Registered Number. 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2012

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Directors and advisers

Directors

Ronan Dunne
Robert Harwood
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

Directors' report

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

Corporate structure

giffgaff Limited (the "Company") 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 mobile communications 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 the Company is targeting customer segments where the combination of the two brands, giffgaff and Telefónica UK Limited, drives incremental business

Operating review

The Company had substantial base growth for the year ended 31 December 2012 in an increasingly competitive market The Company's revenue for the year ended 31 December 2012 was £78,951,000 (2011 £19,630,000) The Company's operating loss for the year ended 31 December 2012 was £38,195,000 (2011 £32,731,000)

A total number of 532,029 net customer additions were added during the year ended 31 December 2012 (2011 224,954 net customer additions)

Dividends

The Directors do not recommend payment of a dividend for the year ended 31 December 2012 (2011 £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
Robert Harwood
Edward Smith

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

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 2012 (2011 £nil), based on the average daily amount invoiced by suppliers during the year

Political and charitable contributions

Donations to charities during the year ended 31 December 2012 amounted to £37,667, all of which went to charities in the United Kingdom (2011 £22,777)

Statement as to disclosure to Auditor

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

By Order of the Board

Robert Harwood
for and on behalf of O2 Secretaries Limited
Company Secretary

20 September 2013

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards 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

- 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 judgements 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 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 members of giffgaff Limited

We have audited the financial statements of giffgaff 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, the Statement of cash flows and the related notes 1 to 17 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 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 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 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
24 September 2013

Statement of comprehensive income
For the year ended 31 December 2012

	Note	2012 £000	2011 £000
Revenue		**78,951**	19,630
Cost of sales		**(90,728)**	(41,969)
Gross loss		**(11,777)**	(22,339)
Administrative expenses		**(26,418)**	(10,392)
Operating loss and loss before taxation	2	**(38,195)**	(32,731)
Taxation	3	**9,389**	8,667
Loss for the year attributable to equity shareholders		**(28,806)**	(24,064)
Total comprehensive loss for year		**(28,806)**	(24,064)

The accompanying notes on pages 11 to 26 are an integral part of these financial statements

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

Statement of financial position
As at 31 December 2012

	Note	2012 £000	2011 £000
Non-current assets			
Intangible assets	4	1,957	3,135
Property, plant and equipment	5	16,505	-
		18,462	3,135
Current assets			
Inventories		453	260
Trade and other receivables	6	3,588	591
Cash and cash equivalent	7	11,799	134
		15,840	985
Current liabilities			
Trade and other payables	8	**(95,175)**	(36,872)
Net current liabilities		**(79,335)**	(35,887)
Total assets less current liabilities		**(60,873)**	(32,752)
Non-current liabilities			
Deferred tax liabilities	9	(685)	-
		(685)	-
Net liabilities		**(61,558)**	(32,752)
Equity shareholders' funds			
Share capital	10	-	-
Retained earnings		**(61,558)**	(32,752)
Total Equity		**(61,558)**	(32,752)

The accompanying notes on pages 11 to 26 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 20 September 2013 and were signed on its behalf by

Ronan Dunne
Director

Statement of changes in equity
Year ended 31 December 2012

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2011	**-**	**(8,688)**	**(8,688)**
Total comprehensive loss for the year	-	(24,064)	(24,064)
At 31 December 2011	**-**	**(32,752)**	**(32,752)**
Total comprehensive loss for the year	-	(28,806)	(28,806)
At 31 December 2012	**-**	**(61,558)**	**(61,558)**

Statement of cash flows
Year ended 31 December 2012

	Note	2012 £000	2011 £000
Operating loss		(38,195)	(32,731)
Amortisation and depreciation charges		1,223	1,060
Increase in inventories		(193)	(169)
Increase in trade and other receivables		(2,997)	(531)
Increase in trade and other payables		57,977	31,431
Net cash flow from/(used in) operating activities		**17,815**	(940)
Purchase of plant and equipment		**(6,150)**	-
Net cash flow used in investing activities		**(6,150)**	-
Net increase/ (decrease) in cash and cash equivalents		**11,665**	(940)
Cash and cash equivalents at start of period		**134**	1,074
Cash and cash equivalents at 31 December	7	**11,799**	134

The accompanying notes on pages 11 to 26 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

Intangible assets

Software Licences

Licence fees paid to the Government, which permit telecommunications activities to be operated for defined periods, are capitalised at cost less impairment losses and are amortised from the date of commercial launch of the service to the end of the licence period on a straight line basis Their remaining estimated useful lives are 9 years

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

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably

Notes to the financial statements

1. Accounting policies (continued)

Depreciation is provided on property, plant and equipment from the date they are brought into use over their estimated useful lives on a straight-line basis The lives assigned to property, plant and equipment are

Freehold buildings	40 years
Leasehold land and buildings	unexpired portion of lease or 40 years whichever is the shorter
Network assets	5 to 15 years
Computers and office equipment	2 to 5 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each statement of financial position date No depreciation is provided on freehold land or assets in the course of construction

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal Any gain or loss arising on derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised

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 Telefónica UK Limited'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

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

The Company participates in the Telefónica Pension Plan ("Telefónica PP"), a scheme sponsored by Telefónica Europe plc that provides benefits for the majority of UK employees in the Telefónica Europe plc Group The Telefónica PP has both defined benefit and defined contribution sections With effect from 28 February 2013 the defined benefit sections of the TUK PP will close to further benefit accrual On closure to accrual, current active members will lose the link to any future increases in

Notes to the financial statements

1 Accounting policies (continued)

salary The defined contribution sections of the TUK PP remain open to new entrants and further accrual 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 Telefónica 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 Telefónica PP can be found in the financial statements of Telefónica UK Limited

Share based payments

The Company recognises an expense for share awards and share options, which are equity settled, based on the fair value of the share awards or share options granted as compensation for the services rendered by employees The fair value is calculated at the grant date using an adjusted statistical model and excludes the impact of non-market conditions Instead, the expense is adjusted for the effect of non-market conditions at each reporting date through the number of share awards or share options expected to be exercisable The effect of market and non-vesting conditions is included in the fair value at the date of grant and is recognised as an expense irrespective of whether the market or non-vesting condition is satisfied Any proceeds received are credited to share capital and share premium when the share option or award are exercised

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

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

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

Notes to the financial statements

1 Accounting policies (continued)

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 2012		
New Standards		**Effective date: annual periods beginning on or after**
IFRS 9	*Financial Instruments*	1 January 2015
IFRS 10	*Consolidated Financial Statements*	1 January 2013
IFRS 11	*Joint Arrangements*	1 January 2013
IFRS 12	*Disclosure of Interests in Other Entities*	1 January 2013
IFRS 13	*Fair Value Measurement*	1 January 2013
IAS 19 (Revised)	*Employee Benefits*	1 January 2013
IAS 27 (Revised)	*Separate Financial Statements*	1 January 2013
IAS 28 (Revised)	*Investments in Associates and Joint Entities*	1 January 2013
Amendments to standards		**Effective date annual periods beginning on or after**
Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*	1 July 2012
Amendments to IFRS 7	*Disclosures - Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Amendments to IFRS 7 and IFRS 9	*Mandatory Effective Date and Transition Disclosures*	1 January 2015
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Annual Improvements to IFRSs	*2009-2011 Cycle*	1 January 2013

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 The standards will be adopted on the effective date mentioned in the table above

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

Software and software licences

Accounting for software and software licences involves the use of estimates and judgements for determining the useful lives over which they are to be depreciated or amortised and the existence and amount of any impairment

Software and software licences are depreciated or amortised on a straight line basis over their estimated useful lives and taking into account their expected residual values

The Company assesses the impairment of software and software licences whenever there is reason to believe that the carrying value may not exceed the fair value and where a permanent impairment in value is anticipated The determination of whether the impairment of these assets is necessary involves the use of estimates that includes, but is not limited to, the analysis of the cause of potential impairment in value, the timing of such potential impairment and an estimate of the amount of the impairment The Company considers technological obsolescence, discontinuance of services and other changes in circumstances as indications of the need to perform an impairment test A significant change in the facts and circumstances that were relied upon in making the estimates may trigger the requirement for recording impairment and may have a material adverse impact on the operating results and financial condition of the Company

2. Operating loss

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

	2012	2011
	£000	£000
Staff costs (note 15)	**2,195**	1,276
Amortisation of intangible assets (note 4)	**1,178**	1,060
Depreciation of property, plant and equipment (note 5)	**45**	-
Operating lease costs	**160**	45
Inventories		
Cost of inventories recognised as an expense (included in cost of sales)	**2,663**	1,234

Auditor's remuneration for the year ended 31 December 2012 and the year ended 31 December 2011 was borne by a fellow group company

Notes to the financial statements

3. Taxation

Analysis of credit in year

	2012 £000's	2011 £000's
Current tax - current year	**(10,068)**	(8,670)
Current tax - adjustments in respect of prior periods	**(6)**	3
Deferred tax - current year	**729**	-
Deferred tax - adjustments in respect of prior periods	**1**	-
Effect of change in tax rate	**(45)**	-
Taxation	**(9,389)**	(8,667)

The tax assessed for the year 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

	2012 £000's	2011 £000's
Loss before taxation	**(38,195)**	(32,731)
Loss before taxation multiplied by rate of corporation tax in the UK of 24 5% (2011: 26.5%)	**(9,358)**	(8,674)
Effects of		
Expenses not deductible for tax purposes	**19**	4
Prior year adjustment	**(5)**	3
Effect of change in tax rate	**(45)**	-
Total taxation credit	**(9,389)**	(8,667)

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

The main rate of corporation tax will reduce 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

Notes to the financial statements

4. Intangible assets

	Software Licences £000	Software £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2011	155	5,809	-	5,964
Additions	-	-	322	322
Reclassifications	-	322	(322)	-
Transfers to group companies	-	(1,045)	-	(1,045)
At 31 December 2011	155	5,086	-	5,241
Additions	-	-	-	-
At 31 December 2012	**155**	**5,086**	-	**5,241**
Amortisation				
At 1 January 2011	31	1,015	-	1,046
Charge for the year	31	1,216	-	1,247
Transfers to group companies	-	(187)	-	(187)
At 31 December 2011	62	2,044	-	2,106
Charge for the year	31	1,147	-	1,178
At 31 December 2012	**93**	**3,191**	-	**3,284**
Net book value				
At 31 December 2012	**62**	**1,895**	-	**1,957**
At 31 December 2011	93	3,042	-	3,135

Notes to the financial statements

5. Property, Plant and Equipment

	Land and Buildings £000	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2012	-	-	-	-
Additions	111	8,907	7,532	16,550
At 31 December 2012	**111**	**8,907**	**7,532**	**16,550**
Depreciation				
At 1 January 2012	-	-	-	-
Charge for the year	-	45	-	45
At 31 December 2012	**-**	**45**	**-**	**45**
Net book value				
At 31 December 2012	**111**	**8,862**	**7,532**	**16,505**
At 31 December 2011	-	-	-	-

During the year £10,400,000 property, plant and equipment was purchased from Telefónica UK Limited

6. Trade and other receivables

	2012 £000	2011 £000
Prepayments	**1,611**	311
Other debtors	**231**	280
Amounts owed by group companies	**1,746**	-
Trade and other receivables	**3,588**	591

7. Cash and cash equivalents

	2012 £000	2011 £000
Cash and cash equivalents	**11,799**	134

Notes to the financial statements

8 Trade and other payables

	2012 £000	2011 £000
Amounts owed to group companies	84,093	33,139
Other taxation and social security	3,650	966
Accrued expenses	1,388	828
Deferred income	6,044	1,939
Trade and other payables	**95,175**	36,872

Amounts owed to group companies are unsecured, interest free and repayable on demand

9 Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011 25%)

The movement on the deferred tax liability is as shown below

	Accelerated tax depreciation £'000	Total £'000
At 1 January 2011	-	-
Prior year (charge) / credit to statement of comprehensive income	-	-
Current year (charge) / credit to statement of comprehensive income	-	-
Effect of change in tax rate	-	-
At 31 December 2011	-	-
Prior year (charge) / credit to statement of comprehensive income	(1)	(1)
Current year (charge) / credit to statement of comprehensive income	(729)	(729)
Effect of change in tax rate	45	45
At 31 December 2012	**(685)**	**(685)**

10 Share capital

	Number of shares	2012 £	Number of shares	2011 £
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

Notes to the financial statements

11. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2012 the Company was committed to making the following total future lease payments in respect of operating leases for each of the following periods

	2012 £000	2011 £000
Within one year	**160**	45
Between one and five years	**320**	122
Total operating lease commitment	**480**	167

Other commitments

There were no other commitments at 31 December 2012 (2011 £nil)

12. Related party disclosure

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

	2012 £000	2011 £000
Revenue		
Sales to group companies	**34,567**	10,759
Purchases		
Purchase from group companies	**(124,551)**	(39,611)
Total net transactions	**(89,984)**	(28,852)

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 note 6 and 8

Related party transactions with Directors and key management are detailed in note 14

13 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

Notes to the financial statements

13. Financial instruments (continued)

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 values of the Company's financial assets at 31 December are

	2012 Carrying value £000	**2012 Fair value £000**	2011 Carrying value £000	2011 Fair value £000
Financial assets				
Cash and cash equivalents	**11,799**	**11,799**	134	134
Total financial assets	**11,799**	**11,799**	134	134

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

13. Financial instruments (continued)

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

31 December 2012	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	11,799	-	-	-	-	11,799
	11,799	-	-	-	-	11,799

31 December 2011	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	134	-	-	-	-	134
	134	-	-	-	-	134

14 Key management and Directors' compensation

No emoluments or other benefits were paid to the Directors by the company during the year ended 31 December 2012 (2011 £nil) The Directors are employees of Telefónica UK Limited and are remunerated for their services to the Group as a whole

15. Employees

	2012	2011
	No.	No
Average number of full time employee equivalents (including executive Directors)		
Technology	3	3
Customer Operations	19	9
Administration	7	4
Total employees	**29**	16

The benefits expense incurred in respect of these employees were

	2012	2011
	£000	£000
Wages and salaries	1,786	1,006
Social security costs	204	117
Pension costs	170	153
Share based payments	35	-
Total employee benefits expense	**2,195**	**1,276**

Notes to the financial statements

16 Shared based payments

There were three share schemes in operation in giffgaff Limited during the period ended 31 December 2012 the Telefónica Performance Share Plan, the Global Employee Share Plan and the Telefonica Performance Investment Share Plan which replaced the Performance Share Plan from 2011 These are described in more detail below

Employees of giffgaff Limited who were previously employed elsewhere in the Telefonica group transferred their contracts of employment to the Company on 2 April 2012 All share scheme rights transferred with the individual

The costs of share options and awards are charged to the statement of comprehensive income over the vesting period, based upon the fair value of the share award or option at the award date adjusted for the likelihood of non-market vesting conditions being met under the share award or option plan

The amounts recognised in operating loss for share based payment transactions with employees for the period ended 31 December 2012 was as follows

	Period from 16 December 2011 to 31 December 2012
	£'000
Equity settled share based payments	35
Total share based payments	35

The share plans operated by the Company during the period ended 31 December 2012 are

Telefónica Performance Share Plan

The Telefónica Performance Share Plan was approved at the Telefónica, S A AGM held on 21 June 2006 and awards shares in Telefónica, S A to participants subject to the achievement of certain performance criteria

The plan had an expected duration of seven years which is divided into five cycles of three years each, with the first cycle commencing on 1 July 2006 At the inception of each cycle, a number of shares are awarded to each participant in the plan, with the final number of shares vesting being based on the level of achievement against the performance criteria This plan has been superseded by the Telefónica Performance Investment Share Plan for the 2011 share grant and is closed to new entrants

Award of shares is subject to a number of conditions

- The beneficiary must continue to work for the company throughout the three-year duration of each phase
- The actual number of shares awarded at the end of each phase will depend on success in meeting targets and the maximum number of shares assigned to each executive Success is measured by comparing the Total Shareholder Return (TSR) offered by Telefonica shares with the TSRs offered by a basket of listed telecoms companies

The performance criterion is the Total Shareholder Return (TSR) of Telefónica, S A against a comparator group, over a fixed three year period as follows

TSR ranking	% Shares vest
Below median	0%
Median	30%
Upper quartile	100%

Notes to the financial statements

16. Shared based payments (continued)

Vesting occurs on a straight line basis between median and upper quartile performance

The number of shares Telefónica, S A granted to directors and senior management of the company in the period ended 31 December 2012 was nil

As this plan will be settled by the physical delivery of Telefónica, S A shares to employees, the charge for the period ended 31 December 2012 of £ 17,573 has been recognised against equity

There was no grant during the 2011 year The fair value of the rights granted to the participants at the 2010 grant date was €9 08 This value has been established by reference to the price of an instrument with the same conditions and requirements of the plan, which was acquired by Telefónica, S A from a financial institution This is the best estimate of the fair value of the rights granted to the employees, as it results from a current market transaction

This share plan is closed to new entrants and the share awards granted in 2010 are due to vest in 2013

Telefonica Performance Investment Share Plan

The Telefónica Performance Investment Share Plan was approved at the Telefónica S A AGM held on 18 May 2011 and awards shares in Telefónica S A to participants subject to the achievement of certain performance criteria and incorporates the opportunity for enhanced award for those employees who maintain a minimum shareholding in the Company

The plan has an expected duration of five years which is divided into three cycles of three years each, with the first cycle commencing on 1 July 2011 (with the delivery of the related shares from July 1, 2014) At the inception of each cycle, a number of shares are awarded to each participant in the plan, with the final number of shares vesting being based on the level of achievement against the performance criteria

The specific number of Telefonica, S A shares deliverable within the maximum amount established to each member at the end of each phase will be contingent and based on the Total Shareholder Return ("TSR") of Telefonica, S A shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in the Dow Jones Global Sector Titans

Telecommunications Index For the purposes of this Plan, these companies make up the comparison group ("Comparison Group")

The TSR is the indicator used to determine the Telefonica Group's medium- and long-term value generation, measuring the return on investment for each shareholder For the purposes of this Plan, the return on investment of each phase is defined as the sum of the increase or decrease in the Telefonica, S A share price and dividends or other similar items received by the shareholder during the phase in question

At the beginning of each phase, each participant is allocated a notional number of shares According to the plan, the number of shares to be delivered will range from

- 30% of the number of notional shares if Telefonica, SA's TSR is at least equal to the median of the Comparison Group, and
- 100% if Telefonica SA's TSR is within the third quartile or higher than that of the Comparison Group The percentage is calculated using linear interpolation when it falls between the median and third quartile
- No shares will be delivered if Telefonica, S As TSR is below the Comparison Groups median

Notes to the financial statements

16. Shared based payments (continued)

The plan includes an additional condition regarding compliance by all or part of the participants with a target investment and holding period of Telefonica, S A shares through each phase ("Co-Investment"), to be determined for each participant, as appropriate, by the Board of Directors based on a report by the Nominating, Compensation and Corporate Governance Committee Participants meeting the coinvestment requirement will receive an additional number of shares, provided the rest of the requirements established in the plan are met

In addition, and independent of any other conditions or requirements that may be established, in order to be entitled to receive the corresponding shares, each participant must be a Telefonica Group employee at the delivery date for each phase, except in special cases as deemed appropriate

Shares will be delivered at the end of each phase (in 2014, 2015, and 2016, respectively) The specific delivery date will be determined by the Board of Directors or the committee or individual entrusted by the Board to do so

The number of shares Telefónica S A granted under this plan to directors and senior management in the period ended 31 December 2012 was 5,850

As this plan will be settled by the physical delivery of Telefónica, S A shares to employees, the charge for the period ended 31 December 2012 of £14,483 has been recognised against equity

The fair value of the rights granted to the participants at the 2012 grant date is €5 87 per share This value has been established by reference to the price of an instrument with the same conditions and requirements of the plan, which was acquired by Telefónica, S A from a financial institution This is the best estimate of the fair value of the rights granted to the employees, as it results from a current market transaction

Global Employee Share Plan

The Annual General Meeting of Shareholders of Telefónica, SA held on 18 May 2011, approved the implementation of a share plan open to all employees of the Telefónica Group worldwide, with certain exceptions The Plan offers employees the opportunity to acquire shares in Telefónica, SA with the latter's commitment to deliver free of charge a certain number of shares in Telefónica, SA, subject to certain conditions

The total duration of the plan for two years Employees enrolled in the Plan may acquire shares in Telefónica, SA through monthly contributions of up to €100 (or local currency equivalent), with a maximum of €1,200 over a period of twelve months (time of purchase) The shares will be matched, after the vesting date of the plan, effective 1 December 2014, and are subject to the continuation of employment during the two-year program (consolidation period), subject to certain conditions

The actual number of shares awarded at the end of the vesting period depends on the number of shares purchased and retained by each employee Thus, employees enrolled in the Plan that have retained the shares acquired for a further period of twelve months following the end of the period of purchase, shall be entitled to receive one free share for every share they have acquired

17. Parent company and controlling party

The immediate parent company is Telefónica UK Limited The ultimate parent company and controlling party is 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