Registered Number: 7584114

Telefónica Financial Services UK Limited

Annual Report and Financial Statements
Year ended 30 June 2015

Contents

Directors and advisers

Directors

Ronan Dunne
Mark Evans
Robert Harwood

Secretary

O2 Secretaries Limited

Registered Office

260 Bath Road
Slough
Berkshire
SL1 4DX

Auditor

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

Directors' report

The Directors present their annual report and audited financial statements for the year ended 30 June 2015.

Corporate structure

Telefónica Financial Services UK Limited (the "Company") is a private limited company registered in England and Wales under the registered number 7584114. The registered address is 260 Bath Road, Slough, Berkshire SL1 4DX. The Company is a part of the Telefónica Group (the "Group"). As at 30 June 2015 the Company was a wholly owned subsidiary of Telefonica UK Limited, and the current parent is O2 (Europe) Ltd, which is itself a wholly owned subsidiary of Telefónica, S.A., a company incorporated in Spain.

The Company did not trade in the year ended 30 June 2015.

Directors and Secretary

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

Ronan Dunne	
Mark Evans	(appointed on 23 July 2014)
Feilim Mackle	(resigned on 23 July 2014)
David Plumb	(resigned on 23 July 2014)
Gavin Franks	(resigned on 23 July 2014)
Paul Asare- Archer	(resigned on 23 July 2014)

The Secretaries who held office during the year were Robert Harwood until 23 July 2014 and then O2 Secretaries Limited from that date.

On 7 December 2015 Robert Harwood was appointed director of the Company.

Directors' liability insurance and indemnities

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

Strategic development

On 24 March 2015 Telefonica SA announced that it had entered into a definitive agreement with Hutchison Whampoa (now known as CK Hutchison Holdings Limited), the parent company of Three in the UK for the sale of Telefonica's UK business for an initial cash consideration of £9.25 billion upon completion of the transaction and an additional deferred payment of £1billion to be paid once the cumulative cash flow of the combined entity in the UK has reached an agreed threshold. The agreement is subject to regulatory clearance and is currently in Phase II of the regulatory review process by the European Commission.

Group reorganisation

The Group undertook a reorganisation of its structure as part of permissible planning in preparation for the Group's proposed sale of the UK business as a whole, which remains subject to regulatory clearance.

As part of the reorganisation, the Company was identified as being surplus to requirement following which steps have been undertaken to wind down the Company. Accordingly, subsequent to 30 June 2015, the Company reduced its share capital and the amount so reduced was credited to a distributable reserve out of which dividends were paid. On 9 December 2015, O2 (Europe) Limited acquired the Company from Telefonica UK Limited. It is anticipated that an application to strike off the Company will be made in the near future.

Directors' report (continued)

Capital Reduction

In accordance with section 642 of the Companies Act 2006, on 16 November 2015 the Company passed a special resolution supported by a solvency statement of the Directors, to reduce the Company's share capital by way of a reduction of the Company's issued share capital from £500,000 divided into 500,000 ordinary shares of £1.00 each to £1 of 1 Ordinary share, by cancelling 499,999 ordinary shares of £1 each and the amount reduced was credited to a distributable reserve. The Capital Reduction was effective on 20 November 2015.

Dividend

No dividends were paid during the financial year ended 30 June 2015 (2014: £nil). On 30 November 2015 the Directors paid an interim dividend of £353,015.

Financial position of the Company as at 30 June 2015

The net assets of the Company as at 30 June 2015 were £354,015 (2014: £354,015).

Political contributions

The Company made no political contributions during the year (2014: £nil).

Going Concern

The decision to withdraw from the mobile payments market in 2014 resulted in the going concern basis no longer being appropriate for the Company. Instead these financial statements have been prepared on a basis which reflects the net realisable value of the assets and liabilities in the statement of financial position at 30 June 2015. As part of the Group's pre-completion reorganisation process (PCR), the company's balance sheet has been simplified and it is anticipated that an application to strike off the Company will be made in the near future.

Statement as to disclosure to auditor

So far as each Director is aware, there is no relevant audit information of which the Company's auditor was unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Small companies' exemption

In preparing the Directors' Report for the year ended 30 June 2015, the Company has taken advantage of the small companies' exemption under section 415 (A) of the Companies Act 2006 for reduced disclosures. The Directors have also taken advantage of the exemption under section 414 (B) not to prepare a Strategic Report.

By order of the Board

Vivienne Aziba
for and on behalf of O2 Secretaries Limited
Company Secretary
29 March 2016

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and regulations.

Company law required the directors to prepare Company financial statements for each financial period. Under that law the Directors are required to prepare Company financial statements under IFRSs as adopted by the European Union. Under Company Law, the directors must not approve the Company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the Company financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- make judgements and estimates that are reasonable.

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 Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Telefónica Financial Services UK Limited

We have audited the financial statements of Telefónica Financial Services UK Limited for the year ended 30 June 2015 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows, and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements have been prepared on a break-up basis.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Telefónica Financial Services UK Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the Directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a Strategic report and take advantage of the small companies' exemption in preparing the Directors' report.

Ernst & Young LLP

Neil Cullum (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
31 March 2016

Statement of comprehensive income
For the year ended 30 June 2015

	Note	**12 months ended 30 June 2015 £**	12 months ended 30 June 2014 £
Revenue		-	-
Cost of sales		-	-
Gross loss		-	-
Other operating income		-	-
Administrative expenses		-	-
Operating loss	2	-	-
Financial income		-	-
Loss before taxation		-	-
Taxation	3	-	-
Loss for the period attributable to equity shareholders		-	-
Total comprehensive loss for the period		-	-

The accompanying notes on pages 11 to 15 are an integral part of these financial statements.

There were no other recognised income or expenses other than those shown above.

Statement of financial position
As at 30 June 2015

	Note	2015 £	2014 £
Current assets			
Trade and other receivables	4	**354,015**	354,015
Net assets		**354,015**	354,015
Equity shareholders' funds			
Share capital	5	**500,000**	500,000
Retained earnings		**(145,985)**	(145,985)
Total equity		**354,015**	354,015

The accompanying notes on pages 11 to 15 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 March 2016 and were signed on its behalf by:

Mark Evans
Director

Statement of changes in equity
For the year ended 30 June 2015

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 30 June 2013	500,000	(145,985)	354,015
Total comprehensive loss for the period	-	-	-
At 30 June 2014	500,000	(145,985)	354,015
Total comprehensive loss for the period	-	-	-
At 30 June 2015	**500,000**	**(145,985)**	**354,015**

The accompanying notes on pages 11 to 15 are an integral part of these financial statements.

Statement of cash flows
For the year ended 30 June 2015

	Note	**12 months ended 30 June 2015 £**	12 months ended 30 June 2014 £
Loss before taxation		**-**	-
Interests received			
Decrease/(Increase) in trade and other receivables		**-**	596
(Decrease)/Increase in trade and other payables		**-**	(181,203)
Net cash outflow from operating activities		**-**	(180,607)
Net decrease in cash and cash equivalents		**-**	(180,607)
Cash and cash equivalents at start of period		**-**	180,607
Cash and cash equivalents at end of period	6	**-**	-

The accompanying notes on pages 11 to 15 are an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as adopted for use in the EU. In addition the financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared using historical cost principles.

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.

The decision to withdraw from the mobile payments market in 2014 resulted in the going concern basis no longer being appropriate for the Company. These financial statements have been prepared on a break-up basis which reflects the net realisable value of the assets and liabilities in the statement of financial position at 30 June 2015. The previous set of accounts were also prepared on this basis. It is the intention of the directors to wind up the company. As part of the pre-completion reorganisation process (PCR), the company's balance sheet has been simplified and it is anticipated that an application to strike off the Company will be made in the near future.

Presentation of financial information

Operating items in the statement of comprehensive income are derived from the primary operations of the Company; providing the O2 Wallet and other financial services related products. Items in the statement of comprehensive income recognised below operating profit represent activities that are not directly attributable to the Company's primary operations.

Revenue

Revenue, which excludes value added tax and other sales taxes, comprises commissions earned on cash loads via non-debit cards, Automated Teller Machine (ATM) withdrawals and shopping transactions. Non-debit cards and ATM revenues are calculated based on one pound per transaction and are recognised in the same month the transactions occur. Shopping revenue is based on a commission rate of 2.5% applied on transaction values, and are also recognised in the same month the transactions occur.

Revenue is recognised on a gross basis where the Company's role is that of principal in a transaction. The gross basis represents the gross value of the charge to the customer after ex-gratia and trade discounts, with any related costs being charged to operating expenses. Where the Company acts as an agent in a transaction, the net revenue earned is recognised as revenue.

Taxation

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

Deferred income tax and current tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the financial statements

1. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents include cash in hand and deposits held at call with banks.

Trade and other receivables

Trade and other receivables are carried at gross amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Provisions are made based on an analysis of balances by age, previous losses experienced, disputes and ability to pay. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows. Changes in the provision against receivables are recognised in the statement of comprehensive income within cost of goods sold.

Financial risk factors and management

The Company's operations expose it to a variety of financial risks including credit risk and liquidity risk. The principal financial risks of the Company and how the Company managed these risks are discussed below.

Credit risk

The Company's principal credit risks are attributable to its cash and cash equivalents.

The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents in the statement of financial position. The Company does not require collateral in respect of financial assets.

Liquidity risk

Management of the Company's liquidity risk is achieved mostly through being a part of the larger Telefónica Group, which operates group wide policies in this area.

Fair value estimation

The fair value of the trade and other receivables and cash at bank approximates to the book carrying value due to the short-term or on demand maturity of these instruments.

Capital management

The Company's capital comprises share capital.

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.

Notes to the financial statements

1. Accounting policies (continued)

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

The Company does not expect that the first-time adoption of the IFRS and IFRIC interpretations that have been published at the date of preparation of the financial statements will have a significant impact on its financial statements.

2. Operating loss

Auditor's remuneration for the year ended 30 June 2015 and the period ended 30 June 2014 was borne by a fellow group company.

3. Taxation

The tax assessed for the year and prior year did not vary from the amount computed by applying the effective UK statutory rate of tax of 20.75% to profit on ordinary activities before taxation.

	2015 £	2014 £
Profit before taxation	**-**	-

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

4. Trade and other receivables

	2015 £	2014 £
Amounts owed by group company	**354,015**	354,015
Trade and other receivables	**354,015**	354,015

Amounts owed by group company relate to trading activities, are unsecured, interest free and repayable on demand.

5. Share capital

	Number of shares	**2015** £	Number of shares	2014 £
Called up, allotted and fully paid				
Ordinary shares of £1 each	**500,000**	**500,000**	500,000	500,000

Notes to the financial statements

6. Financial instruments

Financial risk factors and management

The Company has financial assets in the form of trade receivables. The purpose of the Company's policy on risk management is to manage the interest rate risks that arise from the Company's operations and sources of finance.

The main sources or risk arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. Management of the Company's financial risks is achieved mostly through being a part of the larger Telefónica Group, which operates group wide policies in each area and is able to hedge positions on a group basis.

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.

The Company's principal credit risks are attributable to trade receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company does not require collateral in respect of financial assets

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.

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.

Fair value of financial instruments

The carrying and fair value of the Company's financial assets and financial liabilities at 30 June 2014 and 2015 were Nil.

Fair value estimation

The fair value of the trade and other receivables and cash and cash equivalents approximates to the book carrying value due to the short-term or on demand maturity of these instruments.

7. Key management and Directors' compensation

No emoluments or other benefits were paid to the Directors for services to the Company during the year ended 30 June 2015 (2014: nil). The Directors are employees of other companies in the Telefónica Group, and are remunerated for their services to the Telefónica Group as a whole.

There are no employees of the Company.

Notes to the financial statements

8. Related party disclosures

Related party transactions with Directors and key management are detailed in note 10.

Other related party transactions are detailed in notes 5 and 7.

9. Parent company and controlling party

The Company's immediate parent company at 30 June 2015 was Telefonica UK Limited and the current immediate parent is O2 (Europe) Limited . The ultimate parent company and controlling party is Telefónica S.A., a company incorporated in Spain. Copies of the consolidated financial statements of Telefónica S.A. may be obtained from Gran Via 28, 28013, Madrid, Spain.

10. Subsequent events

On 7 December 2015 Robert Harwood was appointed a director of the Company.

Group reorganisation

The Group undertook a reorganisation of its structure as part of permissible planning in preparation for the Group's proposed sale of the UK business as a whole, which remains subject to regulatory clearance.

As part of the reorganisation, the Company was identified as being surplus to requirement following which steps have been undertaken to wind down the Company. Accordingly, the Company reduced its share capital and the amount so reduced was credited to a distributable reserve out of which dividends were paid of £353,015 on 30 November 2015. On 9 December 2015, O2 (Europe) Limited acquired the Company from Telefonica UK Limited. It is anticipated that an application to strike off the Company will be made in the near future.

Capital reduction

In accordance with section 642 of the Companies Act 2006, on 16 November 2015 the Company passed a special resolution supported by a solvency statement of the Directors, to reduce the Company's share capital by way of a reduction of the Company's issued share capital from £500,000 divided into 500,000 ordinary shares of £1.00 each to £1 of 1 Ordinary share, by cancelling 499,999 ordinary shares of £1 each and the amount reduced was credited to a distributable reserve. The Capital Reduction was effective on 20 November 2015.