Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2016

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Directors and advisers

Directors

Mark Evans
David Plumb

Secretary

O2 Secretaries Limited

Registered Office

260 Bath Road
Slough
Berkshire
SL1 4DX

Auditor

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Strategic report

Strategy

giffgaff Limited ("the Company") is a wholly owned subsidiary within the Telefónica Group of Companies. The ultimate parent company is Telefónica SA, a company incorporated in Spain and primarily listed on the Spanish stock exchange. The ultimate UK parent is Telefónica Europe plc (reference to Group means Telefónica Europe plc and its subsidiaries). The immediate parent is Telefónica UK Limited.

The Company aims to provide telecommunication services to the tech-savvy and self-service consumer segments. 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. Other offerings include phone sales as a strategy to attract new activations and increase its member base. Phones bought over time were funded by peer to peer loans brokered by the Company as authorised with Limited Permissions by the Financial Conduct Authority (FCA). In 2016 the Company, under its full permission by the FCA to provide credit brokerage and insurance intermediary propositions, diversified its giffgaff Money business to include; personal loans, a credit card comparison platform and free credit report services.

Performance and Development

The Company had substantial base growth for the year ended 31 December 2016 in an increasingly competitive market. The Company's revenue for the year ended 31 December 2016 was £351,444,000 (2015: £284,835,000). The Company's profit after tax for the year ended 31 December 2016 was £25,320,000 (2015: £21,505,000).

The handset business has generated £45,463,000 of revenue for the year ended 31 December 2016 (2015: £40,345,000), contributing to 12.9% (2015: 14%) of the Company's total revenue.

Customer numbers – For the core mobile business, these are customers who are active during a period of one month. Customers are treated as being active if they have used the network (minimum of five CDRs – call detail record – required) or have made a purchase (top-up) in the preceding one month.

A total number of 421,874 net customer additions were added to the mobile business during the year ended 31 December 2016 (2015: 364,246 net customer additions).

Average revenue per user ("ARPU") – ARPU is calculated by dividing total monthly service revenue (excluding inbound roaming) from sales to customers for the preceding 12 months by the weighted average number of active customers for the same period. ARPU is calculated using gross service revenue before deduction of wholesale discounts.

Total ARPU was up 0.7% year-on-year to £11.61.

Churn – This represents the percentage of average accesses which have been disconnected in a period. It is calculated by dividing net disconnections in the period by the average customers (average between opening and closing base) for the same period.

Churn totalled 50.7% in 2016 (2.5% improvement year-on-year).

The giffgaff Money business primarily brokers peer-to-peer loans for the purchase of handsets, earning revenue on a commission basis. During 2016, the Company brokered 69,640 handset loans.

Strategic report (continued)

Risks and Uncertainties

The Company has a risk management framework in place which is designed to identify, manage and mitigate significant risks that could adversely affect its future performance. The Company has a series of controls in place to mitigate these risks, within its internal operations and in the wider external market.

The principal risks and uncertainties in the Company are:

Risk	Mitigation
Regulatory Intervention	
New or more onerous regulatory obligations imposed by the national regulatory authorities (i.e. Ofcom and the Financial Conduct Authority) which could negatively affect the Company's profitability and reputation.	Telefónica UK Limited employs professionals who, on the Company's behalf, engage with the associated regulatory authorities on all aspects of its business to ensure that any negative impact on the Company's profitability is mitigated where possible.
Competition	
Ongoing risks from new or existing competitors could challenge the Company's strategy and business model, such as competitive pricing which the Company cannot match.	The Company monitors products, prices and customer preferences so that it can compete with new products and services introduced by competitors and offer fair, pre-emptive pricing strategies which successfully deliver the cost-versus-service balance that its customers demand. The Company has also diversified its business beyond core mobile usage by entering the financial services market with 'giffgaff Money' as well as the launch of 'giffgaff Marketplace' for the purchase and resale of used handsets.
Data Privacy	
The Company has an obligation to manage its customer data sensitively and within the relevant permissions, making it very clear and transparent to customers how their private data is being used and shared. In the event that the Company shared customer data without permission or where that permission had not been clearly understood, they would be at risk of fines, loss of reputation, loss of customer and employee trust, increased churn and loss of revenue.	Various processes and capability changes have been made in order to reinforce how sensitive data is handled. The Company continually reviews its current products and services for compliance with internally set Data Governance on Customer Data Principles and permissions, as well as compliance against the EU General Data Protection Regulation, which came in to law in April 2016.

Strategic report (continued)

Breach of Data Security

Due to the way in which data is electronically stored and transmitted, there is a risk that a breach of security could occur that could impact on the Company's systems and cause an inability to trade.

Various processes and capabilities have been added and refined in order to reinforce the Company's ability to respond to a potential breach of data security.

Network Spectrum/Capacity

The Company does not own spectrum. As the Company uses Telefónica UK's networks, it is heavily impacted by the demand on Telefónica UK's network and a lack of network capacity may impact upon the Company's ability to deliver service to members at an acceptable level.

Telefónica UK is preparing for an upcoming spectrum auction and has also taken learnings from around the world in alternative radio technology and infrastructure. The Company furthermore shares with Telefónica UK forecasts of business growth and projected utilisation of the network by its customer base so that both parties may plan accordingly.

Significant Event

On March 24, 2015, Telefónica, S.A. ("Telefónica") reached an agreement with Hutchison Whampoa Group for the acquisition of Telefónica's operations in the UK (the "Proposed Transaction").

On May 11, 2016 the European Commission made public its decision to prohibit the Proposed Transaction. Following this decision, the Board of Directors of Telefónica at its meeting on June 29, 2016 agreed that Telefónica will continue to explore different strategic alternatives for its UK operations, to be implemented when market conditions are deemed appropriate.

The Strategic Report was approved by the Board on 12 September 2017.

By Order of the Board

Vivienne Aziba
for and on behalf of O2 Secretaries Limited
Company Secretary

Directors' report

Legal form

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 UK Limited, and its ultimate UK parent is Telefónica Europe plc; both companies are incorporated in England and Wales. The ultimate parent company is Telefónica S.A., a company incorporated in Spain.

The Company's principal place of business is at Hertz House, 11 Vine Street, Uxbridge UB8 1QE.

Reference to Group means Telefónica Europe plc and its subsidiaries of which the Company is a part.

Directors and secretary

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

Ronan Dunne (resigned on 1 August 2016)
Mark Evans
David Plumb (appointed on 1 August 2016)

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).

Employment Policies

The Company does not have contractual employees in its own right. The employees are seconded from Telefónica UK Limited (Telefónica UK), its immediate parent company.

Telefónica UK is committed to employment policies that follow good practice based on equal opportunities for all, and recognise diversity, including fair treatment of people with disabilities in relation to their recruitment, training and development.

Telefónica UK has also invests in researching age, gender and disability diversity across the organisation, seeking to support all employees and their career development at every level of the organisation.

Telefónica UK supports the health and wellbeing of its employees and, specifically, is committed to making improvements to the issue of mental health in the workplace as well as providing a range of occupational health and employee support services to employees.

To support employees Telefónica UK is a member of the Business Disability Forum which provides pragmatic support by sharing expertise, giving advice, providing training and facilitating networking opportunities. This helps organisations become fully accessible to disabled customers and employees.

Telefónica UK's policies on Diversity & Inclusion and Reasonable Adjustments detail the importance placed on providing an inclusive workplace for all, including disabled employees. These policies include guidance for line managers and employees including:

- Recruitment processes and additional arrangements which can be made as required due to any disability, such as:

Employment Policies (continued)

- Reasonable adjustments and practical considerations relating to disabilities.
- Increasing the accessibility of our services making them more inclusive for disabled people.
- Importance of diversity and ensuring that discrimination does not occur.
- Importance of focussing on what people can do rather than what they cannot and challenging stereotypes about people with disabilities.
- E-learning which is available to all Group employees to highlight the legal and behavioural aspects of Diversity & Inclusion.

Employee engagement

Telefónica UK employees are key to giffgaff's business and culture. Telefónica UK aims to achieve high levels of employee engagement in order to achieve high levels of performance. Telefónica UK aims to do this in the following ways:

Engagement: Telefónica UK has a wide range of communication channels with employees, including face-to-face meetings, team briefings, digital live streaming conferences, interactive microsites and a comprehensive intranet with tailored content dependent on employee segmentation. Telefónica UK aims to ensure employees understand the objectives and its operational and financial performance as well as its latest products and services. Telefónica UK conducts a biennial engagement survey, in which the Directors believe Telefónica UK consistently scores above average in comparison to other comparable UK organisations. Telefónica UK aims to maintain a constructive dialogue with unions, employee representative bodies and works councils.

Employee development: the Group is committed to the development of all employees and actively promotes this through learning and development initiatives including the provision of digital learning. Telefónica UK aims to maintain robust succession plans for senior roles and invests in developing high-potential leaders through tailored development programmes to improve stability in its leadership population. Employees are encouraged and supported in maintaining personal development plans.

Diversity: Telefónica UK is committed to employment policies that follow good practice based on equal opportunities for all, and recognise diversity, including fair treatment of people with disabilities in relation to their recruitment, training and development. Telefónica UK has also invested in researching age, gender and disability diversity across the organisation, seeking to support all employees and their career development at every level of the organisation. Telefónica supports the health and wellbeing of its employees and, specifically, is committed to making improvements to the issue of mental health in the workplace as well as providing a range of occupational health and employee support services to employees.

Incentives: Telefónica UK aims to create a high performing culture by targeting and rewarding employees based on both personal and company performance, through annual bonuses and financial incentives for the Group reaching specific targets.

Dividends

The Company did not pay a dividend for the year ended 31 December 2016 (2015: £nil).

Financial risk management objectives, policies and exposure

Details of the Company's approach to financial risk management are set out in the financial statements in note 14 "Financial instruments".

Directors' report (continued)

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.

Additionally, the Company has received a letter of parental support from Telefonica S.A which confirms that Telefonica S.A will continue to provide financial support to the Company for a period of twelve months from the approval of the financial statements

Political donations

The Company made no political donation during the year ended 31 December 2016 (2015 £nil).

Statement as to disclosure to Auditor

So far as each Director is aware, there is no relevant audit information of which the Company's auditor 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.

The Directors' Report was approved by the Board on 12 September 2017.

By Order of the Board

Vivienne Aziba
for and on behalf of O2 Secretaries Limited
Company Secretary

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 regulations.

Company law required the directors to prepare Company financial statements for each financial year. Under that law the Directors are required to prepare Company financial statements under IFRSs as adopted by the European Union. Under Company Law, the directors must not approve the Company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the Company financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- make judgements and estimates that are reasonable

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of giffgaff Limited

We have audited the financial statements of giffgaff Limited for the year ended 31 December 2016 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 21. 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 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair value of the state of the company's affairs as at 31 December 2016 and of its profit 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, based on the work undertaken in the course of the audit;

- the information given in the Directors' Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report and the Strategic Report have been prepared in accordance with applicable legal requirement

Independent Auditor's report to the members of giffgaff Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of audit, we have identified no material misstatements in the Directors' Report and the Strategic Report.

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 13/09/17

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

Statement of comprehensive income
For the year ended 31 December 2016

	Note	**2016** **£000**	2015 £000
Revenue	18	**351,444**	284,835
Cost of sales		**(251,195)**	(205,641)
Gross profit		**100,249**	79,194
Administrative expenses		**(68,562)**	(52,127)
Operating profit before taxation	2	**31,687**	27,067
Taxation	3	**(6,367)**	(5,562)
Profit for the year attributable to equity shareholders		**25,320**	21,505
Total comprehensive income for year		**25,320**	21,505

The accompanying notes are an integral part of these financial statements.

Statement of financial position
As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	4	**13,682**	15,353
Intangible assets	5	**186**	90
Deferred tax assets	10	**488**	503
		14,356	15,946
Current assets			
Inventories	8	**5,306**	4,659
Trade and other receivables	6	**40,454**	11,660
Cash and cash equivalent	7	**63,329**	78,562
		109,089	94,881
Current liabilities			
Trade and other payables	9	**(128,030)**	(140,732)
Net current liabilities		**(18,941)**	(45,851)
Total assets less current liabilities		**(4,585)**	(29,905)
Net liabilities		**(4,585)**	(29,905)
Equity shareholders' deficit			
Share capital	11	**-**	-
Retained earnings		**(4,585)**	(29,905)
Total Equity		**(4,585)**	(29,905)

The accompanying notes are an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 12 September 2017 and were signed on its behalf by:

Mark Evans
Director

Statement of changes in equity
Year ended 31 December 2016

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2015	-	**(51,410)**	**(51,410)**
Total comprehensive income for the year	-	21,505	21,505
At 31 December 2015	-	**(29,905)**	**(29,905)**
Total comprehensive income for the year	-	25,320	25,320
At 31 December 2016	-	**(4,585)**	**(4,585)**

The accompanying notes are an integral part of these financial statements.

Statement of cash flows
Year ended 31 December 2016

	Note	2016 £000	2015 £000
Profit before tax		31,687	27,067
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation and depreciation charges		3,330	5,847
Working capital adjustments:			
(Increase) in inventory		(647)	(4,418)
(Increase) in trade and other receivables		(28,794)	(5,119)
(Decrease)/ Increase in trade and other payables		(12,703)	39,420
Taxation		(6,351)	(2,222)
Net cash flow from/(used) operating activities		**(13,478)**	**60,575**
Purchase of plant and equipment		(1,755)	(4,932)
Net cash flow used in investing activities		**(1,755)**	**(4,932)**
Net (decrease)/increase in cash and cash equivalents		(15,233)	55,643
Cash and cash equivalents at start of the year		78,562	22,919
Cash and cash equivalents at 31 December	7	**63,329**	**78,562**

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements (continued)

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's financial statements are presented in Pound Sterling ('GBP') and all values are rounded to the nearest thousand GBP (£000) except where otherwise indicated.

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.

Additionally, the Company has received a letter of parental support from Telefonica S.A. which confirms that Telefonica S.A. will continue to provide financial support to the Company for a period of twelve months from the approval of the financial statements

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 loss represent activities that are not directly attributable to the Company's primary operations.

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.
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:

Plant and 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, mainly comprises the mobile service revenue and hardware revenue (each described below).

Mobile Service Revenue

Mobile 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 recorded as deferred revenue prior to commencement of services and is recognised as the pre-pay services are rendered. Outbound roaming revenue, earned from the Company's customers roaming outside their domestic coverage area, is recognised based upon usage. Interconnect revenue, earned from other telecommunications operators whose customers terminate calls on the Company's network, is recognised based on usage.

Hardware Revenue

Hardware revenue principally consists of revenue from the sale of handsets. The revenue and related expenses associated with the sale of wireless handsets and accessories are recognised when the products are delivered and accepted by the customer.

Handsets bought over time were funded by peer to peer loans, brokered by the company. As a broker, giffgaff receive revenue on a commission basis, recognised at point of sale.

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Employee benefits

Pension Obligations

The Company does not have any contractual employees. Since September 2015, the Company's employees are seconded from Telefónica UK Limited (previously seconded from Telefónica Digital Limited), an associate company within the Telefónica Group, which participates in the Telefónica UK Pension Plan ("Telefónica PP"), a scheme sponsored by Telefónica Europe plc that provides benefits for the majority of UK employees in the Telefónica Group. During the reporting year, the Telefónica PP had both defined benefit and defined contribution sections. On 28 February 2013 the defined benefit sections of the Telefónica PP closed to further benefit accrual. Members' of the defined benefit sections of the Telefónica PP will continue to be increased in deferment by reference to the Consumer Prices Index but will not retain the link to any future increases in salary. Upon closure, members of the defined benefit sections of the Telefónica PP were given the option to become members of the defined contribution section of the Telefónica PP. The defined contribution sections of the Telefónica PP remain open to new entrants and further accrual. The assets of the Telefónica PP are held independently of the Company's finances.

In Telefónica UK Limited's 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 Europe Plc.

Share based payments

The Company recognises an expense for share awards and share options, which are both equity and cash 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 is exercised. In addition, for cash-settled share based payment transactions, the Company measures the services received and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period.

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 statement of financial position 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.

Notes to the financial statements (continued)

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 short term deposits repayable on demand with Telfisa Global B.V.

Inventories

Inventories comprise SIM cards and handsets and are stated at the lower of cost and net realisable value 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.

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals under operating leases are charged to the statement of comprehensive income in equal annual instalments over the periods of the 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.

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

The accounting policies adopted are consistent with those of the previous financial year.

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

IAS/IFRS standards	**Effective for accounting periods beginning on or after**
Amendments to IAS 12 (January 2016) *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017[1]
Amendment to IAS 7 *Disclosure Initiative*	1 January 2017[1]
IFRS 9 *Financial Instruments*	1 January 2018[1]
IFRS 15 *Revenues from Contracts with Customers*	1 January 2018[1]
IFRS 16 *Leases*	1 January 2019[1]
Amendments to IFRS 10 and IAS 28 (September 2014) *Sales or Contribution of Assets between an Investor and its Associate of Joint Venture*)	See below[2]

[1] The mandatory adoption under EU applying regulations has not yet been confirmed.

[2] The IASB has acknowledged a conflict between these amendments and IAS 28 Investments in Associates and Joint Ventures. In December 2015 the IASB published and amendment to IFRS 10 and IAS 28, deferring the effective date of these amendments indefinitely.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.

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.

Property, plant and equipment and intangible assets

Accounting for property, plant and equipment and intangible assets 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.

Property, plant and equipment and intangible assets are depreciated or amortised on a straight-line basis over their estimated useful lives and taking into account their expected residual values. When the Company estimates useful lives, various factors are considered including expected technological obsolescence and the expected usage of the asset. The Directors regularly review these asset lives and change them as necessary to reflect the estimated current remaining lives in light of technological changes, future economic utilisation and physical condition of the assets concerned. A significant change in asset lives can have a significant change on depreciation and amortisation charges for the year.

The Company assesses the impairment of property, plant and equipment and intangible assets 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.

Deferred tax assets

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 tax assets remain deductible. This analysis is based on the estimated reversal of deferred taxes as well as estimates of taxable earnings, which are sourced from internal projections and are updated to reflect the latest trends. Actual income tax payments could differ from the estimates made as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Notes to the financial statements (continued)

2. Operating profit

The following items have been included in arriving at the operating profit:

	2016	2015
	£000	£000
Staff costs (note 16)	**5,967**	5,187
Amortisation of intangible assets (note 5)	**45**	68
Depreciation of property, plant and equipment (note 4)	**3,426**	5,778
Operating lease costs (note 12)	**275**	275
Auditor's remuneration (note 21)	**19**	25
Inventories:		
Cost of inventories recognised as an expense (included in cost of sales)	**47,363**	43,139

3. Taxation

	2016	2015
	£000	£000
Current tax - current year	**6,343**	5,884
Current tax – adjustments in respect of prior year	**9**	-
Deferred tax - current year	**15**	(378)
Deferred tax - adjustments in respect of prior year	**-**	-
Effect of change in tax rate	**-**	56
Taxation	**6,367**	5,562

	2016	2015
	£000	£000
Profit before taxation	**31,687**	27,067
Profit before taxation multiplied by rate of corporation tax in the UK of 20% (2015: 20.25%)	**6,337**	5,481
Effects of:		
Expenses not deductible for tax purposes	**23**	21
Prior year adjustment	**9**	-
Effect of change in tax rate	**(2)**	61
Total taxation charge	**6,367**	5,562

Finance Act 2016 provides that the rate of corporation tax from 1 April 2017 will be 19%. On 15 September 2016 the UK Government enacted legislation to further reduce the main rate of corporation tax from 18% to 17% with effect from 1 April 2020. As a result the disclosure of deferred tax has been adjusted to reflect the enactment of this Act with no significant impact on these financial statements.

Notes to the financial statements (continued)

4. Property, Plant and Equipment

	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2015	25,705	5,089	30,794
Additions	1,924	2,949	4,873
At 31 December 2015	27,629	8,038	35,667
Additions	1,530	225	1,755
At 31 December 2016	**29,159**	**8,263**	**37,422**
Depreciation			
At 1 January 2015	14,536	-	14,536
Charge for the year	5,778	-	5,778
At 31 December 2015	20,314	-	20,314
Charge for the year	3,426	-	3,426
At 31 December 2016	**23,740**	-	**23,740**
Net book value			
At 31 December 2016	**5,419**	**8,263**	**13,682**
At 31 December 2015	7,315	8,038	15,353

Notes to the financial statements (continued)

5. Intangible Assets

	Software £000	Total £000
Cost		
At 1 January 2015	673	673
Additions	58	58
At 31 December 2015	731	731
At 31 December 2016	**731**	**731**
Amortisation		
At 1 January 2015	573	573
Charge for the year	68	68
At 31 December 2015	641	641
Reclassifications	(141)	(141)
Charge for the year	45	45
At 31 December 2016	**545**	**545**
Net book value		
At 31 December 2016	**186**	**186**
At 31 December 2015	90	90

6. Trade and other receivables

	2016 £000	2015 £000
Prepayments	**1,982**	1,917
Other debtors	**3,185**	1,441
Amounts owed by group companies	**35,287**	8,301
Trade and other receivables	**40,454**	11,660

Amounts owed by group companies relate to trading activities. These amounts are unsecured, interest free and repayable on demand.

7. Cash and cash equivalents

	2016 £000	2015 £000
Cash and cash equivalents	**63,329**	78,562

Notes to the financial statements (continued)

8. Inventories

	2016 £000	2015 £000
Handsets held for resale	**5,017**	4,493
SIM	**289**	166
Inventories	**5,306**	4,659

9. Trade and other payables

	2016 £000	2015 £000
Amounts owed to group companies	**83,638**	107,657
Other taxation and social security	**16,765**	13,714
Accrued expenses	**5,334**	2,423
Deferred income	**22,293**	16,938
Trade and other payables	**128,030**	140,732

Amounts owed to group companies relate to trading activities (including tax loss transfers). These amounts are unsecured, interest free and repayable on demand.

10. Deferred taxation

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 18% (2015:18%)

The movement on the deferred tax asset is as shown below:

	£000
At 1 January 2015	181
Current year (charge) / credit to statement of comprehensive income	378
Effect of change in tax rate	(56)
At 31 December 2015	503
Current year (charge) / credit to statement of comprehensive income	(15)
At 31 December 2016	**488**

Deferred tax assets	**Accelerated tax depreciation £000**	**Other £000**	**Total £000**
At 31 December 2015	474	29	503
(Charge) / credit to statement of comprehensive income	(22)	7	(15)
At 31 December 2016	452	36	488

The Finance (No.2) Act 2015 provides that the rate of corporation tax from 1 April 2017 will be 19% and that the rate from 1 April 2020 will be 18%. As a result the disclosure of deferred tax has been adjusted to reflect the enactment of this Act with no significant impact on these financial statements.

Notes to the financial statements (continued)

11. Share capital

	Number of shares	2016 £	Number of shares	2015 £
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. 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.

12. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2016 the Company was committed to making the following total future lease payments in respect of operating leases for each of the following years:

	2016 £000	2015 £000
Within one year	**275**	275
Total operating lease commitment	275	275

Other commitments

There were no other commitments at 31 December 2016 (2015: £nil).

13. Related party disclosure

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

	2016 £000	2015 £000
Revenue		
Sales to group companies	-	-
Purchases		
Purchases from group companies	**(133,048)**	(85,044)
Total net transactions	**(133,048)**	(85,044)

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 6 and 9.

Related party transactions with Directors and key management are detailed in note 15.

Purchases of property, plant and equipment are made via another group company and are not included in the above number.

Notes to the financial statements (continued)

14. 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 Telef6nica 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.

The Company's liquidity risk is managed through being a part of the larger Telef6nica 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.

Notes to the financial statements (continued)

14. Financial instruments (continued)

Fair value of financial instruments

The carrying and fair values of the Company's financial assets at 31 December are:

	2016 Carrying value	2016 Fair value	2015 Carrying value	2015 Fair value
	£000	£000	£000	£000
Financial Assets				
Cash and cash equivalents	**63,329**	**63,329**	78,562	78,562
Amounts owed by group companies	**35,287**	**35,288**	8,301	8,301
Other debtors	**3,185**	**3,185**	1,441	1,441
Total financial assets	101,801	101,802	88,304	88,304
Financial Liabilities				
Amounts owed to group companies	**83,629**	**83,629**	107,658	107,658
Accrued expenses	**5,334**	**5,334**	2,423	2,423
Total financial assets	88,963	88,963	110,081	110,081

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.

15. Key management and Directors' compensation

Following a governance review in the year the executive management is considered to be key management. Previously the key management were considered to be the same as the Directors of the Company. Compensation for services to the Group for the year ended 31 December 2016 were as follows:

	2016	2015
	£'000	£'000
Salaries and short term employee benefits	**5,198**	2,635
Long-term incentive plans	-	929
Post-employment benefits	**269**	43
Total key management compensation	**6,369**	5,562

Notes to the financial statements (continued)

15. Key management and Directors' compensation (continued)

The remuneration of the Directors of the Company for the year ended 31 December 2016 was, in summary, as follows:

	2016 £'000	2015 £'000
Aggregate emoluments in respect of qualifying services	4,900	2,635
Aggregate amounts paid under long term incentive plans	-	929
Aggregate amount of company contributions paid to a pension scheme	13	43
Total director remuneration	**4,913**	**3,607**

During the year, one Director accrued retirement benefits under a defined contribution pension plan. None of the Directors were entitled to receive shares under the Performance Share Plan in the year.

In respect of the highest paid director included in key management:

	2016 £'000	2015 £'000
Aggregate emoluments in respect of qualifying services	2,386	1,525
Aggregate amounts paid under long term incentive plans	-	482
Aggregate amount of company contributions paid to a pension scheme	-	-
Total director remuneration	**2,386**	**2,007**

None of the Directors received any remuneration in respect of their services to the Company specifically.

16. Employees

All employees are seconded from Telefónica UK, who incur the employee costs and recharge these to the Company on a monthly basis.

	2016	2015
Average number of full time employee equivalents (including executive Directors)	No.	No.
Technology	23	17
Customer Operations	65	49
Administration	8	6
Total employees	**96**	**72**

The benefits expense incurred in respect of these employees were:

	2016 £000	2015 £000
Wages and salaries	4,940	4,328
Social security costs	604	505
Pension costs	418	347
Share based payments	5	7
Total employee benefits expense	**5,967**	**5,187**

Notes to the financial statements (continued)

17. Share based payments

The amounts recognised in operating loss for share based payment transactions with employees for the year ended 31 December 2016 was as follows:

Period from 01 January 2016 to 31 December 2016	**2016**	2015
	£'000	£'000
Equity settled share based payments	**5**	7
Total share based payments	**5**	7

Equity-settled share schemes

The main share-based payment plans in place during the year are as follows:

Telefónica Performance Investment Share Plan 2011-2016

At the General Shareholders' Meeting held on 18 May 2011, a long-term share-based incentive plan called "Performance and Investment Plan" was approved for Telefónica Group directors and executive officers.

Under this plan, a certain number of shares of Telefónica, S.A. would be delivered to plan participants selected by the Company who decided to participate on compliance with stated requirements and conditions.

The plan lasted five years and was divided into three independent three-year phases (i.e. delivery of the shares for each three-year phase three years after the start date). The first phase began on 1 July 2011 (with the delivery of the related shares from 1 July 2014). The second phase began on 1 July 2012 (with delivery of the related shares from 1 July 2015). The third phase began on 1 July 2013 (with delivery of the related shares from 1 July 2016).

The specific number of Telefónica, S.A. shares deliverable within the maximum amount established to each member at the end of each phase would be contingent and based on the Total Shareholder Return ("**TSR**") of Telefónica, 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 made up the comparison group ("**Comparison Group**").

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

At the beginning of each phase, each participant was allocated a notional number of shares. According to the plan, the number of shares to be delivered would range from:

- 30% of the number of notional shares if Telefónica, S.A.'s TSR was at least equal to the median of the Comparison Group;
- 100% if Telefónica S.A's TSR was within the third quartile or higher than that of the Comparison Group. The percentage was calculated using linear interpolation when it fell between the median and third quartile; and
- No shares would be delivered if Telefónica, S.A's TSR was below the Comparison Group's median.

Notes to the financial statements (continued)

17. Share based payments (continued)

The plan included an additional condition regarding compliance by all or part of the participants with a target investment and holding period of Telefónica, 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 co-investment requirement would receive an additional number of shares, provided the rest of the requirements established in the plan were met.

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

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

The first phase expired on 30 June 2014. Delivery of the shares was not required at the end of the phase according to the general conditions of the plan; therefore managers did not receive any shares. The second phase expired on 30 June 2015. Delivery of the shares took place at the end of the phase according to the general conditions of the plan to the value of £0.1 million.

The third phase expired on 30 June 2016. Delivery of the shares was not required according to the general conditions of the plan; therefore management did not receive any shares.

Phase	No. Shares assigned	Unit fair value	End date
3rd phase July 2013	10,789	€6.40	30 June 2016

The period of the three independent three-year phases of the 2011-2016 plan came to an end on 30 June 2016.

Telefónica Performance Investment Share Plan 2014-2019

The Telefónica, S.A. General Shareholders' Meeting on 30 May 2014 approved a new instalment of the long-term share-based incentive "Performance and Investment Plan" for certain senior executives and members of the management team of the Telefónica Group, to be operational on completion of the first Performance and Investment Plan. Like its predecessor, the term of the new plan covers a period of five years divided into three phases. No shares were granted in the third and final phase of the scheme in 2016. Shares are to be delivered at the end of each of the first two phases (in 2017 and 2018 respectively).

The initial share allocation took place on 1 October 2014, and the second phase began on 1 October 2015.

Notes to the financial statements (continued)

17. Share based payments (continued)

Phase	No. Shares assigned	Unit fair value	End date
1st phase October 2014	12,574	€6.82	30 September 2017
2nd phase October 2015	4,375	€6.46	30 September 2018
3rd phase October 2016	-	-	-

Talent for the future Share Plan (TFSP) 2014-2019

The TFSP is a long-term programme aimed to recognise and reward employees with consistent outstanding performance, with high potential and key skills.

The plan lasts five years and is divided into three independent three-year phases (i.e. delivery of the shares for each three-year phase three years after the start date). The first phase began on 1 October 2014 (with the delivery of the related shares from 30 September 2017). The second phase began on 1 October 2015 (with delivery of the related shares from 30 September 2018). There was no allocation of shares in the third and final phase of the plan.

The specific number of Telef6nica, 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 Telef6nica, S.A. shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in Comparison Group.

The TSR is the indicator used to determine the Telef6nica 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 Telef6nica, 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 was 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 Telef6nica, S.A.'s TSR is just above the TSR of the companies making up 50th percentile of the Comparison Group, and
- 100% of the number of notional shares if Telef6nica S.A's exceeds the TSR of the companies making up the 50th percentile of the Comparison Group.
- Where Telef6nica S.A.'s TSR is between the 50th percentile and the 75th percentile of the Comparison Group, the percentage of notional shares to be received will be determined on a straight-line basis.
- No shares will be delivered if Telef6nica, S.A's TSR is below the TSR of the companies making up 50th percentile of the Comparison Group.

Notes to the financial statements (continued)

17. Share based payments (continued)

In addition, and independently 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 Telefónica 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 2017, 2018, and 2019 respectively).

The initial and second share allocation took place on 1 October 2014 and 2015 respectively. There was no share grant in the third and final phase.

Phase	No. Shares assigned	Unit fair value	End date
1st phase October 2014	2,021	€6.82	30 September 2017
2nd phase October 2015	-	€6.46	30 September 2018
3rd phase October 2016	-	-	-

Cash-settled share-based payments

Telefónica Performance Cash Plan

This plan mirrored the conditions of the Telefónica Performance Investment Share Plan and awarded employees a given number of notional shares in Telefónica, S.A. These notional shares entitled the beneficiary to a cash payment equivalent to their market value on vesting.

The plan expired on 30 June 2014. Delivery of shares was not required at the end of the phase according to the general conditions of the plan; therefore managers did not receive any shares.

There were no new cash-settled share-based plans approved during the period.

Other share-based payment plans

Global Employee Share Plan 2011

At 18 May 2011 General Shareholders' Meeting of Telefónica, S.A., the shareholders approved the introduction of a Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide. Under the plan the possibility of acquiring shares of Telefónica S.A. was offered with the commitment of the latter to allot free of charge to the participants in the plan a certain number of shares of Telefónica S.A., provided certain requirements were met.

The total term of the plan was two years. Employees joining the plan could acquire Telefónica, S.A. shares through maximum monthly instalments of 100 euros (or the local currency equivalent), up to a maximum of 1,200 euros over a period of 12 months (acquisition period) and the minimum contribution to be made by each participant would be 300 euros (or the local currency equivalent). Shares were to be delivered upon vesting of the plan, as from 1 December 2014, subject to a number of conditions:

- The beneficiary must have continued to work for the company throughout the two-year duration of the plan (consolidation period), subject to certain special conditions related to departures.
- The actual number of shares to be delivered at the end of the consolidation period depended on the number of shares acquired and retained by each employee. Each employee who was a member of the plan and remained a Group employee, and retained the shares acquired for an additional twelve-month period after the acquisition date, was entitled to receive one free share per share acquired and retained at the end of the consolidation period.

Notes to the financial statements (continued)

17. Share based payments (continued)

The plan's shareholding period came to an end in December 2014. At the vesting date (1 December 2014), 1,071 employees adhered to the plan and received free matching shares. This plan was equity-settled via the delivery of shares to the employees in December 2014.

Global Employee Share Plan 2015

At 30 May 2014 General Shareholders' Meeting of Telefónica, S.A., the shareholders approved the introduction of a new Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide. Under the plan the possibility of acquiring shares of Telefónica S.A. was offered with the commitment of the latter to allot free of charge to the participants in the plan a certain number of shares of Telefónica S.A., provided certain requirements are met.

The total term of the plan was 2 years. Employees joining the plan could acquire Telefónica, S.A. shares through maximum monthly instalments of €150 (or the local currency equivalent), up to a maximum of €1,800 over a period of 12 months (acquisition period) and the minimum contribution to be made by each participant would be 25 euros. Shares are to be delivered upon vesting of the plan, as from 31 July 2017, subject to the same conditions of its predecessor.

18. Revenue

The total revenue for the Company's for the year ended 31 December 2016 was £351,444,000 (2015: £284,835,000). Significant revenue streams are detailed below:

	2016	2015
	£000	£000
Mobile service revenue	**305,980**	244,490
Handsets revenue	**45,463**	40,345
Total revenue	**351,444**	284,835

19. 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.

20. Auditor's remuneration

The aggregate fees paid to auditors during the year for audit and other services are analysed below:

	2016	2015
	£000	£000
Audit services:		
UK statutory audit fees	**19**	19
Total auditor's remuneration	**19**	**19**

The fees were paid to Ernst & Young LLP.