adopt new technologies to protect our customers and the business against the latest cyber threats. Investment in cyber security improvement programmes continue. 2021 will see the introduction of the new Telecoms Security Bill and, working closely with Ofcom, we are planning the implementation of any additional controls.	**Stable**: Although 2020 brought new challenges with regards to remote working, minor changes to our existing controls were sufficient to allow this without introducing additional risk. As such we have not seen an increase in our risk profile, and we have focused on the continued effectiveness of existing controls.

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	We are a highly collaborative organisation with many important third-party relationships to deliver our 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. Additionally, we identify and monitor key suppliers to ensure we understand their financial stability and can respond in a timely manner to any growing risk of financial failure in the direct supply chain.	**Increased**: Supplier financial stability risks have clearly increased due to COVID-19 and is expected to continue into 2021, however we have experienced limited significant consequential impact.
Operational risk	Operational Management People	This broad area of risk is of significance to us given it covers factors such as customer service, processes, human resources, fraud, laws and intellectual property.	We operate a robust internal control framework. The internal controls and responsibilities are integrated into daily activities to deliver assurance across all the areas of operational risk mentioned here, and more.	**Stable**: Our mature control environment and remote working capabilities have proven resilient despite the potential for disruption from COVID-19.

STRATEGIC REPORT (CONTINUED)

Principal Risks and uncertainties (continued)

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

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 From Last Report	Movements
Global risks	This principal risk category has been removed
Legal & Compliance risks	New principal risk category
Compliance risks	Moved from 'Global' risk category to new 'Legal & Compliance' risk category.
Legal risks	Moved from 'Operational' risk category to new 'Legal & Compliance' risk category.
Sustainability Reputation	Moved from previous 'Global' risk category to 'Business' category.
DPO (Data Privacy)	Elevated to sub-risk category of 'Business' risk category
Human Resources	Renamed 'People'

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

We have a responsibility to promote the success of the Company in good faith for the benefit of our ultimate shareholder whilst having regard, at least, to the following matters:

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

The Directors have put in place a governance framework includes best practice procedures to support the assessment of those matters necessary to make an informed decision in furtherance of the long-term success and sustainability of the Company. The Directors who are also part of the Executive Leadership Team have the delegated authority for the day-to-day management of the business activities including the implementation of the objectives which underpin the Company's purpose whilst retaining sufficient oversight and accountability for significant matters.

The COVID-19 pandemic presented challenges for all businesses and the wider economy. As a business we were not immune to these challenges and we made a decision to re-align our 2020 plans at the start of the pandemic and to prioritise the support to our People, Customers, Community, Government and Business partners as discussed through our integrated reporting approach on how we achieve our priorities on page 3. We kept our People informed of the plan to navigate through the unprecedented times including the Business performance. Despite our stores being closed and the trading challenges posed by the government restrictions throughout the year, we protected everyone's base pay and did not take advantage of the Government Furlough scheme available to all businesses. To ensure we remain a resilient business, we understand that our People are vital to the long-term success of the Company so in July we launched an incentive plan with an opportunity for our People to earn an award of up to £1,500 for meeting commercially focused targets. Further details on the consideration of what matters to our People can be found in the People section in O2 Holdings Limited Consolidated Annual Report on page 19.

Stakeholder engagement is fundamental to the understanding of our relevance and how we can achieve our purpose of making every day better through personal experience that count. The Executive Leadership Team has a framework for regular engagement with all key stakeholders, including our People, Customers, the Regulators and the Government and our Shareholder. The Executive Leadership Team oversee customer sentiment and feedback, such as NPS, brand metrics and complaints, and are involved in the engagement with key business customer groups such as regular customer advisory sessions and relationship meetings. In addition, there are regular meetings with employees and engagement surveys and meetings with the Regulators and the Government to ensure that we are well positioned to support our Customers as well as contributing to a sustainable society as a whole. Further details of the stakeholder engagement and the outcomes are detailed in principle six of the Corporate Governance Statement in O2 Holdings Limited Consolidated Annual Report on pages 47 to 52.

STRATEGIC REPORT (CONTINUED)

172(1) Statement (continued)

Due to the pandemic it became evident that digital connectivity mattered more than ever so we concentrated our focus on supporting the Government and delivering for the NHS, keeping people connected, reducing loneliness, supporting online learning, and helping people to keep working. We worked closely with the Government and the NHS to support the nation and play a vital role in rebuilding Britain The CEO and COO had regular meetings with the UK government, and we worked with the UK, Northern Ireland, Scottish and Welsh governments in support of their efforts during the pandemic. This involved ensuring our network provided the connectivity needed during lockdown, support for vulnerable customers including access to zero rating websites, the NHS track and trace app, providing free data bundles to NHS workers and supporting the Department for Education's Get Help with Technology scheme. We established a new Community Calling scheme with environmental charity Hubbub, to refurbish and gift smartphones and tablets to the most vulnerable people in six cities across the UK. In addition, we met regularly with the UK government to discuss a range of issues from the establishment of the Shared Rural Network (SRN) to the proposed new telecoms security regime to be put in place when the Telecoms Security Bill becomes law.

We met with our most strategic business customers where we shared unique insights and collaborated to explore how we can create greater value for Britain, our people and our businesses and this provided an opportunity to discuss challenges and to learn and share strategies as a group especially during the pandemic. We offered free innovation sessions to our customers where our business and technology experts helped customers to work through business challenges and apply design thinking to help them to grow and flourish. We organised a virtual Blue Door conference with more than 30 interactive sessions and exclusive networking opportunities, giving our customers the chance to hear from subject-matter experts and come together to discuss cutting-edge technology and the key challenges facing businesses today. We created a series of advisory papers to support our Customers – ranging from practical advice to address short term requirements and technologies that will support current and emerging challenges to our opinions to drive longer term business survival and growth in addition to help drive businesses towards being more sustainable. As a result of our customer insight we were able to develop and evolve our product offering to suit our customers. Further details of the customer engagement can be found in O2 Holdings Limited Consolidated Annual Report on page 50 of the Corporate Governance Statement.

As a Company we understand the need to further a sustainable environment and have committed to building a greener network with a goal to be net zero by 2025 and reduce our carbon footprint within our business operations as we continually look for ways to remove or reduce our plastic use, both in our offices and in our stores. For example, we do not use plastic bags in our shops, we have reduced the plastic used in SIM-card packaging and promoted the use of re-usable tableware in our offices as well as recycling uniforms in our stores. We have also increased the usage of e-receipts - up 40% year on year. 2020 saw the increase of single-use plastics due to the heightened safety measures because of the pandemic. We joined forces with TerraCycle to introduce a PPE (Personal Protective Equipment) recycling scheme which allows all PPE used in our stores to be recycled responsibly via TerraCycle's Zero Waste Box. In total, 112 kg of PPE waste was saved from potentially ending up in landfill or other sites such as waterways in 2020 through the scheme. Further details of our corporate responsibility can be found in O2 Holdings Limited Consolidated Annual Report in the Non-Financial Statement on page 37.

STRATEGIC REPORT (CONTINUED)

Post Brexit

The plans we put in place to mitigate any potential risk as a result of Brexit were successful. We have not identified any material adverse effect on our business and we do not anticipate any material effect going forwards. We will continue to monitor any potential risk that may arise as the government continues to negotiate trade deals.

Post Balance Sheet Event

In January 2021, we announced a new Master Services Agreements for Cornerstone Telecommunications Infrastructure Limited (CTIL), the jointly owned and managed venture between O2 and Vodafone. The new arrangement will provide operational simplicity and efficiency, in addition it will enable CTIL to generate revenue by offering space on infrastructure to third parties.

In March 2021 we announced an investment of £448m in Ofcom's spectrum auction to secure the right spectrum for our business needs. We obtained 8 x 3.6 GHz lots and 2 x 700 MHz paired frequency lots. This additional spectrum will allow for further coverage and capacity improvements in our network, demonstrating our continued commitment to the UK Market and the very best connectivity for our customers.

On 23 April 2021, following the completion of the 3.6 – 3.8 GHz 5G Spectrum auction, the Group signed an agreement with Vodafone Plc to swap certain bands within their respective 5G Spectrum holdings to create more efficient blocks of 5G Spectrum. The swap will create a contiguous block of 80 MHz for the Group, enabling improved coverage for customers, contiguous blocks support faster speeds, lower latency and greener 5G services.

On 26 May 2021 Telefonica O2 Holdings Limited subscribed to 1,411,616 ordinary shares in O2 Holdings Limited for a consideration of £1,412 million.

On 28 May 2021 O2 Holdings Limited declared and paid a dividend of £354 million to Telefonica O2 Holdings Limited.

On 1 June 2021, following the receipt of regulatory approval from the Competition and Markets Authority, Telefónica, S.A. and Liberty Global completed on the agreement to combine the O2 and Virgin Media businesses to create a 50:50 joint venture in the UK. Telefonica O2 Holdings Limited, contributed its entire issued share capital in O2 Holdings Limited and its group (O2 Group) as consideration for shares in VMED O2 UK Limited the newly created and jointly controlled group. At the same time Liberty Global Group contributed the same for the Virgin Media Group.

The Strategic Report was approved by the Board on 14 September 2021.

By Order of the Board

Thomas de Albuquerque
Director

DIRECTORS' REPORT

We are pleased to present the Directors' report for the year ended 31 December 2020. The report does not include matters of strategic importance which are disclosed in elsewhere and referenced accordingly.

Reference to Group means Telefonica O2 Holdings Limited and its subsidiaries and reference to Telefónica Group means Telefónica, S.A. and its subsidiaries.

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 incorporated, domiciled and registered in England and Wales. The parent company is Telefónica, 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.

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. Further details of the O2/Virgin Media joint venture arrangement can be found on page 4 of the Strategic report.

Directors and Secretary

The Directors of the Company who were in office during the year were:

Patricia Cobian (resigned 17 June 2021)
Mark Evans (resigned 31 May 2021)

The Secretary who held office during part of the year was Robert Harwood. Robert Harwood resigned as Secretary on 27 March 2020 and was replaced by O2 Secretaries Limited. O2 Secretaries Limited resigned as Secretary on 17 June 2021.

Post year-end the Directors who were in office up to the date of signing the financial statements were:

Thomas de Albuquerque (appointed 17 June 2021)
Guillermo Martinez Maside (appointed 17 June 2021)
Luis Angel Prendes Arroyo (appointed 17 June 2021)

Directors' liability insurance and indemnity

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 which also remains in force.

Corporate Governance

The Company adopts the same governance framework for the O2 Group and full details of the governance arrangement can be found in the Corporate Governance Statement of the O2 Holdings Limited Consolidated Annual Report published on the trading website www.o2.co.uk.

DIRECTORS' REPORT (CONTINUED)

UK Employee Engagement Statement

The Company does not have any employees in its own right, however the O2 Group employees are employed by Telefonica UK Limited which solely operates in the UK and its employees are based in the UK with the exception of a handful which are seconded to other group companies from time to time. Details of the O2 Group's employee engagement and relationship can be found in O2 Holdings Limited Consolidated Annual Report.

Energy and Carbon Report

The Company did not have any energy and carbon footprint during the financial year ended 31 December 2020. However, the Company heads a group with significant energy and carbon footprints, details of which are set out in a separate report; Streamlined Energy and Carbon Statement, part of the O2 Holdings Limited Consolidated Annual Report.

Stakeholder Statement

The Company does not have any significant stakeholders, however the details of the main stakeholders of the O2 Group including the engagement and relationship with key stakeholders can be found in the O2 Holdings Limited Consolidated Annual Report.

Dividends

During the year ended 31 December 2020 the Directors paid an interim dividend of £570m which was settled in cash. In addition, the shareholders declared a final dividend to the amount of £3,500m to be settled in cash, and at the end of the year, the said amount stands as a non-interest bearing intercompany balance owed to Telefónica, S.A. (2019: £550m). The £3,500m was paid on 1 June 2021 following completion of the Joint Venture transaction, through a dividend distribution from O2 Holdings Limited.

Political donations

The Company made no political donations during the year ended 31 December 2020 (2019: £nil).

Financial Risk Management

Details of the Group's approach to financial risk management objectives and policies are set out in the financial statements in Note 16 "Financial instruments".

Important events since the end of the financial year

The Strategic report set out on page 16 details of the important events affecting the Company which have occurred since the financial year end.

DIRECTORS' REPORT (CONTINUED)

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 13 of the financial statements.

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 16 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.

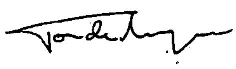
The Directors believe that Covid-19 has not impacted their assessment of the Company's ability to continue as a going concern.

Statement of disclosure of information 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 he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' report was approved by the Board on 14 September 2021.

By Order of the Board



Thomas de Albuquerque
Director

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 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 14 September 2021.

By Order of the Board

Thomas de Albuquerque
Director

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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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

Reporting on other information (continued)

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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, 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

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

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase income. Audit procedures performed by the engagement team included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the those charged with governance about existing and potential litigation and claims, and known or suspected instances of non-compliance with laws and regulations and fraud;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries, including journal entries with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

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

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 obtained 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.

Jaskamal Sarai (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

15 September 2021

Statement of comprehensive income
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Other income		-	-
Operating loss		-	-
Dividend income	6	469	550
Profit before taxation		**469**	550
Taxation	7	-	-
Profit after taxation		**469**	550
Other comprehensive income/ (loss):		-	-
Total comprehensive income for the year		**469**	550

The accompanying notes on pages 30 to 46 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2020

	Note	2020 £m	2019 £m
Non-current assets			
Investments	10	103	9,462
		103	9,462
Current assets			
Other receivables	11	2	6
Cash and cash equivalents	12	17	17
Assets classified as held for sale	9	9,359	-
		9,378	23
Current liabilities			
Trade and other payables	13	(3,620)	(23)
Net current assets		**5,758**	-
Total assets less current liabilities		**5,861**	9,462
Non-current liabilities		**-**	-
Net assets		**5,861**	9,462
Equity			
Share capital	14	9	9
Share premium	14	440	440
Retained earnings		5,412	9,013
Total equity attributable to equity holders		**5,861**	9,462

The accompanying notes on pages 30 to 46 are an integral part of these financial statements.

These financial statements on pages 26 to 46 were approved by the Board of Directors and authorised for issue on 14 September 2021. They were signed on its behalf by:

Thomas de Albuquerque
Director

Statement of changes in equity
For the year ended 31 December 2020

	Share capital (Note 14) £m	Share premium (Note 14) £m	Retained earnings £m	Total equity £m
Balance as at 1 January 2019	**9**	**440**	**9,013**	**9,462**
Profit for the year	-	-	550	550
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**
Profit for the year	-	-	469	469
Total comprehensive income for the year	-	-	469	469
Dividends paid (Note 8)	-	-	(570)	(570)
Dividends unpaid (Note13)	-	-	(3,500)	(3,500)
Balance as at 31 December 2020	**9**	**440**	**5,412**	**5,861**

The accompanying notes on pages 30 to 46 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit before taxation		469	550
Profit before taxation		**469**	550
Adjustment for:			
Financial income	6	(469)	(550)
Operating cash flows before movements in working capital		-	-
Decrease in other receivables	11	4	27
(Decrease) in trade payables	13	(4)	(22)
Cash generated by operations		-	5
Net cash inflow from operating activities		-	5
Dividends received	6	469	550
Net cash inflow from investing activities		**469**	550
Dividends paid	8	**(570)**	(550)
Borrowings		101	-
Net cash outflow from financing activities		**(469)**	(550)
Net increase in cash and cash equivalents		-	5
Cash and cash equivalents at beginning of year		17	12
Cash and cash equivalents at end of year	12	**17**	17

The accompanying notes on pages 30 to 46 are an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2020

1. General information

Telefonica O2 Holdings Limited (the "Company") is a private company limited by shares and domiciled in the United Kingdom. It is incorporated in England and Wales under the number 5310128. The address of the Company's registered office 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 accounting standards in conformity with the requirements of the Companies Act 2006. 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 immediate and ultimate parent company, for the year ended 31 December 2020.

2.3 Going concern

The Directors 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 2020, the company did not operate as part of the Telefonica UK Pension Plan ("Plan") as the Plan was transferred to Telefonica UK Limited in 2018. During the 2018 financial year, 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

Notes to the financial statements (continued)
For the year ended 31 December 2020

2. Significant accounting policies (continued)

2.11 Financial assets (continued)

applied depends on whether there has been a significant increase in credit risk or probability of default for balances repayable on demand.

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 Assets held for sale

Non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the Group determines the sale to be highly probable: management is committed to a decision to sell and all actions required to complete the sale indicate that it is unlikely that significant changes to the sale will be made or that the decision will be withdrawn. In addition, the asset or disposal group is available for immediate sale in its present condition (subject only to terms that are usual and customary for such transactions) and the sale is expected to be completed within one year from the date of the classification.

2. Significant accounting policies (continued)

2.14 New standards and interpretations not yet adopted

Certain new accounting standards and amendments have been published that are not mandatory for the current reporting period and have not been early adopted by the company as the adoption as the adoption of the following standards is not expected to have a material impact.

	Annual periods beginning on or after
Amendment to IFRS 16 leases - Covid 19-related rent concessions	1 June 2020
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19	31 January 2021
Amendments to IFRS 3: Business Combinations	31 January 2022
Amendments to IAS 16: Property, Plant and Equipment	31 January 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	31 January 2022
Annual Improvements 2018-2020	31 January 2022
IFRS 17: Insurance Contracts	31 January 2023
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as current or non-current	31 January 2023
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To Be Determined

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.

2. Significant accounting policies (continued)

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.

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 10.

Joint arrangements- Critical accounting judgement

The Company's subsidiary Telefonica UK Limited, 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

3. Critical accounting estimates and judgements (continued)

Joint arrangements- Critical accounting judgement (continued)

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 Limited. 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.

Assets held for sale- Critical accounting judgement

As a result of the Joint Venture, the Company contributed its entire issued share capital in O2 Holdings Limited to a co-controlled joint venture company in consideration for shares in that company, so the associated assets were consequently presented as held for sale as at 31 December 2020. The judgment to classify the investments as held for sale was that they met the criteria for held for sale as outlined in Note 2.13.

4. Auditors' remuneration

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

	2020	2019
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**22**	21

5. Directors and employees

No directors are remunerated through the Company. Directors' remuneration, including benefits, are met by Telefonica UK Limited, since the Directors' services are provided to that company. Number of employees in the company were Nil (2019: Nil).

Notes to the financial statements (continued)
For the year ended 31 December 2020

6. Investment income and finance cost

	2020 **£m**	2019 £m
Dividends received	469	550
Investment income	**469**	550
Other financial costs	-	-
Net investment income	**469**	550

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:

	2020 **£m**	2019 £m
Profit before tax from continuing operations	469	550
Profit before taxation	**469**	550
Profit on ordinary activities multiplied by the rate of UK corporation tax of 19% (2019: 19%)	89	106
Income not taxable for tax purposes [a]	(89)	(106)
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.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had not substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the change, had it been substantively enacted by the balance sheet date, would have no impact on these financial statements.

8. Dividends paid

	2020 £m	2019 £m
Dividend – 6.41p (2019:6.2p) per share	**570**	550

Dividends of £570m (2019: £550m) were declared in 2020 and paid in cash in the year.

A final dividend of £3,500m was declared in 2020 and was paid on 1 June 2021 following completion of the Joint Venture transaction, through a dividend distribution from O2 Holdings Limited.

9. Assets held for sale

On 7 May 2020, Telefónica, S.A. 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 O2 and Virgin Media businesses. On 1 June 2021, following the receipt of regulatory approval from the Competition and Markets Authority, Telefónica, S.A. and Liberty Global completed on the agreement to combine the O2 and Virgin Media businesses to create a 50:50 joint venture in the UK. Telefonica O2 Holdings Limited, contributed its entire issued share capital in O2 Holdings Limited and its group (O2 Group) as consideration for shares in VMED O2 UK Limited the newly created and jointly controlled group. At the same time Liberty Global Group contributed the same for the Virgin Media Group. As a result, the associated assets in O2 Holdings Limited have been presented as held for sale as at 31 December 2020.

Assets and liabilities of disposal group classified as held for sale

	2020 £m	2019 £m
Assets classified as held for sale	**9,359**	-
	9,359	-

10. Investments in subsidiary undertakings

	2020 £m	2019 £m
O2 Holdings Limited	-	9,336
MMO2 Limited	103	103
Investment in Telefonica UK Limited	-	23
	103	9,462

During 2020 the Investments relating to O2 Holdings Limited and Telefonica UK Limited were reclassified to assets held for sale, please refer to Note 9.

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 2020 comprised of the investment in mmo2 Limited of £103m (2019: £103m). In 2019 the company had investments in O2 Holdings Limited of £9,339m and direct investment of £23m which relates to the capital contribution transfer made to Telefonica UK Limited in 2018. These investments were reclassified to held for sale during 2020.

In the year ended 31 December 2020 there was no impairment loss recognised by the Company.
The recoverable amount of the investments in mmo2 Limited has been assessed based on the net assets of mmo2 at 31 December 2020, 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 7.3 (2019: 7.7%) to the cash flows determined using a perpetuity growth rate of 0.8% (2019: 0.8%). There was no impairment in the year ended 31 December 2020.

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.

10. 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.	£1,698m	+0.50p.p.	-£1,403m
Perpetuity growth rates	-0.50p.p.	-£1,176m	+0.50p.p.	£1,422m
Terminal OIBDA Margin	-0.50p.p.	-£355m	+0.50p.p.	£355m
Terminal ratio of CAPEX / Revenues	-0.50p.p.	£438m	+0.50p.p.	-£438m

2019

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

10. Investments in subsidiary undertakings (continued)

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 15.

11. Other receivables

	2020	2019
	£m	£m
Amounts owed by group and related undertakings	**2**	6

Amounts owed by subsidiaries represent receivables due from Telefonica UK Limited and O2 Holdings Limited.

All intercompany balances are interest free and repayable on demand.

12. Cash and cash equivalents

	2020	2019
	£m	£m
Cash at bank	**17**	17

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

13. Trade and other payables

	2020	2019
	£m	£m
Dividends payable	**3,500**	-
Short term loan payable to group and related undertaking	**101**	-
Amounts owed to group and related undertakings	**19**	23
	3,620	23

Amounts owed to Company undertakings represent dividend payable to Telefónica, S.A and mmo2 Limited. All amounts are repayable on demand.

14. Share capital and reserves

	2020		2019	
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.

	2020		2019	
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

Notes to the financial statements (continued)
For the year ended 31 December 2020

15. Subsidiary undertakings and joint arrangements

A complete list of the Company's subsidiary undertakings at 31 December 2020 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

15. 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

15. 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.

16. Financial instruments and capital management

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.

16. 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.

17. Capital Management

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

18. Parent company and controlling party

The Company's immediate & 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.

19. 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.

20. Post Balance Sheet Event

In January 2021, we announced a new Master Services Agreements for Cornerstone Telecommunications Infrastructure Limited (CTIL), the jointly owned and managed venture between O2 and Vodafone. The new arrangement will provide operational simplicity and efficiency, in addition it will enable CTIL to generate revenue by offering space on infrastructure to third parties.

In March 2021 we announced an investment of £448m in Ofcom's spectrum auction to secure the right spectrum for our business needs. We obtained 8 x 3.6 GHz lots and 2 x 700 MHz paired frequency lots. This additional spectrum will allow for further coverage and capacity improvements in our network, demonstrating our continued commitment to the UK Market and the very best connectivity for our customers.

On 23 April 2021, following the completion of the 3.6 – 3.8 GHz 5G Spectrum auction, the Group signed an agreement with Vodafone Plc to swap certain bands within their respective 5G Spectrum holdings to create more efficient blocks of 5G Spectrum. The swap will create a contiguous block of 80 MHz for the Group, enabling improved coverage for customers, contiguous blocks support faster speeds, lower latency and greener 5G services.

20. Post Balance Sheet Event (continued)

On 26 May 2021 Telefonica O2 Holdings Limited subscribed to 1,411,616 ordinary shares in O2 Holdings Limited for a consideration of £1,412 million.

On 28 May 2021 O2 Holdings Limited declared and paid a dividend of £354 million to Telefonica O2 Holdings Limited.

On 1 June 2021, following the receipt of regulatory approval from the Competition and Markets Authority, Telefónica, S.A. and Liberty Global completed on the agreement to combine the O2 and Virgin Media businesses to create a 50:50 joint venture in the UK. Telefonica O2 Holdings Limited, contributed its entire issued share capital in O2 Holdings Limited and its group (O2 Group) as consideration for shares in VMED O2 UK Limited the newly created and jointly controlled group. At the same time Liberty Global Group contributed the same for the Virgin Media Group.