

Registered Number: 1906156

O2 (Online) Limited

Annual Report and Financial Statements
Year ended 31 December 2008

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O2 (Online) Limited
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O2 (Online) Limited
Directors and advisers

Directors

Ronan Dunne
Robert Harwood
David Melcon Sanchez-Friera

Secretary

O2 Secretaries Limited

Registered office

Wellington Street
Slough
Berkshire
SL1 1YP

Registered auditors

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

O2 (Online) Limited Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Corporate structure

O2 (Online) Limited is a private limited company registered in England and Wales under the number 1906156. The registered office is Wellington Street, Slough, Berkshire SL1 1YP. It is a wholly owned subsidiary of Telefónica Europe plc, its UK ultimate parent, a company incorporated in England and Wales. The ultimate holding company is Telefónica S.A., a company incorporated in Spain.

The Company has branches in Australia, Singapore, Malaysia and Korea.

Principal activity

O2 (Online) Limited (the "Company") ceased trading in October 2007.

Business review and future developments

The Directors do not anticipate the Company trading in the foreseeable future.

The Company's revenue for the year ended 31 December 2008 was £67,000 (year ended 31 December 2007: £17,055,000). The operating profit for the year ended 31 December 2008 was £727,000 (year ended 31 December 2007: £4,536,000).

Risk and uncertainties

The risks and uncertainties of the Company are in part consistent with the risks and uncertainties of the Telefonica Europe plc group ('the Group'). Accordingly, the principal risk and uncertainties of Telefónica Europe plc which include those of the Company are discussed on pages 4 to 6 of the annual report of Telefónica Europe plc which does not form part of this report.

Results and proposed dividend

The Company's profit before taxation for the year ended 31 December 2008 was £1,203,000 (year ended 31 December 2007: profit of £5,521,000)

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008 (year ended 31 December 2007: nil).

Directors and Secretary

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

Ronan Dunne
Robert Harwood
David Melcon Sanchez-Friera

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

O2 (Online) Limited Directors' report

Directors' liability insurance and indemnity

Telefónica Europe plc, the Company's ultimate UK parent company, has granted an indemnity in the form permitted by the Qualifying Third Party Indemnity Provisions of the Companies Act 1985 to directors of its subsidiary companies and the Directors of the Company are accordingly covered by this indemnity. This indemnity remains in place and continues until such time as any relevant limitation periods for bringing Claims (as defined in the indemnity) against the director has expired, or for so long as the past director, where relevant, remains liable for any Losses (as defined in the indemnity).

Political and charitable contributions

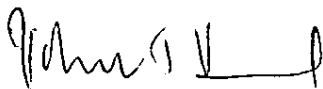
The Company made no political or charitable contributions during the year ended 31 December 2008 (year ended 31 December 2007: nil).

Auditors

Pursuant to a shareholders' resolution under section 386 of the Companies Act 1985, the Company is not obliged to reappoint its auditors annually.

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

By Order of the Board:



For and on behalf of O2 Secretaries Limited
Company Secretary
30 October 2009

O2 (Online) Limited Directors' report

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS, as adopted by the European Union, subject to any material departures being disclosed and explained in the notes to the financial statements;
- provide additional disclosure when compliance with the specific requirements in IFRS 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As disclosed in Note 1 to the financial statements, the Directors have concluded that the going concern basis is inappropriate.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

O2 (Online) Limited

Independent auditors' report to the members of O2 (Online) Limited

We have audited the financial statements of O2 (Online) Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cashflow Statement, the Statement of Changes in Equity and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared on the basis described in note 1.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

O2 (Online) Limited

Independent auditors' report to the members of O2 Online Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements



Ernst & Young LLP
Registered auditor
London
30 October 2009

O2 (Online) Limited

Income statement Year ended 31 December 2008

	Note	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenue		67	17,055
Cost of sales		53	(21,446)
Gross profit/(loss)		120	(4,391)
Administrative expenses		941	(6,742)
(Reversal)/utilisation of provision for future operating losses	2	(997)	11,023
Operating profit/(loss) before exceptional items		64	(110)
Exceptional items	2	663	4,646
Operating profit	2	727	4,536
Net financial income	3	476	985
Profit before taxation		1,203	5,521
Taxation	4	(2,941)	5,473
Retained (loss)/ profit for the year attributable to equity shareholders		(1,738)	10,994

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

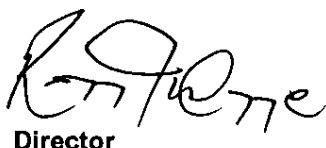
O2 (Online) Limited

Balance sheet As at 31 December 2008

	Note	31 December 2008 £'000	31 December 2007 £'000
Current assets			
Trade and other receivables	5	962	5,236
Cash and cash equivalents	6	24,114	21,869
		25,076	27,105
Current liabilities			
Borrowings	7	(23,738)	(23,200)
Trade and other payables	8	(129,262)	(128,432)
Current tax liabilities		-	(1,771)
Provisions	9	(690)	(1,041)
		(153,690)	(154,444)
Net current liabilities		(128,614)	(127,339)
Net liabilities		(128,614)	(127,339)
Equity			
Share premium	10	17,786	17,786
Other reserves		5,385	5,385
Retained earnings		(151,785)	(150,510)
Total equity		(128,614)	(127,339)

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

These financial statements were approved by the Board of Directors on 30 October 2009 and were signed on its behalf by:



Director

O2 (Online) Limited

Statement of changes in equity Year ended 31 December 2008

	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2007	17,786	5,385	(161,472)	(138,301)
Total retained profit relating to the period	-	-	10,994	10,994
Currency translation differences	-	-	(32)	(32)
At 31 December 2007	17,786	5,385	(150,510)	(127,339)
Total retained loss relating to the period	-	-	(1,738)	(1,738)
Currency translation differences	-	-	463	463
At 31 December 2008	17,786	5,385	(151,785)	(128,614)

Other reserves arose on the demerger of the Company, along with the remainder of the mmO2 plc Group, from British Telecommunications plc in November 2001.

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

O2 (Online) Limited

Cashflow statement Year ended 31 December 2008

		Year ended 31 December 2008	Year ended 31 December 2007
	Note	£'000	£'000
Operating profit		727	4,536
Decrease in inventory		-	1,632
Decrease in trade and other receivables		5,315	367
Decrease in trade and other payables		(2,691)	(3,445)
Decrease in provisions		(351)	(15,869)
Income taxes (paid)/refunded		(2,394)	1,163
Net cash flow from operating activities		608	(11,616)
Net increase/(decrease) in cash and cash equivalents		608	(11,616)
Cash and cash equivalents at start of period		21,869	32,049
Non cash movements in cash and cash equivalents		838	1,514
Exchange gains on cash and cash equivalents		801	(78)
Cash and cash equivalents at end of period	6	24,114	21,869

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

O2 (Online) Limited

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 1985 applicable to companies reporting under IFRS.

In accordance with s.228 of the Companies Act 1985, consolidated financial statements have not been prepared as the Company and its subsidiaries are included in the group financial statements of Telefónica Europe plc.

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 except where detailed below.

Following a review of the Company's operations during the course of 2007, the Telefónica Europe Group (the Company's intermediate parent group) ("the Group") decided to withdraw from the Asia Pacific market, as the O2 Asia mobile device business was not core to the Group's operations. Consequentially, on 30 October 2007, the Group announced that certain of the Company's assets had been sold to Expansys plc and that O2 Asia would start to wind down its operations.

The winding down of operations of the overseas branches of the Company during the period has resulted in the going concern basis no longer being appropriate. Instead these financial statements have been prepared on a basis which reflects the net realisable value of the assets and liabilities in the balance sheet at 31 December 2008 and takes account of the losses incurred subsequent to the year end.

Presentation of financial information

Operating items in the income statement are derived from the primary operations of the Company selling mobile telecommunications devices. Items in the income statement recognised below operating profit represent activities that are not directly attributable to the Company's primary operations.

Revenue

Revenue principally consists of revenue derived from the sale of mobile telecommunications devices. The revenue and related expenses associated with the sale of such devices and accessories are recognised when the products are delivered and accepted by the customer.

O2 (Online) Limited

Notes to the financial statements

1. Accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies are translated to the functional currency of the entity at the exchange rate on the day the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date.

Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency are translated at the foreign currency exchange rate ruling at the dates the values were determined.

Net assets of foreign operations are translated into sterling at the rates ruling at the balance sheet date. The profit or loss and cash flows for the year of foreign operations are translated at the average rates of exchange for the year. Exchange adjustments arising on the translation into sterling of the opening net assets and profits or losses for the year retained by foreign operations are recognised in reserves and reported in the statement of changes in equity.

Taxation

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

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax arising from the initial recognition of an asset or liability, which affects neither accounting nor taxable profit, is not recognised. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable taxable profits will be available against which deductible temporary differences can be utilised. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other receivables

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

O2 (Online) Limited

Notes to the financial statements

1. Accounting policies (continued)

Borrowing costs

Borrowings are recognised initially at the proceeds received, less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the cost and the redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Where borrowings are part of a fair value hedge relationship, an adjustment is made to the borrowing carrying value to reflect the hedged risk. Accrued interest on borrowings is included within the carrying value.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Restructuring provisions comprise employee termination payments, and these are recognised in the period in which the Company becomes legally or constructively committed to payment.

Provisions for future operating losses are made as the best estimate of future losses to be incurred.

Financial risk factors and management

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. The Company aims to maintain appropriate liquidity through the daily monitoring of its actual and projected cash position.

Foreign currency risk

The Company incurs foreign currency risk on sales and purchases that are denominated in currencies other than sterling. The currencies giving rise to this risk are primarily based in south-east Asia.

Interest rate risk

The Company is not exposed to material interest rate risk.

O2 (Online) Limited

Notes to the financial statements

1. Accounting policies (continued)

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

IFRIC 11, Group and Treasury Share Transactions has been adopted on 1 January 2008. Its adoption has not had a significant impact on the Company's financial position in the initial period of application

IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been adopted with effective date 1 January 2008. Its adoption has not had a significant impact on the Company's financial position in the initial period of application.

Amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets have been applied with effective date 1 July 2008. Its adoption has not had any impact for the year ended 31 December 2008.

At the date of preparation of the consolidated financial statements, IFRIC 12, Service Concession Arrangements with effective date for annual periods beginning on 1 January 2008, had not been endorsed by the European Union. The adoption of this interpretation would not have had any impact on the consolidated financial statements ended on 31 December 2008.

Additionally, at the date of preparation of the consolidated financial statements the following IFRS and IFRIC interpretations have been published, but their application is not mandatory:

Standards and amendments		Mandatory application: annual periods beginning on or after
Amendment to IAS 23	<i>Borrowing Costs</i>	1 January 2009 (*)
Amendment to IAS 1	<i>Revised presentation of Financial Statements</i>	1 January 2009
Amendments to IAS 32 and IAS 1	<i>Puttable instruments and Obligations Arising on Liquidation</i>	1 January 2009
Revised IFRS 3	<i>Business Combinations</i>	1 July 2009
Amendment to IAS 27	<i>Consolidated and Separate Financial Statements</i>	1 July 2009
Amendment to IFRS 2	<i>Share-based Payment - Vesting Conditions and Cancellations.</i>	1 January 2009
Amendments to IFRS 1 and IAS 27	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	1 January 2009
Amendment to IAS 39	<i>Eligible hedge items</i>	1 July 2009
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>	1 January 2009
IFRS	<i>Improvements to IFRSs</i>	1 January 2009 (**)

(*) Borrowing costs related to qualifying assets as of 1 January 2009.

(**) Improvements related to IFRS 5 are effective or annual periods beginning on or after 1 July 2009

O2 (Online) Limited

Notes to the financial statements

1. Accounting policies (continued)

Interpretations		Mandatory application: annual periods beginning on or after
IFRIC 13	<i>Customer Loyalty Programs</i>	1 July 2008
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>	1 January 2009
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>	1 October 2008
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>	1 July 2009
IFRIC 18	<i>Transfers of Assets from Customers</i>	1 July 2009 (*)

(*) It applies to transfers received on or after 1 July 2009.

The Company does not expect that the first-time adoption of these interpretations will have a significant impact on its financial statements.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. A significant change in the facts and circumstances on which these estimates are based could have a material negative impact on the Company's earnings and financial position. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements are discussed below.

Deferred tax assets and liabilities

The Company evaluates the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the course of the period for which the deferred tax assets remain deductible. This analysis is based on the estimated reversal of deferred taxes as well as estimates of taxable earnings, which are sourced from internal projections and are updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and materialisation of deferred tax assets and the forecast tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

O2 (Online) Limited
Notes to the financial statements

2. Operating (loss)/profit

The following items have been included in arriving at operating (loss)/profit.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Staff costs (note 14)	12	2,404
Inventories		
Cost of inventories recognised as an expense (included in cost of sales)	-	24,957
Operating leases	-	64
Reversal/(utilisation) of the provision for future operating profits/losses in the period	997	(11,023)
Exceptional items:		
Release of the provision for future operating losses in the period	663	4,646

Auditors' remuneration for the year ended 31 December 2008 was borne by a fellow group company.

During the year ended 31 December 2008, the Company reversed £997,000 of the provision for future operating losses against the operating profit for the year. (During the year ended 31 December 2007: utilised £11,023,000 of the provision for future operating losses against the operating loss for the year). Additionally, the Company revised its best estimate of future operating losses and decreased the provision by £663,000 (31 December 2007: £4,646,000).

3. Financial income

	2008 £'000	2007 £'000
Financial income		
On cash and cash equivalents	1,099	147
Other financial income	156	1,366
Total financial income	1,255	1,513
Financial expense		
Interest payable to other group companies	(538)	(482)
Other financial expense	(241)	(46)
Total financial expense	(779)	(528)
Net financial income	476	985

O2 (Online) Limited

Notes to the financial statements

4. Taxation

Analysis of (charge)/credit in period

	2008 £'000	2007 £'000
Current tax		
UK tax – current year	(204)	5,722
UK tax – prior year	(2,697)	-
Non-UK tax – current year	(40)	(6)
Non-UK tax – prior year	-	(243)
Total current tax	(2,941)	5,473
Deferred tax		
UK tax - current year	-	(5,043)
UK tax – prior year	-	5,043
Total deferred tax	-	-
Total tax (charge)/credit	(2,941)	5,473

The tax (charge)/credit for the period is higher than the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The difference is explained below:

	2008 £'000	2007 £'000
Profit before taxation	1,203	5,521
Profit before taxation multiplied by rate of corporation tax in the UK of 28.5% (2007: 30%)	343	1,656
Effects of:		
Transfer pricing adjustments	-	(2,679)
Non-UK tax	-	6
Adjustments in respect of prior periods	2,697	-
Prior period adjustments to non-UK tax	40	243
Prior year deferred tax adjustments	-	(5,043)
Other	(3)	-
Unrecognised deferred tax assets	(136)	344
Total taxation	2,941	(5,473)

The Finance Act 2007 enacted a change of Corporation Tax rate from 30% to 28% with effect from 1 April 2008.

Deferred tax

A deferred tax asset of £193,000 (31 December 2007: £344,000) has not been recognised in respect of deductible temporary differences relating to fixed assets and provisions arising in the period due to uncertainty in respect of the capacity of the company to earn future trading profits against which the deferred tax asset can be utilised.

O2 (Online) Limited
Notes to the financial statements

5. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	-	2,449
Other receivables	261	75
Amounts owed by other group companies	701	2,712
	962	5,236

Amounts due from other group companies are unsecured, interest free and repayable on demand.

In accordance with IFRS 7 "Financial Instruments: Disclosures", the following disclosures are presented regarding the trade receivable balances:

	Carrying Amount £'000	Neither impaired or overdue on the reporting date £'000	Not impaired but overdue on the reporting date	Less than 90 days £'000	Between 90 to 120 days £'000	Between 120 to 150 days £'000	Over 150 days £'000
Trade receivables as at 31 December 2008	-	-		-	-	-	-
Trade receivables as at 31 December 2007	2,449	2,449		-	-	-	-

For the receivables which are not impaired and which are overdue at the reporting date, there has been no indication that their payment obligations will not be met.

The movement in the trade receivables provision for doubtful debts during the year is as follows:

	£'000
Bad debt provision at a 1 January 2007	-
Reclassifications	100
Additions	35
Bad debt provision at 31 December 2007	135
Reductions	(135)
Bad debt provision at 31 December 2008	-

6. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	2,629	1,902
Short term deposits	21,485	19,967
Cash and cash equivalents	24,114	21,869

Short term deposits are funds deposited with Telefónica Finanzas S.A. The deposit attracts market rates of interest.

O2 (Online) Limited
Notes to the financial statements

7. Borrowings

	2008 £'000	2007 £'000
Current unsecured borrowings		
Amounts owed to fellow subsidiary undertakings	23,738	23,200

Amounts owed to fellow subsidiary undertakings are denominated in Sterling. One amount is interest bearing with an effective interest rate of 7.8% (31 December 2007: 7.6%) Interest changes annually on 1 April and is based on 12 month LIBOR. All other amounts do not bear interest.

8. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	-	515
Amounts owed to other group companies	128,920	125,297
Accrued expenses	342	2,620
	129,262	128,432

9. Provisions

	2008 £'000	2007 £'000
Current	690	1,041
		Future operating losses £'000
At 1 January 2008		1,041
Released in the year		(663)
Reversed against operating profit for the year		997
Other utilisation in the year		(685)
At 31 December 2008		690

During the year ended 31 December 2008, the Company reversed £997,000 of the provision for future operating losses against the operating profit for the year (year ended 31 December 2007: utilised £11,023,000 of the provision for future operating losses against the operating loss for the year). Additionally, the Company revised its best estimate of future operating losses and decreased the provision by £663,000 (31 December 2007: £4,646,000).

O2 (Online) Limited
Notes to the financial statements

10. Share capital

	2008		2007	
	Number of shares	£	Number of shares	£
Authorised				
Ordinary shares of £1 each	200	200	200	200
Called up, allocated and fully paid				
Ordinary shares of £1 each	104	104	104	104

The Company has one class of authorised and issued share capital, comprising ordinary shares of £1 each. Subject to the Company's Articles of Association and applicable law, the Company's ordinary shares confer on the holder: the right to receive notice of and vote at general meetings of the Company; the right to receive surplus assets on a winding-up of the Company; and an entitlement to receive any dividend declared on ordinary shares.

11. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2008 the Company was committed to making the following payments in respect of operating leases:

	2008 £'000	2007 £'000
Lease payments		
Within one year	-	25
	-	25

12. Related party disclosures

During the period the Company entered into transactions with related parties as follows:

	2008 £'000	2007 £'000
Sales		
Other group companies	-	5,100
Purchases		
Other group companies	-	685

Other related party transactions are also detailed in notes 3, 5, 6, 7 and 8.

Related party transactions with Directors and key management are detailed in note 13.

13. Key management and director compensation

No emoluments were paid to Directors for their services during the year ended 31 December 2008 (year ended 31 December 2007: nil). The Directors are employees of O2 Holdings Limited or Telefónica O2 UK Limited (formerly O2 (UK) Limited) and are remunerated for their services to the Group as a whole.

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14. Employees

	2008	2007
	No.	No.
Average number of full time employee equivalents (including executive Directors):	-	48

The benefits expense incurred in respect of these employees were:

	2008	2007
	£'000	£'000
Wages and salaries	12	2,281
Social security costs	-	123
Total employee benefits expense	12	2,404

15. Parent company and controlling party

The Company's immediate parent company is O2 Networks Limited. At the end of the period the ultimate parent company and controlling party was Telefónica, S.A., a company incorporated in Spain. Copies of the financial statements of Telefónica, S.A. may be obtained from Gran Vía 28, 28013, Madrid, Spain.