Registered Number 2713001

O2 Transactions Limited

Annual Report and Financial Statements
Year ended 31 December 2014

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O2 Transactions Limited

Registered No 2713001

Directors and advisers

Directors

Ronan Dunne
Mark Evans

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

Legal form

O2 Transactions Limited is a private limited company registered in England and Wales under the registered number 2713001 The registered address is 260 Bath Road, Slough, Berkshire, SL1 4DX It is a wholly owned subsidiary of Telefónica Europe plc, its indirect UK parent, a company incorporated in England and Wales The ultimate holding company is Telefónica S A , a company incorporated in Spain

Reference to "Group" means Telefonica Europe plc and its subsidiaries including the Company

Directors and secretary

The Directors who held office during the year were as follows

Ronan Dunne (appointed 30 April 2014)
Mark Evans (appointed 30 April 2014)
Robert Harwood (Resigned 30 April 2014)
Jesus Perez de Uriguen (Resigned 30 April 2014)

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

Group reorganisation

The Group has previously indicated its intention to undertake a corporate simplification project to rationalise the corporate structure including the elimination, where possible, of dormant and non-trading entities The project will also involve a reorganisation of companies in preparation for the Telefónica Group's disposal of the UK business as a whole, which remains subject to clearance by the Regulatory and Competition Authorities as disclosed in the next paragraph The group has now started this project and intends to simplify as many non trading and dormant companies as possible prior to 31 December 2015 These entities will be kept outside of the sale perimeter and will be struck off as far as possible prior to the completion of sale of Telefónica UK to Hutchison Whampoa

Significant post year end development

On 24 March 2015 Telefonica SA announced that it had entered into an agreement with Hutchison Whampoa, 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 the closing of the transaction and an additional deferred payment of £1 billion 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 clearance by the Regulatory and Competition Authorities

Directors' liability insurance and indemnity

Telefónica Europe plc, the Company's ultimate UK parent company, has granted an indemnity in the form permitted by UK Company Law to Directors appointed to subsidiary companies 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)

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future The company is part of the proposed transaction perimeter for the sale to Hutchison Whampoa which is still subject to regulatory clearance It is the group's intention to re-organise entities as part of the pre-completion reorganisation process (PCR)

Directors' report (continued)

Going concern (continued)

As part of this process, intercompany balances will be settled to simplify the balance sheet of these entities However, to-date no definitive decision or approval has been made to strike off any of the companies that have been simplified as part of the PCR phases A detailed due diligence exercise will be undertaken as part of the next phase before striking them off Based on the above information, the company continues to adopt the going concern basis of accounting in preparing the annual financial statements

Political donations

The Company made no political donation during the year ended 31 December 2014 (2013 £nil)

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 is 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 auditor is aware of that information

Small companies' exemption

In preparing the Directors Report for the year ended 31 December 2014, 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

The Directors' Report was approved by the Board on 10 August 2015

By Order of the Board

for and on behalf of O2 Secretaries Limited
Company Secretary

Statement of Directors' responsibilities
Year ended 31 December 2014

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 year 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 O2 Transactions Limited

We have audited the financial statements of O2 Transactions Limited for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement on Changes in Equity, and the related notes 1 to 11 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

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 31 December 2014 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 O2 Transactions Ltd (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, or
- 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
11 August 2015

Statement of comprehensive income
Year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Financial expense	3	**(468)**	(468)
Loss before taxation		**(468)**	(468)
Taxation	4	**(29)**	(39)
Loss for the year attributable to equity shareholders		**(497)**	(507)
Total comprehensive loss for the year		**(497)**	(507)

The accompanying notes on pages 10 to 13 are an integral part of these financial statements

There was no recognised income or expense other than those shown above

O2 Transactions Limited Registered No 2713001

Statement of financial position
As at 31 December 2014

	Note	**2014** **£'000**	2013 £'000
Current assets			
Trade and other receivables	5	**3,779**	3,809
Current liabilities			
Borrowings	6	**(15,426)**	(14,959)
Net liabilities		**(11,647)**	(11,150)
Equity			
Share capital	7	**12,000**	12,000
Retained earnings		**(23,647)**	(23,150)
Total deficit		**(11,647)**	(11,150)

The accompanying notes on pages 10 to 13 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 10 August 2015 and were signed on its behalf by

Mark Evans
Director

Statement of changes in equity
Year ended 31 December 2014

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2013	**12,000**	**(22,643)**	**(10,643)**
Total comprehensive loss for the year	-	(507)	**(507)**
At 31 December 2013	**12,000**	**(23,150)**	**(11,150)**
Total comprehensive loss for the year	-	(497)	**(497)**
At 31 December 2014	**12,000**	**(23,647)**	**(11,647)**

The accompanying notes on pages 10 to 13 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 presented except where detailed below

At the end of the year, the Company had net liabilities and is therefore dependent on the ongoing support of the Group The directors are satisfied that this support will be available for at least twelve months from the date of signing of these statutory accounts and accordingly consider that the going concern basis is appropriate

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Cash flow statement

The transactions of the Company in the current or prior year do not require the use of cash or cash equivalents Consequently, the Company has not presented a statement cash flow statement

Taxation

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

Income tax relating to items recognised directly in equity is recognised in equity

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 statement of comprehensive income over the period of the borrowings on an effective interest basis Accrued interest on borrowings is included within the carrying value

Trade and other receivables

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

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

Cumulative redeemable preference shares

Cumulative redeemable preference shares are recognised as a liability in the statement of financial position The corresponding dividends on those shares are charged as interest expense in the statement of comprehensive income

Financial risk factors and management

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 approximate to the book carrying value due to the short-term or on demand maturity of these instruments

2. Auditor's remuneration

Auditor's remuneration for the year ended 31 December 2014 and the year ended 31 December 2013 was borne by a fellow group company

3. Financial expense

	2014 £'000	2013 £'000
Financial expense		
Preference dividend payable to other group company	468	468

4. Taxation

	2014 £'000	2013 £'000
Current tax on income for the year	27	39
Current tax – adjustments in respect of prior periods	2	-
Total taxation	29	39

The tax assessed for the year varied from the amount computed by applying the corporation tax standard rate to the loss on ordinary activities before taxation The difference was attributable to the following factors

Notes to the financial statements

4 Taxation (continued)

	2014 £'000	2013 £'000
Loss before taxation	**(468)**	(468)
Loss on ordinary activities multiplied by rate of Corporation tax in the UK of 21 5% (2013 23 25 %)	**(101)**	(109)
Effects of		
Preference dividend not deductible	**101**	109
Transfer pricing adjustment on UK-UK balances	**27**	39
Adjustment in respect of prior periods	**2**	-
Total taxation	**29**	39

5. Trade and other receivables

	2014 £'000	2013 £'000
Amounts owed by other group companies	**3,779**	3,809

Amounts owed by other group companies relate to financing activities, are unsecured, interest-free, repayable on demand and include balances due for tax losses claimed by way of group relief

6. Borrowings

	2014 £'000	2013 £'000
Current borrowings		
Amounts owed to parent under preference shares (note 7)	**15,426**	14,959

The Company has preference share capital, comprising preference shares of £1 each in total value of £5,200,000 As required by International Accounting Standard 39, this value, together with accrued 9% cumulative redeemable preference dividend is disclosed as Borrowings

7. Share capital

	2014 Number of shares	2014 £'000	2013 Number of shares	2013 £'000
Called up, allotted and fully paid				
Ordinary shares of £1 each	**12,000,000**	**12,000**	12,000,000	12,000
9% cumulative redeemable preference share of £1 each	**5,200,000**	**5,200**	5,200,000	5,200

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

7. Share capital (continued)

The Company also has preference share capital, comprising preference shares of £1 each in total value of £5,200,000 As required by International Accounting Standard 39, this value, together with accrued 9% cumulative redeemable preference dividend is disclosed as Borrowings (note 6)

The preference shares are redeemable at any time by the Company at par together with payment of any arrears of preference share dividend A holder of preference shares may require the Company to redeem part or all of his holding on 31 January of each year

In the event of a return of capital or of surplus assets to shareholders, whether on a liquidation or otherwise, the assets of the Company available for distribution shall be applied firstly in paying to the preference shareholders the sum of £1 per share together with any arrears of preference share dividend

The holders of the preference shares shall be entitled to receive notice of all general meetings of members of the Company and to attend such meetings, but shall not be entitled to vote thereat except on a resolution to amend the terms on which the preference shares have been issued

8 Related party disclosures

Related party transactions with Directors and key management are detailed in note 9

Other related party transactions are detailed in notes 3, 5 and 6

9. Key management and Directors compensation

No emoluments or other benefits were paid to Directors for qualifying services during the year ended 31 December 2014 (2013 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

10. Significant post year end development

On 24 March 2015 Telefonica SA announced that it had entered into an agreement with Hutchison Whampoa, 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 the closing of the transaction and an additional deferred payment of £1 billion 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 clearance by the Regulatory and Competition Authorities

11. Parent company and controlling party

The Company's immediate parent company is O2 Mobiles Limited At the end of the year 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 Via 28, 28013, Madrid, Spain