Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2010

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Directors and advisers

Directors

Ronan Dunne
Robert Harwood
Katherine Ann Jarvis

Secretary

O2 Secretaries Limited

Registered Office

260 Bath Road
Slough
Berkshire
SL1 4DX

Auditors

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

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010

Corporate structure

giffgaff Limited is a private limited company registered in England and Wales under the registered number 4196996 The registered address is 260 Bath Road, Slough, Berkshire, SL1 4DX It is a wholly owned subsidiary of Telefónica 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 Telefónica Europe plc and its subsidiaries of which the Company is a part

Principal activity

The principal activity of the Company is the provision of mobile telecommunications services

Business review

Strategy

The strategy of the Company is to build a member run network that utilises the collective resources of its members This mutuality principle combined with an online and SIM only business model keeps costs low and allows savings to be passed on to customers

As a wholly owned subsidiary of Telefónica UK Limited (formerly Telefónica O2 UK Limited), the Company is targeting customer segments where the combination of the two brands drives incremental business

Operating review

The Company fully launched in May 2010 and is continuing to grow across the UK

The Company had a challenging year ended 31 December 2010 in an increasingly competitive market The Company's revenue for the year ended 31 December 2010 was £1,695,986 (2009 £946) The Company's operating loss for the year ended 31 December 2010 was £9,775,336 (2009 £2,288,059)

A total number of 36,532 net additions were added during the year ended 31 December 2010 (2009 464 customers)

Dividends

The Directors do not recommend payment of a dividend for the year ended 31 December 2010 (2009 £nil)

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 consolidated financial statements of mmO2 plc, the Company's intermediate parent Company

Directors' report (continued)

Going concern

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

Directors and secretary

The Directors who held office during the year were as follows

Ronan Dunne	(appointed on 25 February 2010)
Ramon Ros	(appointed on 25 February 2010)
Katherine Ann Jarvis	
Robert Harwood	
David Melcon Sanchez-Friera	(resigned on 25 February 2010)

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

Post statement of financial position event

On 16 March 2011 Ramon Ros resigned as director of the Company

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)

Policy and practice on payment of creditors

The Company aims to pay all of its creditors promptly The payment terms for major contracts are agreed at the same time as other terms are negotiated with individual suppliers

The Company had no purchases outstanding as at 31 December 2010 (2009 £nil), based on the average daily amount invoiced by suppliers during the year

Political and charitable contributions

The Company made no political or charitable contributions during the year (2009 £nil)

Statement of Directors' responsibilities

A statement by the Directors of their responsibilities for preparing the financial statements is included on page 5

Directors' report (continued)

Auditors

Pursuant to a shareholders' resolution passed on 21 October 2004, the Company is not obliged to re-appoint 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 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 auditors are aware of that information

By Order of the Board

Robert Harwood
Authorised signatory

for and on behalf of O2 Secretaries Limited
Company Secretary
21 September 2011

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 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 giffgaff Limited

We have audited the financial statements of giffgaff Limited for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes 1 to 14 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 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 Directors' Report 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 2010 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 giffgaff 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
Neil Cullum (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 September 2011

Statement of comprehensive income
For the year ended 31 December 2010

	Note	2010 £	2009 £
Revenue		**1,695,986**	946
Cost of sales		**(2,832,979)**	(31,275)
Gross loss		**(1,136,993)**	(30,329)
Administrative expenses		**(8,638,343)**	(2,257,730)
Operating loss and loss before taxation	2	**(9,775,336)**	(2,288,059)
Taxation	3	**2,736,084**	639,333
Loss for the year attributable to equity shareholders		**(7,039,252)**	(1,648,726)
Total comprehensive loss for year		**(7,039,252)**	(1,648,726)

The accompanying notes are an integral part of these financial statements

Statement of financial position
As at 31 December 2010

	Note	2010 £	2009 £
Non-current assets			
Intangible assets	4	4,917,787	-
		4,917,787	-
Current assets			
Inventories		91,525	40,931
Trade and other receivables	5	59,711	639,866
Cash and cash equivalents	6	1,074,311	5,267
		1,225,547	686,064
Current liabilities			
Trade and other payables	7	(14,831,311)	(2,334,789)
Net current liabilities		(13,605,764)	(1,648,725)
Total assets less current liabilities		(8,687,977)	(1,648,725)
Net liabilities		(8,687,977)	(1,648,725)
Equity shareholders' funds			
Share capital	8	1	1
Retained earnings		(8,687,978)	(1,648,726)
Total equity		(8,687,977)	(1,648,725)

The accompanying notes are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 21 September 2011 and were signed on its behalf by

Ronan Dunne
Director

Statement of changes in equity
Year ended 31 December 2010

	Share capital £	Retained earnings £	Total equity £
At 1 January 2009	**1**	**-**	**1**
Total comprehensive loss for the year	-	(1,648,726)	**(1,648,726)**
At 31 December 2009	**1**	(1,648,726)	**(1,648,725)**
Total comprehensive loss for the year	-	(7,039,252)	**(7,039,252)**
At 31 December 2010	**1**	**(8,687,978)**	**(8,687,977)**

giffgaff Limited Registered Number 4196996

Statement of cash flows
Year ended 31 December 2010

	Note	2010 £	2009 £
Operating loss		**(9,775,336)**	(2,288,059)
Amortisation charges		**1,045,728**	-
Increase in inventories		**(50,594)**	(40,931)
Decrease / (increase) in trade and other receivables		**580,155**	(532)
Increase in trade and other payables		**9,269,091**	2,334,789
Net cash flow from operating activities		**1,069,044**	5,267
Net increase in cash and cash equivalents		**1,069,044**	5,267
Cash and cash equivalents at 1 January		**5,267**	-
Cash and cash equivalents at 31 December	6	**1,074,311**	5,267

The accompanying notes 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

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

Presentation of financial information

Operating items in the statement of comprehensive income are derived from the primary operations of the Company as a telecommunications provider Items in the statement of comprehensive income recognised below operating profit/ (loss) represent activities that are not directly attributable to the Company's primary operations

Certain items in the prior year have been reclassified to conform with the current year presentation

Intangible Assets

Software

Software is capitalised and measured at the cost incurred to acquire and bring into use the specific software These costs are amortised over their estimated useful lives of between 2 and 6 years on a straight line basis Costs that are directly associated with the production of identifiable unique software products controlled by the Company, which are expected to generate economic benefits over a period of more than one year, are recognised as intangible assets Such computer software development costs recognised as intangible assets are amortised over their estimated useful lives not exceeding 6 years on a straight line basis

The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date

No depreciation is provided on assets in course of construction

Revenue

Revenue, which excludes value added tax and other sales taxes, comprises the value of services provided and other revenue

Mobile telecommunications service revenue includes revenue earned for usage of the Telefónica UK's wireless network for voice and data transmission by the Company's customers, outbound roaming and interconnect revenue

Revenue for pre-pay customers is recognised as the pre-pay services are rendered Prior to delivery of the services, top-ups are recognised as deferred income

Notes to the financial statements

1 Accounting policies (continued)

Revenue (continued)

Interconnect revenue, earned from other telecommunications operators whose customers terminate calls on the Company's network, is recognised based on usage

Subscriber acquisition and loyalty programme cost

Subscriber acquisition and retention costs, other than loyalty programme costs, are recognised as an expense for the period in which they are incurred Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred

Employee benefits

Pension obligations

A defined benefit plan is a pension plan that sets the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation A defined contribution plan is a pension plan under which the Company pays fixed contributions on behalf of employees and under which there is no legal or constructive obligation to pay further contributions for employees' service in the current and prior periods

Employees of the company are members of the Telefónica UK Pension Plan ("TUK PP"), a scheme sponsored by Telefónica Europe plc that provides benefits for the majority of UK employees in the Telefónica Europe plc Group The TUK PP has both defined benefit and defined contribution sections The defined benefit sections are closed to new entrants The assets of the schemes are held independently of the Company's finances

In its capacity as a participating employer of the defined contribution section of the TUK PP, Telefónica UK Limited pays contributions into the plan on behalf of employees of the Company Telefónica UK Limited has no further payment obligations once the contributions have been paid The contributions are recharged to the Company and are recognised as employee benefit expense when they are due Further disclosures on the TUK PP can be found in the financial statements of Telefónica UK Limited

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 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 and current 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

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

Notes to the financial statements

1. Accounting policies (continued)

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

Inventories

Inventories comprise mainly SIM cards and are stated at the lower of cost and net realisable value (which reflects the value to the business of the SIM in the hands of the subscriber) on a first in, first out basis, after provisions for obsolescence Cost comprises costs of purchase and costs incurred in bringing inventory to its current location and condition

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

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases

Financial risk factors and management

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

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, trade and other payables and cash at bank approximates to the book carrying value due to the short-term or on demand maturity of these instruments

Notes to the financial statements

1 Accounting policies (continued)

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

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

Effective for annual periods beginning after 31 December 2010		
New Standards		**Effective date annual periods beginning on or after**
IFRS 9	*Financial Instruments*	1 January 2013
IAS 24 revised	*Related Party Disclosures*	1 January 2011
Annual Improvements to IFRS (May 2010)		1 January 2011 (*)
Amendments to standards		**Effective date annual periods beginning on or after**
Amendment to IAS 32	*Classification of Rights Issues*	1 February 2010
Amendment to IFRS 7	*Disclosures – Transfer of Financial Assets*	1 July 2011
Amendments to IAS 12	*Deferred Tax Recovery of Underlying Assets*	1 January 2012
New Interpretations and Amendments to Interpretations		**Effective Date annual periods beginning on or after**
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
Amendment to IFRIC 14	*Prepayments of a Minimum Funding Requirement*	1 January 2011

(*) Amendments to IFRS 3 (2008) relating to the measurement of non-controlling interests and share-based payments, and contingent payments that arose in business combinations that occurred before the effective date of the revised IFRS 3, together with amendments to IAS 27 (2008), are effective for annual periods beginning on or after July 1, 2010

The Company is currently analysing the potential impact of the application of the aforementioned standards, amendments and interpretations As there are a significant number of changes, it is possible that such application may have some impact on its financial statements in the initial period of application

Notes to the financial statements

1. Accounting policies (continued)

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 Company's 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 assets remain deductible This analysis is based on the estimated reversal of deferred taxes as well as estimate 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

2. Operating loss

The following items have been included in arriving at the operating loss

	2010	2009
	£	£
Staff costs (note 13)	**1,101,668**	412,338
Amortisation – intangible assets (note 4)	**1,045,728**	-
Operating lease costs	**44,625**	-
Inventories		
Cost of inventories recognised as an expense (included in cost of sales)	**256,123**	1,895

The auditors' remuneration was borne by another company in the Group

Notes to the financial statements

3. Taxation

	2010	2009
	£	£
Current tax – current year	**(2,736,084)**	(639,333)

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

	2010	2009
	£	£
Loss before taxation	**(9,775,336)**	(2,288,059)
Loss before taxation multiplied by the rate of UK corporation tax of 28%	**(2,737,094)**	(640,657)
Effects of		
Expenses not deductible for tax purposes	**1,010**	1,324
Total taxation credit for the year	**(2,736,084)**	**(639,333)**

The taxation credit arises due to tax losses surrendered to other group companies for payment

A number of changes were announced in the UK Budget on 22 June 2010 As at 31 December 2010, the main rate of corporation tax was expected to reduce to 27% with effect from 1 April 2011 and disclosure of deferred tax has been adjusted to reflect the enactment of the revised rate at the statement of financial position with no significant impact on these financial statements

Following the UK Budget of 23 March 2011, it was announced that the main rate of corporation tax would reduce to 26% effective from 1 April 2011 and 25% effective from 1 April 2012 and this was enacted on 19 July 2011 Further reductions to the main rate are proposed to reduce the rate by a further 1% each 1 April thereafter until reaching 23% with effect from 1 April 2014 As this legislation was not substantively enacted by the statement of financial position 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 statement of financial position date

Notes to the financial statements

4. Intangible assets

	Software licences £	Software £	Assets in the course of construction £	Total £
Cost				
At 1 January 2009 and 31 December 2009	-	-	-	-
Additions			5,963,515	5,963,515
Reclassifications	155,275	5,808,240	(5,963,515)	-
At 31 December 2010	**155,275**	**5,808,240**	**-**	**5,963,515**
Amortisation				
At 1 January 2009 and 31 December 2009	-	-	-	-
Charge for the year	31,055	1,014,673	-	1,045,728
At 31 December 2010	**31,055**	**1,014,673**	**-**	**1,045,728**
Net book value				
At 31 December 2010	**124,220**	**4,793,567**	**-**	**4,917,787**
At 31 December 2009	-	-	-	-

5 Trade and other receivables

	2010 £	2009 £
Amounts owed by parent company	-	639,334
Other debtors	**39,635**	230
Prepayments	**20,076**	302
Trade and other receivables	**59,711**	639,866

6. Cash and cash equivalents

	2010 £	2009 £
Cash and cash equivalents	**1,074,311**	5,267

7. Trade and other payables

	2010 £	2009 £
Amounts owed to parent company	**13,683,931**	1,971,400
Other taxation and social security	**101,265**	127
Accrued expenses	**751,180**	358,741
Deferred income	**294,935**	4,521
Trade and other payables	**14,831,311**	2,334,789

Amounts owed to parent company are unsecured, interest free and repayable on demand

Notes to the financial statements

8. Share capital

	Number of shares	2010 £	Number of shares	2009 £
Called up, allotted and fully paid				
Ordinary shares of £1 each	1	1	1	1

The Company has one class of 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

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

9. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2010 the Company was committed to making the following total future lease payments in respect of operating leases for each of the following periods

	2010 £	2009 £
Within one year	44,635	-
Between one and five years	167,344	-
	211,979	-

Other commitments

There were no other commitments at 31 December 2010 (2009 £nil)

10 Related party disclosure

During the year the Company entered into transactions with related parties as follows

	2010 £	2009 £
Revenue		
Sales to parent company	957,792	(274)
Purchases		
Purchases from parent company	(10,034,453)	(50,000)
Total net transactions	(9,076,661)	(50,274)

All related party transactions relate to regular trading activities of the Company on an arm's length basis

Other related party balances are detailed in notes 5 and 7

Related party transactions with Directors and key management are detailed in note 12

Notes to the financial statements

11. Financial instruments

Financial risk factors and management

The Company has financial assets in the form of cash The purpose of the Company's policy on risk management is to manage the interest rate risk that arises 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 its cash and cash equivalents 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

The Company's interest rate risk arises primarily from the interest received on cash and cash equivalents

Fair value of financial instruments

The carrying and fair value of the Company's financial assets 31 December are

	2010 Carrying value £	**2010 Fair value £**	2009 Carrying value £	2009 Fair value £
Financial Assets				
Cash and cash equivalents	**1,074,311**	**1,074,311**	5,267	5,267
Total financial assets	**1,074,311**	**1,074,311**	5,267	5,267

Notes to the financial statements

11 Financial instruments (continued)

Fair value estimation

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

The following tables set out the maturity analysis of financial assets that are held to manage liquidity risk

31 December 2010	**On demand £**	**< 1 year £**	**1 – 2 years £**	**2 – 5 years £**	**> 5 years £**	**Total £**
Cash and cash equivalents	**1,074,311**	**-**	**-**	**-**	**-**	**1,074,311**
	1,074,311	**-**	**-**	**-**	**-**	**1,074,311**

31 December 2009	On demand £	< 1 year £	1 – 2 years £	2 – 5 years £	> 5 years £	Total £
Cash and cash equivalents	5,267	-	-	-	-	5,267
	5,267	-	-	-	-	5,267

12. Key management and Directors' compensation

No emoluments or other benefits were paid to the Directors during the year ended 31 December 2010 (2009 £nil) The Directors are employees of Telefónica UK Limited and are remunerated for their services to the Group as a whole

13 Employees

	2010 No	2009 No
Average number of full time employee equivalents (including executive Directors)		
Technology	**3**	1
Customer Operations	**7**	2
Administration	**4**	1
Total employees	**14**	**4**

The benefits expense incurred in respect of these employees were

	2010 £	2009 £
Wages and salaries	**888,778**	383,785
Social security costs	**106,162**	14,383
Pension costs	**106,728**	14,170
Total employee benefits expense	**1,101,668**	412,338

Notes to the financial statements

14. Parent company and controlling party

At the end of the year, the immediate parent company was Telefónica UK Limited (formerly Telefónica O2 UK Limited) 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 its registered office at Gran Via 28, Madrid, Spain