

Registered No 4271548

O2 Communications Limited

Annual Report and Financial Statements Year ended 31 December 2012

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**O2 Communications Limited
Company Information**

Registered No 4271548

Directors

Robert Harwood
Jesus Perez de Urquien
Edward Smith

Secretary

O2 Secretaries Limited

Registered office

260 Bath Road
Slough
Berkshire
SL1 4DX

Auditor

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

O2 Communications Limited

Registered No 4271548

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012

Corporate structure

O2 Communications Limited ("the Company") is a private limited company registered in England and Wales under the registered number 4271548. The registered address is 260 Bath Road, Slough, Berkshire SL1 4DX. It is a wholly owned subsidiary of Telefonica Europe plc, its ultimate UK parent, incorporated in England and Wales, which is itself a wholly owned subsidiary of Telefónica S A, a company incorporated in Spain.

References to "Group" refer to Telefonica Europe plc and its subsidiaries of which the Company is a part.

The principal activity of the Company is to act as a holding company in the Group which the Directors expect to continue for the foreseeable future.

Risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integral to the principal risks and uncertainties of the Group and are not managed separately. A comprehensive analysis of the principal risks and uncertainties which impact the Group are disclosed in the consolidated Annual Report and financial statements of mmO2 plc, the Company's intermediate parent company.

Going Concern

The Directors believe that the Company is well placed to manage its business risk successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that with the continuing financial support of the group, the Company has the ability to continue in existence for the foreseeable future thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Results and proposed dividend

The Company's loss for the year ended 31 December 2012, after taxation was £35,452 (year ended 31 December 2011: loss of £39,076). The Directors do not recommend the payment of a dividend for the year ended 31 December 2012 (year ended 31 December 2011: £nil).

Directors and secretary

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

Robert Harwood

David Melcon Sanchez-Friera (resigned on 1 October 2012)

Jesus Perez de Urquien (appointed on 1 October 2012)

Edward Smith

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

Directors' liability insurance and indemnities

Telefonica 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).

Directors' Report (continued)

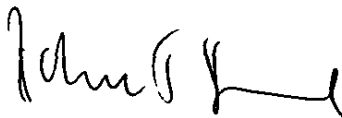
Political and charitable contributions

The Company made no political or charitable contributions during the year (year ended 31 December 2011 £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 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.

By Order of the Board



Robert Harwood
For and on behalf of
O2 Secretaries Limited
Company Secretary
23 September 2013

O2 Communications Limited

Statement of Directors' responsibilities

Registered No 4271548

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 as adopted by the European Union

Under Company Law the directors must not approve the 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 financial statements the directors are required to

- 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 the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- make judgments and estimates that are reasonable and prudent

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. 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 members of O2 Communications Limited

We have audited the financial statements of O2 Communications Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, and the related notes 1 to 13. 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 Statement of Directors' responsibilities set out on page 5, 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. 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 2012 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 members of O2 Communications 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

Ernst & Young LLP

Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 September 2013

O2 Communications Limited

Registered No 4271548

**Statement of comprehensive income
Year ended 31 December 2012**

	Note	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Financial expense	4	(76,183)	(85,637)
Loss before taxation		(76,183)	(85,637)
Taxation credit	5	40,731	46,561
Loss for the year attributable to equity shareholders of the parent		(35,452)	(39,076)

The accompanying notes are an integral part of these financial statements

O2 Communications Limited

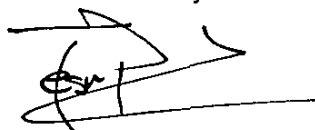
Registered No 4271548

**Statement of financial position
As at 31 December 2012**

	Note	31 December 2012 £	31 December 2011 £
Non-current assets			
Investments	6	10,797,951	10,797,951
Current assets			
Trade and other receivables	7	157,565	116,834
Current liabilities			
Trade and other payables	8	(3,000,740)	(2,924,557)
Net current liabilities		(2,843,175)	(2,807,723)
Non-current liabilities			
Borrowings	9	(6,000,000)	(6,000,000)
Net assets		1,954,776	1,990,228
Equity			
Called up share capital	10	21,001	21,001
Share premium account		2,079,000	2,079,000
Retained earnings		(145,225)	(109,773)
Total equity		1,954,776	1,990,228

The accompanying notes are an integral part of these financial statements

These financial statements were approved by the board of directors on 23 September 2013 and were signed on its behalf by



Jesus Perez de Urquien
Director

O2 Communications Limited

Registered No 4271548

**Statement of changes in equity
As at 31 December 2012**

	Called up share capital £	Share premium £	Retained earnings £	Total equity £
At 1 January 2011	21,001	2,079,000	(70,697)	2,029,304
Total comprehensive (loss) for year	-	-	(39,076)	(39,076)
At 31 December 2011	21,001	2,079,000	(109,773)	1,990,228
Total comprehensive (loss) for year	-	-	(35,452)	(35,452)
At 31 December 2012	21,001	2,079,000	(145,225)	1,954,776

The accompanying notes are an integral part of these financial statements

O2 Communications Limited

Notes to the Financial Statements (continued)

Registered No 4271548

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 except that, as disclosed in the accounting policies below, certain items are measured at fair value.

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.

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 group financial statements of mmO2 plc. Copies of the financial statements of mmO2 plc can be obtained from 260 Bath Road, Slough, Berkshire, SL1 4DX.

Investments in subsidiaries and jointly controlled entities

Investments in subsidiaries and jointly controlled entities 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.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by a contractual agreement.

Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets with a definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units").

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.

Borrowings

Borrowings are recognised initially at fair value. 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. Accrued interest on borrowings is included within the carrying value.

O2 Communications Limited
Notes to the Financial Statements (continued)

Registered No 4271548

1. Accounting policies (continued)

Taxation

The charge for current tax is based on the results for the year 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 financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable future taxable profits will be available against which deductible temporary differences can be utilised.

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 Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Income tax relating to items recognised directly in other comprehensive income is also recognised directly in other comprehensive income.

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 cash flow statement.

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

New IFRS and IFRICs adopted during the year did not have any impact on the Company's financial position in the initial period of application. Full details of new IFRS and IFRICs adopted during the year and those that have been published, but their application is not mandatory, are included in the financial statements of an intermediate parent company, O2 Holdings Limited.

Going Concern

The Directors believe that the Company is well placed to manage its business risk successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that with the continuing financial support of the group, the Company has the ability to continue in existence for the foreseeable future thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Directors emoluments and employees

Directors' emoluments are borne by other companies within the Telefonica S.A. Group for the year ended 31 December 2012 and the year ended 31 December 2011. The directors of the company are also directors of other companies within the group. The directors do not believe that it is practicable to apportion their remuneration between their services as directors of the company and their services as directors of other companies within the group.

The Company had no employees in the current or prior year.

O2 Communications Limited
Notes to the Financial Statements (continued)

Registered No 4271548

3. Auditors remuneration

Audit fees for the Company were borne by another company within the Telefónica S A group and have not been allocated across the group

4. Financial expenses

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Interest expense from related party (note 11)	76,183	85,637
Financial Expenses	76,183	85,637

5 Taxation

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Current tax credit	(40,731)	(50,645)
Taxation	(40,731)	(50,645)

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

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Loss before taxation	(76,183)	(85,637)
Loss before taxation multiplied by rate of Corporation tax in the UK of 24.5% (2011: 26.5%)	(18,665)	(22,694)
Effect of UK-UK transfer pricing adjustment	(22,066)	(23,867)
Taxation (credit)	(40,731)	(46,561)

The main rate of corporation tax reduced from 24% to 23% effective from 1 April 2013. This change was enacted on 17 July 2012. As a result the disclosure of deferred tax has been adjusted to reflect the enactment with no significant impact on these financial statements.

The main rate of corporation tax will reduce from 23% to 21% effective from 1 April 2014, and will reduce further to 20% effective from 1 April 2015. These changes were enacted on 17 July 2013. As this legislation was not enacted or substantively enacted by the balance sheet date it has not been reflected within these financial statements. However it is expected that the changes would not have a significant impact on the value of the company's deferred tax balances at the balance sheet date.

O2 Communications Limited
Notes to the Financial Statements (continued)

Registered No 4271548

6. Investment

	Shares in subsidiaries and jointly controlled entities £
Cost	
At 1 January 2011	10,797,951
Increase in investment	-
At 31 December 2011 and 31 December 2012	10,797,951
Impairment	
At 31 December 2011 and 31 December 2012	-
Net book value	
At 31 December 2012	10,797,951
At 31 December 2011	10,797,951

The Company's subsidiary undertakings and joint ventures at 31 December 2012 are detailed below

Name	Country of incorporation	Principal activity	Shareholding (%)
Tesco Mobile Limited	England & Wales	Mobile electronic telephone communication and related services	50
Genie Internet Limited	England & Wales	Dormant	100

7. Trade and other receivables

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Amounts owed by immediate parent company (note 11)	1	1
Amounts owed by other related parties (note 11)	157,564	116,833
Trade and other receivables	157,565	116,834

8 Trade and other payables

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Amounts owed to immediate parent company (note 11)	2,750,066	2,750,066
Amounts owed to other related parties (note 11)	250,674	174,491
Trade and other payables	3,000,740	2,924,557

O2 Communications Limited
Notes to the Financial Statements (continued)

Registered No 4271548

9 Borrowings

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Amounts owed to other related parties (note 11)	6,000,000	6,000,000
Borrowings	6,000,000	6,000,000

On 7 April 2009, O2 Communications Limited subscribed for an additional 100,000 ordinary shares of 2p each in its joint venture undertaking Tesco Mobile Limited, in exchange for a loan note issued by O2 Communications Limited to Tesco Mobile Limited for £6,000,000

10. Called up share capital

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
<i>Issued</i>		
21,001 Ordinary shares of £1	21,001	21,001

The Company has a single class of 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 but no right to redemption of shares.

Authorised share capital

On 21 December 2010 the Company took advantage of the deregulation of the authorised share capital requirement by dispensing with the authorised capital in the capital of the Company.

Capital management

The Company's capital comprises share capital, share premium 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.

O2 Communications Limited
Notes to the Financial Statements (continued)

Registered No 4271548

11 Related party disclosures

During the year ended 31 December 2012, the Company entered into transactions with related parties as follows.

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Financial expense		
Other related parties	(76,183)	(85,637)
Total net transactions	(76,183)	(85,637)

Interest relates to interest on the loan with Tesco mobile (see note 9) This is a GBP denominated loan with an effective interest rate of 1.3% (31 December 2011 1.4%)

At 31 December 2012 the Company had the following balances arising from transactions with related parties

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Receivables from related parties		
Parent company	1	1
Other related parties	157,564	116,833
	157,565	116,833
Payables to related parties		
Parent company	(2,750,066)	(2,750,066)
Other related parties	(6,250,674)	(6,174,491)
	(9,000,740)	(8,924,557)

The amount owed by the immediate parent company represents unpaid share capital owed by O2 Holdings Limited. The amount owed by other related parties represents unsettled balances owed for tax losses surrendered to other entities within the Group.

The amount owed to the immediate parent company represents an interest free loan.

The balance owed to other related parties is predominantly made up of a loan balance with Tesco Mobile Limited (note 9), a joint venture company. The average interest rate on this loan was 1.3% for the year ended 31 December 2012 (year ended 31 December 2011 1.4%).

12. Financial risk factors and management

The Company's operations expose it to a variety of financial risks including, credit risk, liquidity risk and risk related to the fair value of financial instruments.

The principal financial risks of the Company and how the Company managed these risks are discussed below.

O2 Communications Limited
Notes to the Financial Statements (continued)

Registered No 4271548

12 Financial risk factors and management (continued)

Credit risk

The Company does not have a significant exposure to credit risk. All of the Company's credit balances are held with group companies within the Telefónica S A group.

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 of financial instruments

The carrying value and fair value of the Company's financial assets and financial liabilities are not deemed to be materially different at 31 December 2012 and 31 December 2011.

13. Parent company and controlling party

At 31 December 2012, the immediate parent company was O2 Holdings Limited, a company incorporated in England and Wales. Copies of the financial statements of O2 Holdings Limited can be obtained from 260 Bath Road, Slough, Berkshire, SL1 4DX.

The smallest group in which the Company is included is mmO2 plc, an intermediate holding company in the Group, incorporated in England and Wales. Copies of the financial statements of mmO2 plc may be obtained from 260 Bath Road, Slough, Berkshire, SL1 4DX.

The largest group in which the Company is included is the ultimate parent company and controlling party at 31 December 2012, Telefónica S A, a company incorporated in Spain. Copies of the financial statements of Telefónica S A may be obtained from Gran Vía 28, Madrid, Spain.