

giffgaff Limited
(Formerly O2 Ash Limited)

Annual Report and Financial Statements
Year ended 31 December 2009



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Company Information

Directors

Robert Harwood
Katherine Anne Jarvis
Ramon Ros
Chairman Ronan Dunne

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 2009

Corporate structure

giffgaff Limited (formerly O2 Ash 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 Telefonica S A, a company incorporated in Spain.

On 8 September 2009 the Company changed its name from O2 Ash Limited to giffgaff Limited.

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 from November 2009 was the provision of mobile telecommunications services. Prior to that period the Company was non-trading.

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 fully owned subsidiary of Telefonica O2 UK Limited, the Company is targeting customers segments where Telefonica O2 UK Limited does not have a high market share.

Dividends

The Directors do not recommend payment of a dividend for the year ended 31 December 2009 (2008 £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 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 the Company has adequate resources 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.

Directors' Report

Directors and secretary

The Directors who held office during the year were as follows

Robert Harwood
David Melcon Sanchez-Friera
Katherine Anne Jarvis (Appointed on 19 November 2009)

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

Events after reporting period

On 25 February 2010 Ronan Dunne and Ramon Ros were appointed directors of the company

On 25 February 2010 David Melcon Sanchez-Friera resigned as director of the Company

Directors' liability insurance and indemnity

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)

Political and charitable contributions

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

Statement of Directors' responsibilities


A statement by the Directors of their responsibilities for preparing the financial statements is included on page 6

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


Vivienne Aziba
Authorised signatory

for and on behalf of O2 Secretaries Limited
Company Secretary
24 September 2010

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 2009 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 15. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 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.

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 2009 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

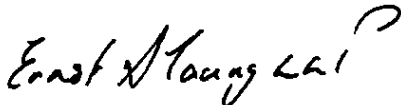
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to members of giffgaff Limited

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



Richard Addison (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 September 2010

Statement of comprehensive income
For the year ended 31 December 2009

	Note	2009 £	2008 £
Revenue		946	-
Cost of Sales		(31,275)	-
Gross loss		(30,329)	-
Administrative expenses		(2,257,730)	-
Operating loss	2	(2,288,059)	-
Loss before taxation		(2,288,059)	-
Taxation	3	639,333	-
Loss for the year attributable to equity shareholders		(1,648,726)	-
Total comprehensive loss for the year		(1,648,726)	-

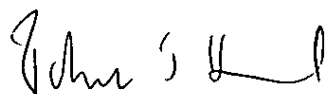
The accompanying notes are an integral part of these financial statements

Statement of financial position
As at 31 December 2009

	Note	2009 £	2008 £
Non-current assets			
Deferred tax asset	7	-	-
		-	-
Current assets			
Inventories		40,931	-
Trade and other receivables	4	639,866	1
Cash and cash equivalent	5	5,267	-
		686,063	1
Current liabilities			
Trade and other payables	6	(2,334,789)	-
Net current liabilities		(1,648,725)	1
Total assets less current liabilities		(1,648,725)	1
Net (liabilities)/assets		(1,648,725)	1
Equity shareholders' funds			
Ordinary share capital	8	1	1
Retained earnings		(1,648,726)	-
Total equity		(1,648,725)	1

The accompanying notes are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 24 September 2010 and were signed on its behalf by



Robert Harwood
 Director

Statement of changes in equity
Year ended 31 December 2009

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2008	1	-	1
Total comprehensive income for the year	-	-	-
At 31 December 2008	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)

Statement of cash flows
Year ended 31 December 2009

	Note	2009 £	2008 £
Operating loss		(1,648,726)	-
Increase in inventories		(40,931)	-
Increase in trade and other receivables		(639,865)	-
Increase in trade and other payables		2,334,789	-
Net cash flow from operating activities		5,267	-
 Net increase in cash and cash equivalents		 5,267	 -
Cash and cash equivalents at start of period	-	-	-
Cash and Cash equivalents at end of period	5	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.

The Company was dormant within the meaning of Section 480, Companies Act 2006 for a part of the year, however the Company commenced trading in November 2009 and is therefore active.

Presentation of financial information

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

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 O2 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 recorded as deferred revenue prior to commencement of services and is recognised as the pre-pay services are rendered.

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

Deferred income, included in trade and other payables, contains pre-pay top ups and revenue is deferred to the extent of the services paid but unused.

Subscriber acquisition costs

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.

Notes to the financial statements***Pension obligations (continued)***

Employees of the company are members of the O2 Pension Plan (O2 PP), a scheme sponsored by Telefónica Europe plc that provides benefits for the majority of UK employees in the Telefónica Europe plc Group. The O2 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 O2 PP, Telefonica O2 UK Limited pays contributions into the plan on behalf of employees of the Company. Telefónica O2 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 over the O2 PP can be found in the financial statements of Telefónica O2 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.

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.

Notes to the financial statements

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

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

Standards and amendments		Mandatory application annual periods beginning on or after
IFRS 9	<i>Financial instruments</i>	1 January 2013
IFRS 3 revised	<i>Business Combinations</i>	1 July 2009
Amendment to IAS 27	<i>Consolidated and Separate Financial Statements</i>	1 July 2009
<i>Improvements to IFRS (April 2009)</i>		1 January 2010 (*)
IAS 24 revised	<i>Related parties</i>	1 January 2011
Amendment to IAS 39	<i>Eligible hedge items</i>	1 July 2009
Amendment to IFRS 2	<i>Share based payments</i>	1 January 2010
Amendment to IFRS 1	<i>Additional exemptions in the initial adoption of IFRS</i>	1 January 2010
Amendment to IAS 32	<i>Classification of issues of rights to equity instruments</i>	1 February 2010
(*)The amendments to IFRS 2, IAS 38 (relating to intangible assets acquired in business combinations) IFRIC 9 and IFRIC 16 are effective for all fiscal years beginning 1 July 2009. There is no mandatory application date for the additional guidance to the appendix of IAS 18 on the determination of agent / principal because this appendix is not part of the standard.		
Interpretations		Mandatory application annual periods beginning on or after
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>	1 July 2009
IFRIC 19	<i>Extinguishing financial liabilities with equity instruments</i>	1 July 2010
Amendment to IFRIC 14	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	1 January 2011

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

Notes to the financial statements

Critical accounting estimates and judgements

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

	2009 £	2008 £
Staff costs (note 13)	412,338	-
Inventories		
Cost of inventories recognised as an expense (included in cost of sales)	1,895	-

The auditors remuneration for the year ended 31 December 2009 was paid by another company in the group.

3 Taxation

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Current tax – current year	(639,333)	-
	(639,333)	-

Notes to the financial statements

3 Taxation (continued)

The tax assessed for the year varied from the amount computed by applying the UK statutory tax rate to profit or loss on ordinary activities before taxation. The differences were attributable to the following factors

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Loss before taxation	(2,288,059)	-
Loss before taxation multiplied by the rate of UK corporation tax at 28% (2008 28.5%)	(640,657)	-
Effects of		
Expenses not deductible for tax purposes	1,324	-
Total taxation credit for the year	(639,333)	-

With effect from 1 April 2008 the standard rate of UK Corporation tax reduced from 30% to 28%. As a result the tax charge for the year ended 31 December 2008 has been calculated at the weighted average rate of 28.5%

The following changes were announced in the UK Budget on 22 June 2010: (i) the full rate of corporation tax will reduce to 27% with effect from 1 April 2011, and will decrease by a further 1% each 1 April thereafter until reaching 24% with effect from 1 April 2014, (ii) the rate of annual writing down allowances on qualifying plant and machinery will reduce by 2%, to 18% for the general capital allowance pool and to 8% for the integral features pool, with effect from 1 April 2012. As this legislation was not substantively enacted by the balance sheet date, the figures within these accounts are calculated in accordance with the existing rates.

4 Trade and other receivables

	2009 £	2008 £
Trade receivables	302	-
Accrued income	230	-
Amounts owed by parent company	639,334	1
Trade and other receivables	639,866	1

Amounts due from parent company are unsecured, interest free and repayable on demand

Notes to the financial statements**5 Cash and cash equivalents**

	2009	2008
		£
Cash and cash equivalents	5,267	-

6. Trade and other payables

	2009	2008
	£	£
Amounts owed to parent company	1,971,400	-
Other taxation and social security	127	-
Accrued expenses	358,740	-
Deferred income	4,521	-
Trade and other payables	2,334,789	-

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

7. Share capital

	Number of shares	2009 £	Number of shares	2008 £
Called up, allotted and fully paid				
Ordinary shares of £1 each	1	1	1	1

The Company has one class of authorised and issued share capital, comprising ordinary shares of £1 each. Subject to the Company's articles of association, and applicable law, the Company's ordinary shares confer on the holder the right to receive notice of and vote at general meetings of the Company, the right to receive 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

8. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2009 the Company had no commitment to any payments in respect of operating leases (2008 £nil)

On 4 January 2010 the Company signed an operating lease. The minimal commitment from this date is £47,813 per annum to and including 25 September 2015

Other commitments

There were no other commitments at 31 December 2009 (2008 £nil)

9. Related party disclosure

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

	2009 £	2008 £
Revenue		
Sales to parent company	(274)	-
Purchases		
Purchase to parent company	(50,000)	-
Total net transactions	(50,274)	-

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

Other related party transactions are detailed in notes 4 and 6

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

10 Auditors remuneration

The auditors remuneration for year ended 31 December 2009 was borne by another company in the group

11 Key management and Directors' compensation

No emoluments or other benefits were paid to the Directors during the year ended 31 December 2009 (2008 £nil). The Directors are employees of Telefonica O2 UK Limited and are remunerated for their services to the Group as a whole

Notes to the financial statements

12. Employees

	2009 No.	2008 No
Average number of full time employee equivalents (including executive Directors)		
Technology	1	-
Customer Operations	2	-
Administration	1	-
Total employees	5	-

The average number of employees for the year ended 31 December 2009 was low due to the company being dormant until November 2009

The benefits expense incurred in respect of these employees were

	2009 £	2008 £
Wages and salaries	383,785	-
Social security costs	14,383	-
Pension costs	14,170	-
Total employee benefits expense	412,338	-

13. Parent company and controlling party

At the end of the year, the immediate parent company was Telefonica O2 UK Limited. The ultimate parent company and controlling party was Telefonica, S A, a company incorporated in Spain. Copies of the financial statements of Telefonica, S A may be obtained from its registered office at Gran Via 28, Madrid, Spain.

14. Events after reporting period

On 4 January 2010 the Company signed an operating lease. The minimal commitment from this date is £47,812.50 per annum to and including 25 September 2015.

On 25 February 2010 Ronan Dunne and Ramon Ros were appointed directors of the Company.

On 25 February 2010 David Melcon Sanchez-Friera resigned as a director of the Company.