Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2019

Contents

Company information

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Strategic Report

giffgaff Limited ("the Company" or "giffgaff") is a wholly owned subsidiary within the Telefónica Group of companies. The ultimate parent company is Telefónica S.A., a company incorporated in Spain and primarily listed on the Spanish stock exchange. giffgaff operates as a 100% owned subsidiary of Telefonica UK Limited ("T UK"), a mobile network operator trading under the O2 brand.

Our Purpose

Our purpose is to harness the power of people, to challenge the established way and improve it.

Our Values

Positive, Curious, Collaborative and Gritty

Our Strategy

giffgaff is an online Mobile Virtual Network Operator (MVNO) with no call centres or shops. Instead we work with our members (customers) to: source ideas and feedback; to provide frontline service support through our community and be a source of growth through giffgaff's member get member scheme. We call it 'Run by you'. The outcome is we have market leading levels of recommendation Net Promoter Score (NPS) and a low-cost operating model that helps us give our members great value tariffs.

In 2019 we achieved this through:

1. **Our members and community**: developing a core community of 'pioneers', who are members choosing to help us identify new opportunities and providing feedback on experiences, to create more engagement with our members. To help engagement prosper we replaced our legacy community hosting platform with one we built ourselves in collaboration with our members who helped us prioritise and test new features.
2. **Our propositions**: we never lock our members into airtime contracts and have refreshed our range of tariffs (we call goodybags) to include more data and minutes. We have also evolved our mobile handset proposition to include refurbished phones, responding to an emerging need for better value and more sustainable upgrade options when people choose their next phone.
3. **Our people:** we believe engagement drives performance and we measure it through Gallup's Q12 survey methodology. Our latest engagement scores are our best yet, placing us amongst the most engaged companies in the UK.
4. **Our technology:** as a digital platform business, technology underpins our performance. In 2019 we built a game changing new capability to improve the speed at which we can build and deploy new code to enhance our software and crucially the experience of our members.
5. **Our corporate responsibility approach:** our belief in the value of Community is demonstrated at scale through charity contributions of over £800,000 through our Member Payback scheme over the last 10 years. We also commit time and money to local good community causes through our internal 'Ministry of Good Deeds' from hosting events for the local elderly to transforming local community venues.

Our members and community

giffgaff is a MVNO running on the O2 network, providing telecommunication services to the consumer mobile segment. giffgaff is an ancient Scottish word that means 'mutual giving' and, as such, we have 'members' rather than 'customers'. Our business model is designed to deliver against our strategic objectives. We are always looking to be mutual and open by creating new opportunities that give our members a chance to have a seat at the table, share their experience and ideas and ultimately shape giffgaff's future together.

At giffgaff we believe that 'together with our members anything is possible'. This means we believe that being 'Run by you' is listening to our members, involving them in everything we do and being mutual by rewarding their time and effort with payback which can be taken as credit, cash or donated to charity.

Strategic report (continued)

Our members and community (continued)

So, at giffgaff our members are at the heart of everything we do. Members help other members on the forum by answering questions, as well as guest starring in our adverts and creating content for other members to enjoy in the form of videos, blogs and images.

Member involvement has helped us win Which? and uSwitch awards in successive years and in 2019 we dialled up member participation with the creation of the 'Pioneers' programme ensuring over 7000 members are on hand to work with our Product Teams to help inform, prioritise, test and feedback on new developments in our products and services. In 2019 the Pioneers worked on 15 different projects with our Product Teams with 45 visits to the office and over 300 signed up testers of our new beta app.

Results and measurement

Having a focus on our members helped us to deliver the following business impact:

- An average Net Promoter Score of 65.7 significantly above the average for the mobile sector according to our own brand tracking surveys and Ofcom's own survey
- Growth of our 2019 member base by 304,742 members
- Growth of our member satisfaction index to 85.5 well above the sector average
- External recognition by the Institute of Customer Service who ranked as the 14th Best brand in the UK for service.

Our propositions

Our core business is the provision of SIM only mobile services, but we also offer the purchase of new or refurbished handsets (outright or via loans). We provided online charging platform services to other mobile virtual network operators until June 2019 when we decoupled the platforms so we had a standalone service for giffgaff and were able to sell the remaining elements of the original platform to the MVNOs.

We keep our propositions simple with only 7 tariffs (goodybags) to choose from, and to help members make the right choice for them, we provide best plan advice every month to everyone who wants to receive it. To keep up with people's use of data we regularly review the amount of data included in our goodybags and made changes in July and August to increase the amount of data available on our £10 to £25 goodybags.

In our handset business, having seen a growing interest in refurbished devices, we have shifted focus to promote 'Refurbs' as the savvy and sustainable choice. 'Choose Refurbished' was our lead message during the Black Friday trading period helping us to build our credentials in this part of the market and also build the refurbs category itself.

In October 2019 TUK launched its 5G network in six towns and cities across the UK extending to a total of 21 towns and cities, by the end of December 2019 prioritising areas where consumers will benefit most. In H1 2020 giffgaff is undertaking in-depth research with its giffgaff pioneers to truly understand how they use 5G and appreciate its benefits. We will be working towards a 5G launch to all member in H2 2020.

Strategic report (continued)

Recent awards

- Uswitch network of year 2019
- Uswitch best network for data 2019
- What mobile awards 2019 - best MVNO
- PC pro awards best data award 2019
- Which recommended provider 2019

Our people

Our people are our most valuable asset and their enthusiasm and commitment to giffgaff is what makes it possible for us to live our purpose: to harness the power of people, challenge the established way and improve it. All of our people are employed by T UK and as such we benefit from their support including operating the same employee related policies and procedures.

Being a community-centred business, everyone plays a big part. Our people strategy is simple: spend time hiring the right people, trust them, throw them into big challenges and grow and develop them. We have a handful of values – gritty, collaborative, curious, positive – and, as we have grown, they have kept us grounded and helped to deliver some amazing things in the 'giffgaff way'. It's all underpinned by our original belief, that 'together with our members anything is possible'.

We support our people's professional development and encourage the improvement of their skills and abilities. We promote awareness of how people's contributions are evaluated in the process of achieving our goals. We promote active participation in the evaluation process so that together we can all continue improving in our roles. We also want to contribute to our people's personal development through training and information resources and tools, so they can achieve a balance between their professional and personal lives.

Diversity and inclusion, fair treatment of our people and high satisfaction within the working environment are especially important to us. Our aim is to provide our people with optimum working conditions, excellent career opportunities, training, and wellbeing.

Our employee engagement survey (Gallup Q12) for the second half of 2019 gave us an average score of 4.26/5 up from the first half survey in 2019 which gave us scores of 4.13/5. A fantastic improvement during the year, that according to Gallup puts us in the top 10% of companies in the UK for employee engagement.

We closed the year with an employee Net Promoter Score of 43.

Strategic report (continued)

Our technology

As a digital platform business technology underpins our performance. In 2019 we built a game changing new capability to improve the speed at which we can build and deploy new code to enhance our software code base and crucially the experience of our members. Instead of the 26 software releases we did in 2018, in 2019 we managed over 8,000. Improving the agility of our technology teams ensures we are well placed to continue to deliver industry leading propositions and experiences.

At the heart of giffgaff is its member community and in 2019 we took the bold step of retiring our original third party community platform and replacing it with one built in-house using open source software. giffgaff members were involved every step of the way helping us capture and prioritise requirements and test new features. The new platform went live in August 2019 and is the new backbone for managing our, all important, relationship with our members.

giffgaff is interested in discovering new ways to create value for our members and shareholders and in previous years has been experimenting in the financial services sector under the name of 'giffgaff gameplan'. On 13 August 2019 it was decided to discontinue 'gameplan', in order for the Company to focus on its core activities.

Our corporate responsibility approach

Our approach to ethical conduct is reflected in our Business Principles *which underpins our commitments* to our stakeholders and is centred on three core values, in which we are aligned with our shareholder, T UK:

- **Integrity:** being honest and acting in accordance with non-negotiable ethical standards. Our policy states that we are committed to acting professionally, fairly, with integrity and do not tolerate any form of bribery or corruption: "we do not offer or accept gifts, entertainment or other types of incentives which may reward or influence a business decision." Any breach of either of these policies can lead to disciplinary action
- **Commitment**: the commitment we undertake with each stakeholder group is based on a commitment to always act in a responsible manner and to stand by what we pledge
- **Transparency**: we commit to clear and accessible information about our strategy and our activities, providing a platform for questions to be asked by anyone at any time.

We are committed to acting professionally, fairly and with integrity and do not tolerate any form of bribery or corruption. Our anti-bribery and corruption approach is summarised in our Business Principles, which are essential for everyone working either for or on our behalf. As a wholly owned subsidiary of TUK, a significant proportion of our policies and processes are consistent with those of our parent entity. These include employment policies, information management, and governance best practice. We are subject to audits carried out by the Business Assurance team in T UK, as well as external audits by the Information Commissioner's Office (ICO) and the British Standards Institute (BSI) on behalf of Ofcom. Further information regarding our approach to being a responsible Business, including our Business Principles, is published in the Group's Non-Financial Report available at https://www.o2.co.uk.

Social

We're not just about giving back to our members at giffgaff. We're also passionate about supporting worthy causes. Our Payback scheme, which we've been offering to all giffgaff members since 2010, has so far donated over £800,000 to more than 28 different charities.

Our dedicated 'Ministry of Good Deeds' keeps generosity and giving back to local communities at the forefront of our minds. In 2019 we hosted a range of events including sponsored bake-offs, food collections for the homeless, planting of trees and plants, hosting monthly Re-engage afternoon teas and raising over £4,000 for Irish Cancer Care.

Strategic report (continued)

Environment

As an online only MVNO with no shops or call centres we are keen to keep our carbon footprint low and our recent focus on refurbished phones is helping to extend the life of those devices.

During 2019 we continued to recycle 99% of the office waste. Plastic waste has significantly been reduced, reusable coffee cups and straws are offered to all members of staff and strongly encouraged. All food waste is recycled or donated to the food bank.

Our suppliers

Being part of the Telefónica Group of companies affords benefits such as scale efficiencies in procurement and access to products and services. We benefit from the scale of the supplier base of our parent company, but have also developed strong supplier relationships in the SME environment, and remain committed to sustainable procurement and supplier management throughout the value chain.

Our engagement with our direct and indirect supply chain has led us to focus on the areas outlined below:

- Maintaining leadership practices in the management of supply chain carbon
- Reducing waste to landfill and the use of single use plastics in our supply chains
- Strengthening our management of security in the supply chain
- Driving H&S with vendors involved in construction and other high risk activities
- Reviewing modern slavery risks with vendors in at risk categories and with franchisee partners
- Managing sustainability in new tenders
- Maintaining a view of suppliers operating in high sustainability risk categories and ensuring they all hold a current EcoVadis assessment above 44 and do not present business ethics risks.

Our standard payment terms range from 30 days to 180 days, determined by category of spend. For example, 180 day payment terms are standard for capital expenditure associated with platform development and other long term asset improvement costs; and 30 day payment terms are standard for media advertising spend. In addition, where a supplier is deemed to be a UK registered Small or Medium sized Entity (SME), 30 day payment terms are available upon request.

We prohibit all forms of forced labour by our suppliers. Following government guidelines, we identify 'at risk' areas of our supply chain and engage with those suppliers to assess how they manage Modern slavery risk. This happens as part of our general management of human rights in the supply chain. A full explanation of our approach to managing Modern slavery risks can be found in the our Modern Slavery Statement published annually on the giffgaff website.

Parent

giffgaff operates as a 100% owned subsidiary of T UK, a mobile network operator trading under the O2 brand. We share their platform including their policies and procedures. giffgaff has a mutual business relationship with T UK gaining by using their structure for supply chain, suppliers, and warehousing.

Strategic report (continued)

Employee Engagement Statement

All of our people are employed by our Parent, TUK, and as such we benefit from their support including operating the same employee related policies and procedures. giffgaff solely operates in the UK and its employees are based in the UK.

Details of how the directors have engaged with UK employees and how the directors have had regard to the UK employee interest, and the effect of that regard on principal decisions taken by the Company can be found on pages 4 of the Strategic Report and page 16 of the Directors' Report

Performance and development

At the end of 2019, the key operating performance highlights of the Company are:

Revenue	giffgaff had substantial member base growth for the year ended 31 December 2019 in an increasingly competitive market. Our revenue for the year was £490,814,000 (2018: £449,222,000) and our profit after tax for the year was £33,529,000 (2018: £30,560,000).
Handsets	The handset business generated £56,550,000 of revenue for the year (2018: £50,079,000), contributing 11.5% (2018: 11.1%) of our total revenue, with a focus on refurbished handsets. 123,958 refurbished handsets sold in 2019 vs 64,391 new handsets and we brokered 78,951 handset loans (2018: 68,153).
Member numbers	For the core mobile business, these are members who are active during a period of one month. Members are treated as being active if they have used the network (at least five times) or have made a purchase (top-up) in the preceding one month. The member base increased by 304,742 net members during the year ended 31 December 2019 taking the base to 3,381,320 members (2018: 435,995 net member additions). The reduction in growth is due to the increase in churn rate referred to below.
Churn	Churn – this represents the percentage of members that have been disconnected in a period. It is calculated by dividing net disconnections in a period by the average member base (average of our opening and closing base) for the same period. Average monthly churn increased from 4.0% in 2018 to 4.3% in 2019. There were more international members in 2019 with a higher turnover.
Average revenue per user ("ARPU")	Average revenue per user ("ARPU") – ARPU is calculated by dividing monthly total mobile service revenue (excluding inbound roaming) from sales to members for the preceding 12 months by the weighted average number of active members for the same period. Total ARPU decreased by £0.33 year-on-year to £11.17 (£11.50 in 2018). This was driven by the goodybag refresh in the year at a lower cost for the member.

The Company's profit for the year ended 31 December 2019 was £33,529,000 (2018: £30,560,000). The migration of the giffgaff member database and the sale of the original platform was completed in June 2019. A gain on disposal of fixed assets of £7,411,751 is reported in the statement of comprehensive income. The increase in profit for the year includes the gain on disposal of the platform.

On 13 August 2019 it was decided to discontinue 'gameplan', the Company's development stage Personal Finance Management Tool, in order for the Company to focus on its core activities. The asset disposal led to an impairment loss of £1,392,825.

The net assets of the Company as at 31 December 2019 were £86,273,000 compared to £52,744,000 at 31 December 2018, the movement of which is due to £33,529,000 of profit for the year.

Strategic report (continued)

Principal risks and uncertainties

giffgaff has a risk management process that enables identification, analysis, treatment and reporting of risks relevant to the business. Mitigations are defined and implemented in order to bring the risk exposure into line with the business appetite for risk. The risk register is reviewed by giffgaff leadership and by giffgaff's shareholder, T UK, on a regular basis. giffgaff has expanded its Business Assurance function and as such has access to risk management specialists internally as well as at T UK.

We follow a risk management model which helps us prioritise our risks and develop initiatives to combat them. This framework is aligned with best practice in Internal Control (COSO1 II Report and ISO31000:2009 Principles and Guidelines for Risk Management) and supported by T UK risk and assurance experts.

The framework is designed to identify, assess, manage, monitor and treat significant risks that could have an impact on our future success. The framework allows the management team to be aware of key risks and opportunities, and assign the most effective resources to respond quickly.

Our most significant financial risks are referenced in note 22 to the financial statements. We also consider our non-financial or 'global' risks, the most significant of which are summarised below.

Risk	Why is this important	How we manage it	Trend
Payment Card Industry (PCI) Security Standards Council compliance	The risk of failure to maintain standards of compliance required by the PCI.	Removal of data from systems no longer needed in the processes that they support. Board level focus on all related initiatives.	Decreased
Market competition	The risk of market competition removing giffgaff's differentiators leading to a mass loss of members & lack of new members.	Adapt and expand current offerings. Invest in giffgaff's key differentiators and forensically maximise the advantages of each.	Maintained
Revenue assurance risks	The risk of process or capability failure causing a charging issue for members.	Detective controls and engineering solutions.	Decreased

Strategic report (continued)

Risk	Why is this important	How we manage it	Trend
General Data Protection Regulation (GDPR) and data handling and access	The risk of failing to comply with GDPR regulations, member data being accessed or used without proper authority.	Extensive GDPR programme including dedicated GDPR team, audits, and ongoing compliance monitoring. Various security, IT and operational processes implemented.	Increased
Network Capacity	The risk of mobile services to giffgaff members being impacted by capacity constraints beyond giffgaff's control.	Engagement with giffgaff's host network to share forecasting, and deployment of additional spectrum gained at auction by Telefonica UK Limited.	Maintained
Security breach of giffgaff systems	Any breach of a giffgaff system that prevents us from offering our agreed service to our members, or that prevents the business conducting its general BAU which results in a loss of revenue	Technological solutions that reduce the likelihood and impact of breaches occurring, as well as controls which identify issues and patch them	Maintained
Economic/Political Instability	There is a risk that uncertainty around the UK's political stability (most notably BREXIT) could impact our business operations e.g. supply chain, foreign exchange rates etc.	A multi-disciplinary "BREXIT Taskforce" led by T UK Finance and Regulatory Affairs is in operation and monitoring developments as they emerge and co-ordinating responses to the various potential exposure.	Maintained
5G deployment plan	Our focus is to ensure that we deliver on the opportunities offered by 5G and leverage these for our members' benefit but this exposes us to a risk that we could launch our 5G propositions after our competitors.	We are consulting with our members and monitoring the competitor environment to ensure that we have a proposition that resonates with our audience.	Maintained
Risk of epidemic or pandemic disease	Significant loss of revenue and disruption to services, causing; staff, member, reputation & performance implications for giffgaff	Business Continuity Plan tested annually and adapted continuously based on experience and new scenarios to mitigate impact	Increased

Strategic report (continued)

Regulators and government

Ofcom

We are subject to sectoral regulation administered by Ofcom, the Communications Regulator. The UK regulatory regime is wide ranging and includes regulation designed to: protect consumers; provide universal services; ensure the availability of electronic networks and services; and address enduring competition problems. It is essential that we have a full, constructive working relationship with the regulator.

In 2019 Ofcom implemented Text to Switch: a new text functionality to help improve the customer experience when they want to switch providers.

In our relationship with Ofcom, we seek to further the interests of the Company so we can always deliver great experiences for our members. Our Legal team are primarily responsible for managing the relationship with Ofcom, including engaging in discussions on how Ofcom seeks to develop regulatory policy; responding to consultation documents and requests for information; and managing enforcement investigations. The Legal team provides updates to the Leadership Team on a regular basis and there are regular meetings between members of our Legal team and senior officials in Ofcom.

We responded to Ofcom consultations relating to the European Electronic Communications Code (the "EECC") and its Mobile Handsets consultation on Helping consumers to get better deals in communications markets.

On 28 June 2018, the Company notified Ofcom that it had identified billing errors related to a specific instance of a members' goodybag usage. In a decision dated 30 July 2019, Ofcom found that the Company contravened its statutory obligations to render accurate bills to its members and, separately, in providing information to Ofcom in response to two formal requests for information dated 1 October 2018 and 26 November 2018 (the information requested related to Ofcom's investigation into giffgaff's metering and billing obligations). Ofcom decided to impose a penalty of £1.4 million in respect of giffgaff's contravention of its metering and billing obligations, and a £50,000 penalty for failing to provide correct information to Ofcom. These amounts were included in the 2018 statutory financial statements. Subsequently the Company has reviewed its processes has taken the necessary steps to strengthen its billing processes, governance and how it responds to formal requests for information.

Network Incident

After the 6 December 2018 network outage recorded in the 2018 financial statements, Ofcom opened an investigation to examine whether O2 had taken all appropriate steps to protect, so far as possible, the availability of its network. After reviewing a substantial body of evidence gathered in their investigation, Ofcom did not find that O2 had contravened its obligations. Ofcom concluded that, in the specific circumstances of the case, O2 had taken all appropriate steps to protect the availability of its network; and it acted appropriately to restore it. Ofcom therefore decided to close their investigation.

O2 commissioned an independent review of its practices and processes following the incident and are considering the recommendations to enhance its network resilience which O2 is building into its processes.

Financial Conduct Authority

We are committed to delivering good member journeys and being aligned with the principles of the Financial Conduct Authority (FCA).

giffgaff has full permissions with the FCA to broker Consumer Credit to our members. giffgaff is also authorised to provide account information services and rights to sell insurance, however currently neither are being utilised.

Strategic report (continued)

Regulators and government (continued)

Financial Conduct Authority (continued)

The FCA is focussed on Treating Customers (Members) Fairly and Good Customer (Member) outcomes. We are fully aligned with this this ethos being Customer (Member) Led is a key part of our strategy.

Under Principle 11 of the FCA we have a "Duty to Notify" as and when key matters arise and must deal with the regulator in an "open and honest way" .... "and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonable expect notice". We have followed this approach and have updated the FCA when necessary on key matters. We have also responded to routine information requests and have submitted requested reporting information on time.

There were no FCA complaints upheld in 2019.

Information Commissioner's Office

We are a member-led business with our people at our core and we are committed to ensuring that we look after the personal data we hold.

Our objective is to provide iconic experiences, is underpinned by our Data Principles and is aligned with our obligations under data protection law. We maintain a governance framework, including an appointed Data Protection Officer, to help us do this.

As part of this framework, we maintain regular contact with the Information Commissioner's Office (the UK's independent body set up to uphold information rights). This includes our duties to report personal data breaches to the Information Commissioner's Office.

The Information Commissioner's Office publishes a range of information on its website, including significant instances of non-compliance. There have been no such instances in 2019 in relation to giffgaff.

Important events post year end

O2 and Virgin Media Joint Venture

On 7 May 2020, Telefónica SA and Liberty Global announced that both companies had entered into an agreement together to create a 50:50 joint venture in the UK, bringing together the Telefonica UK (O2) and Virgin Media businesses. The arrangement is still subject to regulatory clearance has been agreed in order to create a national connectivity champion capable of competing at the highest level with the combined mobile and home connections. It is anticipated that closing of the transaction, subject to regulatory clearance is expected to take place around the middle of 2021.

Covid-19

Worldwide or national health-related events, including the outbreak of contagious diseases, epidemics or pandemics, such as COVID-19 (coronavirus), could significantly affect our operations. Such events could cause, among others, delays in the supply chain due to problems in factories or logistic services; impact on employees or third parties due to quarantine periods or infection, and also affecting global and therefore national economic growth. The latter stemming from a variety of adverse impacts on supply (paralysis of integrated production chains, freezing of productive resources) and demand (deterioration of confidence and expectations, negative income and wealth effects) caused by a substantial deterioration in financial markets, unprecedented falls in commodity prices, sharp slowdown in commercial activity or heavy restrictions on transport. Like every other business we are not immune to the consequences of the pandemic and are committed to ensuring that the Business can navigate through the unprecedented uncertain times, supporting our members and our people as well as contributing to the recovery of the economy which we operate in. As Britain works through this national crisis, mobile is playing a more critical role than ever to keep people connected.

Strategic report (continued)

Important events post year end (continued)

Covid-19 (continued)

The Company is ensuring that now, more than ever, community remains at the heart of all that it does: securing essential connectivity for its members and donating directly to those who need it.

As a responsible business we followed government advice to help protect our people and our members. We quickly implemented our business continuity plans to enable our people to work from home and continue to provide seamless service to our members. We worked closely with the government to provide assistance to the NHS by providing free data to frontline NHS workers and were instrumental in supporting the NHS and keeping Britain connected by providing connectivity to hospitals and Citizens Advice centres. We also supported our members by suspending roaming surcharges for those stuck abroad during this difficult time, and provided targeted support for our vulnerable members through the introduction of our "goodybank" fund (a support fund to assist members who were having trouble staying connected or found themselves in a vulnerable position). We also zero-rated various support and charity websites and partnered with Neighbourly - an award-winning giving platform that connects businesses with community charities in need of support – to ensure we could provide support to those that needed it the most.

Following the ease of the lockdown restrictions we will continue to follow government guidelines to ensure the safety of our people and the support to our members and community.

The Company has shown resilience throughout this turbulent period and the need for connectivity by our members has been just as strong, albeit their specific demands have changed. The below table outlines the main impacts to the business as a result of COVID-19 and what the business has done to address them.

	Matter to consider	Impacts/Risks	Mitigations	Conclusion
1	Revenue	Temporary closure of some retail outlets has reduced the sim market size and our rate of growth in this channel. Lockdown and travel restrictions in the UK and across many parts of Europe has resulted in reduced airtime and roaming revenues.	As a strong online brand we have been able to support both new and existing members through digital sales channels.	We have seen an increase in online channel sales and we expect other channels to pick up again as lockdown restrictions start to ease from mid-June. The reduction in airtime and roaming revenues is partially offset by a reduction in associated costs.
2	Costs/Capital allocation	Spend is not reviewed in light of COVID-19.	The board has reviewed discretionary expenditure and investments in view of COVID-19 and we continue to focus on core service and targeted cost management throughout the business.	Appropriate measures are now in place to review cost control and capital expenditure in light of the pandemic.

Strategic report (continued)

	Matter to consider	Impacts/Risks	Mitigations	Conclusion
3	Forecasting	Forecasts are not reflective of performance during COVID-19 crisis.	We have processes in place to review the appropriateness of our financial outlooks regularly and monitor market activity on an ongoing basis. Rate and volume assumptions have been stress tested and triangulated with market insight and trading updates.	Current forecasts take account of risks associated with trading during the COVID-19 crisis.
4	Network Resilience	Network overload and possible degradation of services from the growth of voice / data traffic.	O2 proactively managed the expected voice traffic increase through increased network capacity. Data usage patterns changed as people connected from their homes rather than work locations and commuting routes with no negative impact on the network.	Network capacity planning reflects an expected impact of changes in future usage patterns as a result of COVID-19.

giffgaff Limited– Section 172(1) Statement

This statement, provided by the Directors of giffgaff, sets out in tangible terms how the Directors have had regard to the considerations set out in Section 172(1) of the Companies Act 2006 ("**Section 172**").

Section 172 requires the Directors to each act in a way they consider, in good faith would most likely promote the success of the Company for the benefit of its shareholder, and in doing so have regard to the:

a) likely consequences of any decisions in the long term;
b) interest of the Company's employees;
c) the need to foster the Company's business relationship with suppliers, customers and others;
d) the impact of the Company's operation on the community and environment;
e) the desirability of the Company maintaining a reputation of high standard of business conduct; and
f) The need to act fairly between shareholders of the Company.

The Directors and Leadership Team are of the opinion that they have fulfilled their statutory obligations under Section 172. The Directors and Leadership Team of giffgaff are aware and have been reminded of their statutory Section 172 duties through formal training. In addition, the Directors have established a formal contract signature process and procedure to ensure adequate consideration of all these matters before entering into any contractual agreement or transaction.

giffgaff operates in a highly competitive and regulated sector: the mobile telecommunications sector. Our Strategic Report sets out how we plan to prosper and develop in these challenging circumstances, whilst maintaining giffgaff's unique ethos in a crowded market.

Strategic report (continued)

giffgaff Limited– Section 172(1) Statement (continued)

During 2019 the Directors and Leadership team took the decision to streamline giffgaff's commercial offering and investment decisions by reviewing, and ultimately discontinuing, investment in "giffgaff gameplan". The gameplan initiative was originally designed to explore nascent opportunities in the open banking sector, providing value to members and growth for our shareholder. Early explorations, supported by our members, showed promise but ultimately demonstrated that the initiative could not scale to a level that warranted continued investment. The decision to discontinue gameplan was taken by the Directors after careful consideration of:

- the future long-term strategy of the Company;
- evaluation of its existing strengths, expertise and weaknesses; and
- the return on investment to members and our shareholder.

This clarification of Company focus, decided by the Directors, resulted in a clearer direction for the Company as a whole, which in turn has allowed all employees to focus on maintaining our distinctive reputation as a mobile telecommunications company, first and foremost.

To complement this, the Directors have overseen activity to develop giffgaff's mobile offering and ability to connect society. This has been achieved by continuing to research the future use cases of new communication technologies such as 5G. This is in addition to the Company's extensive focus to promote "refurbished" mobile devices that are recycled, reused and resold, demonstrating the Company's environmentally conscious ethos.

The Company also ensures the Directors have complete and regular oversight over day-to-day activities in order to allow them to fully satisfy their Section 172 duties. As mentioned above this includes the roll out of an electronic contract approval mechanism. This requires commercial arrangements to be explicitly approved from senior leadership members, with the Section 172 requirements explicitly flagged during the approval process. This allows for a fully auditable trail to demonstrate Section 172 compliance and oversight. Additionally, regular minuted bi-monthly risk assurance meetings are held with the Leadership Team to provide oversight of key risks relating to the long-term success of the company. This provides the Leadership Team and the Chief Executive of giffgaff (who is also a Director) with clear facts to allow them to fulfil their Section 172 duties and take strategic decisions with full knowledge of the business health and risks.

The Strategic Report was approved by the Board on 24 June 2020

By Order of the Board

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

Directors' report

The Directors of the Company present their report for the Company, which has been prepared in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

In accordance with Section 414C (11) of the Companies Act 2006 the Directors have chosen to set out in the Strategic Report certain information which fulfils the requirement of the Directors' Report.

Directors and secretary

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

Mark Evans
Patricia Cobian
Ashley Schofield (appointed on 17 January 2019)

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

Directors' liability insurance and indemnity

Telefonica O2 Holdings Limited (formerly 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 was in force during the financial year and at the date of approval of the financial statements.

Corporate Governance

The giffgaff Board, which is comprised of the Chief Executive of giffgaff, and the Chief Executive Officer and the Chief Finance Officer of T UK, is responsible for the overall conduct of the business and its long-term success.

The Board is assisted in its function by the Executive Committee (comprising of giffgaff's Chief Executive Officer and Chief Financial Officer). Aiding the Executive Committee is the giffgaff Leadership Team consisting of the Chief Marketing Officer, Chief Commercial Officer, Chief Operating and Technical Officer, and Brand Director. Priorities for the Leadership Team include maintaining our growth performance in a challenging market, ensuring our product offering remains relevant to our members and growing the business responsibly in an evolving regulatory environment.

As part of the wider Group governance framework the Chief Executive Officer of giffgaff is accountable to the statutory Board of T UK

Stakeholder Statement

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, members, employees, regulators, and the local communities effect of that regard in principal decisions taken by the Company can be found throughout the integrated report. For ease of reference the key stakeholders are detailed on pages 2-3 for members & community, our people on page 4, our suppliers and parent on page 6, regulators and government on pages 10-11 of the Strategic Report.

Directors' report (continued)

Employee disclosures

The Company does not have contractual employees in its own right but it operates the same employment policies and procedures as T UK, the principal employer of the employees seconded to the Company.

The Company 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. The Company 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 support services to employees.

These policies contain guidance for line managers and employees including recruitment processes and additional arrangements which can be made as required due to any disability.

Further disclosure in relation to the employees can be found on page 4 of the Strategic Report.

Dividends

The Company did not pay a dividend for the year ended 31 December 2019 (2018: £nil).

Financial risk management objectives, policies and exposure

Details of the Company's approach to business risk management are set out in the Strategic Report, and approaches to financial risk management are set out in the financial statements in note 22 "Financial Instruments".

Important events since the end of the financial year

The Strategic Report (page 12) details the important events affecting giffgaff which have occurred since the financial year end.

Capital structure and rights attached to shares

The details of the Company's capital structure including the rights attached to shares are detailed in notes 19 & 20 of the financial statements.

Going concern

The Directors believe that the Company is well placed to manage its business risk successfully and 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.

The impact to the Company from COVID-19 is described in detail on page 12. The Company has shown resilience throughout this turbulent period and the need for connectivity by our customers has been just as strong. The impact to the Company has been modest considering the challenges faced across the global economy. In light of this, the Directors believe that the Company is well placed to continue to mitigate the impacts of COVID-19 during 2020 and beyond.

Political donations

The Company made no political donation during the year ended 31 December 2019 (2018: £nil).

Directors' report (continued)

Statement as to disclosure to auditors

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.

The Directors' Report was approved by the Board on 24 June 2020

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 financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Statement of Directors' Responsibilities was approved by the Board on 24 June 2020.

By Order of the Board

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

Independent Auditors' report to the members of giffgaff Limited

Report on the audit of the financial statements

Opinion

In our opinion, giffgaff Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Graham Lambert

Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
26 June 2020

Statement of comprehensive income
For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Revenue	3	**490,814**	449,222
Cost of sales		**(377,781)**	(332,079)
Gross profit		**113,033**	117,143
Administrative expenses		**(79,171)**	(78,922)
Gain on disposal of assets	9	**7,412**	-
Operating profit		**41,274**	38,221
Financial costs		**(160)**	-
Profit before taxation	4	**41,114**	38,221
Taxation	8	**(7,585)**	(7,661)
Profit for the year		**33,529**	30,560
Total comprehensive income for the year		**33,529**	30,560

The accompanying notes on pages 26 to 50 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	9	**11,420**	11,135
Rights of use assets	10	**5,838**	-
Intangible assets	11	**9,772**	11,150
Deferred tax assets	16	**-**	255
		27,030	22,540
Current assets			
Inventories	12	**4,267**	4,886
Trade and other receivables	13	**56,002**	55,183
Cash and cash equivalent	14	**129,063**	177,439
		189,332	237,508
Current liabilities			
Trade and other payables	15	**(120,813)**	(205,103)
Lease liabilities	18	**(410)**	-
Provisions	17	**(155)**	(155)
		(121,378)	(205,258)
Net current assets		**67,954**	32,250
Total assets less current liabilities		**94,984**	54,790
Non-current liabilities			
Deferred tax liabilities	16	**(802)**	-
Lease liabilities	18	**(5,954)**	-
Provisions	17	**(1,955)**	(2,046)
		(8,711)	(2,046)
Net assets		**86,273**	52,744
Equity			
Share capital	19	**-**	-
Retained earnings		**86,273**	52,744
Total Equity		**86,273**	52,744

The accompanying notes on pages 26 to 50 are an integral part of these financial statements.

The financial statements on pages 23 to 50 were approved and authorised for issue by the Board of Directors on 24 June 2020 and were signed on its behalf by:

Mark Evans
Director

Statement of changes in equity
For the year ended 31 December 2019

	Called up share capital	Retained earnings	Total equity
	£000	**£000**	**£000**
At 1 January 2018	**-**	**22,184**	**22,184**
Profit and total comprehensive income for the year	-	30,560	30,560
At 31 December 2018	**-**	**52,744**	**52,744**
Profit and total comprehensive income for the year	-	33,529	33,529
At 31 December 2019	**-**	**86,273**	**86,273**

The accompanying notes on pages 26 to 50 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2019

	Note	2019	2018
		£000	**£000**
Profit before tax		**41,114**	**38,221**
Adjustments to reconcile profit before tax to net cash flows:			
Property, plant and equipment depreciation	9	2,531	2,526
Right of use depreciation	10	602	-
Intangible asset amortisation	11	3,592	3,382
Impairment of assets	9 & 11	1,393	-
Gain on disposal of property, plant and equipment and intangible assets		(7,412)	-
Lease interest		160	-
Working capital adjustments:			
Decrease in inventory		619	1,118
Increase in trade and other receivables		(819)	(9,963)
(Decrease)/Increase in trade and other payables		(84,026)	38,664
(Decrease)/Increase in other provisions		(91)	2,201
Taxation		(6,528)	(7,917)
Net cash flow (used in)/generated from operating activities		**(48,865)**	**68,232**
Proceeds from sale of property, plant and equipment and intangible assets		7,805	-
Purchase of property, plant and equipment and intangible assets		(7,316)	(9,191)
Net cash flow generated from/(used in) investing activities		**489**	**(9,191)**
Net (decrease)/increase in cash and cash equivalents		(48,376)	59,041
Cash and cash equivalents at start of period		177,439	118,398
Cash and cash equivalents at 31 December	14	**129,063**	**177,439**

The accompanying notes on pages 26 to 50 are an integral part of these financial statements.

Notes to the financial statements (continued)

1. Accounting policies

General information

The principal activity of giffgaff Limited (the "Company") is that of a mobile virtual network operator running on the O2 network, providing telecommunication services to the consumer mobile segment. The Company is incorporated in England and Wales and is domiciled in the United Kingdom. giffgaff Limited is a private company limited by shares registered in England and Wales under the number 4196996. The registered address is 260 Bath Road, Slough, Berkshire SL1 4DX.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards Interpretations Committee ("IFRS IC") 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 except for the adoption of new IFRS standards as disclosed below.

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.

Changes in accounting policies and disclosures
New and amended standards adopted by the company

IFRS 16 Leases

On 1 January 2019 the new IFRS 16 Leases accounting standard became effective, resulting in changes in the accounting policies applied in prior periods.

The standard sets out the requirements for recognising right of use assets and lease liabilities. The Company has adopted IFRS 16 using one of two transition methods: the modified retrospective transition method, with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application, 1 January 2019. Accordingly, the 2018 information presented for comparative purposes has not been restated i.e. it is prepared and presented in accordance with the accounting standards effective during that period: under IAS 17 Leases and related interpretations.

Under the provisions in IFRS 16, it is possible to elect to apply certain practical expedients to reduce complexity in the application of the new requirements. The main practical expedients applied by the Company are:

- Lease assessment: the Company did not reassess whether a contract is or contains a lease on the date of initial application of IFRS 16 for all contracts identified as leases under previous accounting standards.
- Right of use asset measurement: for an office property previously classified as an operating lease the Company recognised a right of use asset at the date of initial application measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.
- Initial direct costs: the Company excluded initial direct costs from the measurement of the right of use asset at the date of initial application.

Notes to the financial statements (continued)

1. Accounting policies (continued)

New and amended standards adopted by the company (continued)

IFRS 16 Leases – effective 1 January 2019 (continued)

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

The details of the new accounting policies and the nature of the main changes to previous accounting policies in relation to lease accounting under the new model in IFRS 16 are set out under the Leases accounting policy. The most significant impacts relate to the first-time recognition of a right of use asset and lease liability; reduction in operating lease rental expenses in profit and loss; increase in lease interest expense and right of use depreciation charges in profit and loss.

The impacts of adopting IFRS 16 on the Company's financial statements for the year ended 31 December 2019 are set out below:

Statement of comprehensive income
For the year ended 31 December 2019

	2019 IFRS 16 £000	2019 IAS 17 £000	2019 IFRS 16 impact £000	
Revenue	**490,814**	**490,814**	-	
Cost of sales	**(377,781)**	**(377,781)**	-	
Gross profit	**113,033**	**113,033**	-	
Administrative expenses before right of use depreciation and lease interest	(78,569)	(79,277)	708	(a)
Right of use depreciation	(602)	-	(602)	(b)
Gain on sale of assets	7,412	7,412	-	
Operating profit	**41,274**	**41,168**	**106**	
Financial costs	(160)	-	(160)	(c)
Profit before taxation	**41,114**	**41,168**	**(54)**	
Taxation	**(7,585)**	**(7,585)**	-	
Profit and total comprehensive income for the year	**33,529**	**33,583**	**(54)**	

(a) The decrease in operating costs is driven by a reduction in lease expenses as these have been replaced by depreciation of right of use assets and interest costs on lease obligations.

(b) The increase in right of use depreciation expense is related to the recognition of new right of use assets that are depreciated over the lease term.

(c) The increase in lease interest expense is related to interest on recognition of lease obligations.

Notes to the financial statements (continued)

1. Accounting policies (continued)

New and amended standards adopted by the company (continued)
IFRS 16 Leases – effective 1 January 2019 (continued)

Statement of financial position
As at 31 December 2019

	2019 IFRS 16 £000	2019 IAS 17 £000	2019 IFRS 16 impact £000	
Non-current assets				
Property, plant and equipment	11,420	11,858	(438)	(d)
Right of use assets	5,838	-	5,838	(e)
Intangible assets	9,772	9,772	-	
	27,030	**21,630**	**5,400**	
Current assets				
Inventories	4,267	4,267	-	
Trade and other receivables	56,002	56,002	-	
Cash and cash equivalents	129,063	129,063	-	
	189,332	**189,332**	**-**	
Current liabilities				
Trade and other payables	(120,813)	(121,723)	910	(f)
Lease liabilities	(410)	-	(410)	(g)
Provisions	(155)	(155)	-	
	(121,378)	**(121,878)**	**500**	
Net current assets	**67,954**	**67,454**	**500**	
Total assets less current liabilities	**94,984**	**89,084**	**5,900**	
Non-current liabilities				
Deferred tax liabilities	(802)	(802)	-	
Lease liabilities	(5,954)	-	(5,954)	(g)
Provisions	(1,955)	(1,955)	-	
	(8,711)	**(2,757)**	**(5,954)**	
Net assets	**86,273**	**86,327**	**(54)**	
Equity				
Share capital	-	-	-	
Retained earnings	86,273	86,327	(54)	
Total equity	**86,273**	**86,327**	**(54)**	

Notes to the financial statements (continued)

1. Accounting policies (continued)

New and amended standards adopted by the company (continued)

IFRS 16 Leases – effective 1 January 2019 (continued)

(d) The reduction in property, plant and equipment is a reclassification to right of use assets of the leasehold improvements related to the asset retirement obligation.

(e) The right of use assets reflect the contractual right to use assets over a period of time in exchange for consideration.

(f) The decrease in trade and other payables is primarily driven by a lease incentive accrual reduction under IFRS 16 which would have been a liability under IAS 17 Leases.

(g) The increase in lease liabilities relates to the recognition of the present value of lease payments due on right of use assets held.

Adjustment on initial application of new reporting standard IFRS 16

The initial application of new reporting standard IFRS 16 Leases had an impact on the statement of financial position as follows:

At 1 January 2019	**£000**
Non-current right of use assets	6,440
Non-current property plant and equipment	(500)
Total assets	**5,940**
Non-current lease liabilities	(6,204)
Current liabilities	264
Total liabilities	**(5,940)**
Impact in equity	**-**

The operating lease commitments disclosed as at 31 December 2018 have been reconciled to the opening lease liabilities recognised as follows:

At 1 January 2019	**£000**
Operating lease commitments disclosed as at 31 December 2018	7,306
Other non-significant amounts	(71)
Discounting using the incremental rate of borrowing rate at the date of initial application	(1,031)
Lease liability recognised as at 1 January 2019	**6,204**

Notes to the financial statements (continued)

1. Accounting policies (continued)

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. Those that are expected to have an impact on the Company are set out below.

Definition of Material – amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The Company does not expect the change in definition of Material to significantly impact the financial statements however the change in definition is relevant to the user of the financial statements.

Going concern

The Directors believe that the Company is well placed to manage its business risk successfully and 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.

The impact to the Company from COVID-19 is described in detail on page 12. The Company has shown resilience throughout this turbulent period and the need for connectivity by our customers has been just as strong. The impact to the Company has been modest considering the challenges faced across the global economy. In light of this, the Directors believe that the Company is well placed to continue to mitigate the impacts of COVID-19 during 2020 and beyond.

Presentation of financial information

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

Revenue

Revenue, which excludes value added tax and other sales taxes, comprises mobile service revenue, hardware revenue, and other revenue (each described below).

Mobile service revenue

Mobile service revenue includes revenue earned for usage of T UK wireless network for voice, SMS and data transmission by the Company's members, as well as outbound roaming and interconnect revenue.

Revenue for pre-pay members 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 members roaming outside their domestic coverage area, is recognised based upon usage. Interconnect revenue, earned from other telecommunications operators whose customers terminate calls on giffgaff numbers, is recognised based upon 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 are recognised when the products are delivered and accepted by the member.

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

Other revenue

Other revenue comprises revenue earned as commission for peer-to-peer handset loans brokered by the Company, commission for the sale of price comparison products, and revenue for usage of the Company's billing platform infrastructure, recognised at point of sale.

Subscriber acquisition and loyalty programme cost

Member acquisition and retention 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

The Company does not have any contractual employees. Since September 2015 the Company's employees are seconded from T UK (previously seconded from Telefonica Digital Limited), an associate company within the Telefónica Group, which participates in the T UK Pension Plan ("Telefonica PP"), a scheme sponsored by T UK that provides benefits for the majority of UK employees in the Telefónica Group. Telefonica O2 Holdings Limited (formerly Telefonica Europe plc) (the Company's ultimate UK parent company) acted as Sponsor and Principal Employer of the Plan up to 14 December 2018. On this date a deed was signed by the trustees to transfer the plan into T UK as the majority of employees participating in the plan are employees of T UK.

During the reporting year, the Telefonica PP had both defined benefit and defined contribution sections. On 28 February 2013 the defined benefit sections of the Telefonica PP closed to further benefit accrual. Members of the defined benefit sections of the Telefonica 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 Telefonica PP were given the option to become members of the defined contribution section of the Telefonica PP. The defined contribution sections of the

Notes to the financial statements (continued)

1. Accounting policies (continued)

Pension obligations (continued)

Telefonica PP remain open to new entrants and further accrual. The assets of the Telefonica PP are held independently of the Company's finances.

In T UK's capacity as a participating employer of the defined contribution section of the Telefonica PP, T UK pays contributions into the plan on behalf of employees of the Company. T UK 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 Telefonica PP can be found in the financial statements of Telefonica O2 Holdings Limited (formerly Telefonica 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 re-measures 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 that 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.

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 11 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Property, plant and equipment (continued)

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 de-recognition 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.

Intangible assets

Software

Software is capitalised when it meets the criteria set out in the accounting standards for capitalisation, such as portal related costs, 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. These are costs that are directly associated with the production of identifiable unique software products controlled by the Company, including portal related assets 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.

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.

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.

Trade and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Leases

The Company adopted the following IFRS 16 Leases accounting policies from 1 January 2019.

Adoption of IFRS 16 has resulted in almost all leases being recognised in the statement of financial position, since the distinction between operating and finance leases is removed. Under the new standard, an asset (that is, the right to use the leased item) and a financial liability to pay rentals are recognised. The Company has elected not to apply the general requirements to short-term leases and leases of low-value assets. The Company has also elected not to recognise non-lease components separately from lease components for those classes of assets in which non-lease components are not significant with respect to the total value of arrangement.

The Company acts as a lessee on an office building. This contract was accounted for as operating lease under previous accounting standards, with lease payments being recognised on a straight-line basis as an expense in the income statement over the contract term.

Right of use assets are initially recognised at the initial measurement of lease liabilities plus any lease payments made at or before the commencement date; less any lease incentives received; plus any initial direct costs incurred and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right of use assets are subsequently measured using the cost model by charging depreciation to profit and loss over the term of the lease and adjusting for any remeasurement of the lease liability or impairment of the asset.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease if it can be readily determined, or the incremental borrowing rate of interest required to finance the expected payments during the lease term. Lease payments included in initial measurement comprise fixed payments, less any incentives receivable; variable lease payments that depend on an index or rate; amounts expected to be paid under residual value guarantees; the exercise price of a purchase option if the Company is reasonable certain to exercise that option and payments for penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease.

The lease term is based on the non-cancellable period; plus periods covered by options to extend the lease, where such options depend only on the Company and where exercise is assessed to be reasonably certain, taking into account the specific situation of the lease.

Lease liabilities are subsequently measured by increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications. Interest will be charged to profit and loss.

Information on the impact of initial application of IFRS 16 is disclosed in changes in accounting policies and disclosures.

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. Principal business risks are addressed in the strategic report.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.

2. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. 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 impact on the Company's earnings and financial position. There are no estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. Revenue

Significant revenue streams are detailed below:

	2019 £000	2018 £000
Mobile service revenue	**429,291**	392,069
Handsets revenue	**56,550**	50,079
Other revenue	**4,973**	7,074
Total revenue	**490,814**	449,222

Notes to the financial statements (continued)

4. Profit before taxation

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

	2019 £000	2018 £000
Staff costs (note 5)	**10,508**	10,534
Amortisation of intangible assets (note 11)	**3,592**	3,072
Depreciation of property, plant and equipment (note 9)	**2,531**	2,525
Right of use asset depreciation (note 10)	**602**	-
Impairment loss (notes 9 and 11)	**1,393**	310
Operating lease costs (note 18)	**-**	656
Audit related assurance services (note 7)	**50**	-
UK statutory audit fees (note 7)	**13**	13
Gain on sale of asset	**(7,412)**	-
Inventories:		
Cost of inventories recognised as an expense (included in cost of sales)	**55,437**	49,234

5. Employees

The Company does not have contractual employees in its own right. All employees are seconded from T UK, who incur the employee costs and recharge these to the Company on a monthly basis.

	2019	2018 *Restated	2018
Monthly average number of full time employee equivalents (including executive Directors)	No.	No.	No.
Technology	0	0	36
Member Operations	138	127	95
Administration	17	14	10
Total employees	**155**	**141**	**141**

The benefits expense incurred in respect of these employees was:

	2019 £000	2018 £000
Wages and salaries	8,318	8,680
Social security costs	1,147	1,053
Other Pension costs	983	774
Share based payments	60	27
Total employee benefits expense	**10,508**	**10,534**

Notes to the financial statements (continued)

6. Key management and Directors' compensation

The Company's employees and directors participated in a number of employee incentive share schemes operated by Telefónica S.A. (see note 20 for further details).

During the current year, no directors accrued retirement benefits under a defined benefit pension plan (2018: None). Two directors (2018: One) accrued retirement benefits under a defined contribution pension plan during the year. One of the Directors was entitled to receive shares in respect of qualifying service under long-term incentive plans (2018: One).

Directors of the Company are part of the key management of the Company. Key management is defined as the executive management and the Directors of the Company (two of which were remunerated by T UK for their services to the Group and whose emoluments are included in the disclosures as there is no sensible basis of allocating that can be applied). Key management compensation for services to the Company for the period were as follows:

	2019	2018
	£000	£000
Salaries and short-term employee benefits	**3,837**	3,474
Post-employment benefits	**72**	63
Total key management compensation	**3,909**	3,537

The remuneration of the Directors of the Company (two of which were remunerated by T UK for their services to the Group) for the year ended 31 December was as follows:

	2019	2018
	£000	£000
Aggregate emoluments in respect of qualifying services	**2,856**	2,338
Aggregate amount of company contributions paid to a pension scheme	**18**	8
Total directors' remuneration	**2,874**	2,346

In respect of the highest paid Director during the period:

	2019	2018
	£000	£000
Aggregate emoluments in respect of qualifying services	**1,796**	1,549
Aggregate amounts paid under long term incentive plans	**-**	-
	1,796	1,549

Notes to the financial statements (continued)

7. Auditors' remuneration

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

	2019 £000	2018 £000
Audit services:		
UK statutory audit fees	**13**	13
Audit related assurance services	**50**	-
Total auditors' remuneration	**63**	13

The fees were paid to PricewaterhouseCoopers LLP. Audit related assurance services relates to PSD2 exemption assurance reporting.

8. Taxation

	2019 £000	2018 £000
Current tax - current year	**6,452**	7,827
Current tax – adjustments in respect of prior year	**76**	90
Deferred tax - current year	**1,163**	(124)
Deferred tax – adjustments in respect of prior year	**(106)**	(132)
Taxation	**7,585**	7,661

	2019 £000	2018 £000
Profit before taxation	**41,114**	38,221
Profit before taxation multiplied by rate of corporation tax in the UK of 19% (2018: 19%)	**7,812**	7,262
Effects of:		
Expenses not deductible for tax purposes	**(43)**	432
Income not taxable	**(16)**	(6)
Adjustments in respect of prior year	**(31)**	(42)
Effect of change in tax rate	**(137)**	15
Total taxation charge	**7,585**	7,661

Finance Act 2015 set the main rate of corporation tax to 19% wlth effect from 1 April 2017. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

9. Property, Plant and Equipment

	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2018	19,163	3,878	**23,041**
Additions	-	4,311	**4,311**
Reclassifications	7,881	(7,881)	**-**
At 31 December 2018	27,044	308	**27,352**
Reclassification to right of use assets on initial application of IFRS 16	(500)	-	**(500)**
At 1 January 2019	26,544	308	**26,852**
Additions	-	4,220	**4,220**
Reclassifications	1,789	(1,789)	**-**
Disposals	(12,856)	(511)	**(13,367)**
At 31 December 2019	**15,477**	**2,228**	**17,705**
Accumulated Depreciation			
At 1 January 2018	13,691	-	**13,691**
Charge for the year	2,526	-	**2,526**
At 31 December 2018	16,217	-	**16,217**
Charge for the year	2,531	-	**2,531**
Impairment loss	-	511	**511**
Disposals	(12,463)	(511)	**(12,974)**
At 31 December 2019	**6,285**	**-**	**6,285**
Net book amount	**£000**	**£000**	**£000**
At 31 December 2019	**9,192**	**2,228**	**11,420**
At 31 December 2018	10,827	308	11,135

In 2019 giffgaff migrated its member database onto its own platform, and sold the previous one. This disposal and the proceeds has been accounted for in these financial statements. On 13 August 2019 it was decided to discontinue 'gameplan', The disposal has been accounted for in these financial statements with an impairment loss of £1,392,825, which comprises £881,990 from intangible assets and £510,834 from property, plant and equipment assets in the course of construction.

10. Right of use assets

	Land and buildings £000	Asset Restoration Provision £000	Total £000
Cost			
At 31 December 2018	-	-	-
Initial application of IFRS 16	5,940	500	6,440
At 1 January 2019	5,940	500	6,440
At 31 December 2019	**5,940**	**500**	**6,440**
Accumulated depreciation			
At 31 December 2018	-	-	-
Initial application of IFRS 16	-	-	-
At 1 January 2019	-	-	-
Additions	540	62	602
At 31 December 2019	**540**	**62**	**602**
Net book amount			
At 31 December 2019	**5,400**	**438**	**5,838**
At 31 December 2018	-	-	-

Right of use assets have been recognised from 1 January 2019. See note 1 for further information on first time adoption of IFRS 16 Leases.

Notes to the financial statements (continued)

11. Intangible Assets

	Software £000	Intangible assets in construction £000	Total £000
Cost			
At 1 January 2018	23,356	2,982	**26,338**
Additions	-	4,880	**4,880**
Reclassifications	4,502	(4,502)	**-**
At 31 December 2018	27,858	3,360	**31,218**
Additions	-	3,096	**3,096**
Reclassifications	6,154	(6,154)	**-**
Disposals	(2,445)	-	**(2,445)**
At 31 December 2019	**31,567**	**302**	**31,869**
Accumulated Amortisation and impairment			
At 1 January 2018	16,686	-	**16,686**
Charge for the year	3,072	-	**3,072**
Impairment loss	310	-	**310**
At 31 December 2018	20,068	-	**20,068**
Charge for the year	3,592	-	**3,592**
Impairment loss	882	-	**882**
Disposals	(2,445)	-	**(2,445)**
At 31 December 2019	**22,097**	**-**	**22,097**
Net book amount			
At 31 December 2019	**9,470**	**302**	**9,772**
At 31 December 2018	7,790	3,360	11,150

On 13 August 2019 it was decided to discontinue 'gameplan', The disposal has been accounted for in these financial statements with an impairment loss of £1,392,825, which comprises £881,990 from intangible assets and £510,834 from property, plant and equipment assets in the course of construction.

12. Inventories

	2019 £000	2018 £000
Handsets held for resale	**4,023**	4,647
SIM cards	**244**	239
Inventories	**4,267**	4,886

Notes to the financial statements (continued)

13. Trade and other receivables

	2019 £000	2018 £000
Prepayments	**2,836**	4,016
Other debtors	**5,373**	4,141
Accrued revenue	**1,780**	1,275
Amounts owed by group companies	**46,013**	45,751
Trade and other receivables	**56,002**	55,183

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

At the end of the year ended 31 December 2019, the Company had no provisions relating to amounts owed by other group companies (2018: nil). This assessment is undertaken each financial year through an examination of the financial position of the related party.

14. Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents	**129,063**	177,439

The Company's cash and cash equivalents are deposited with Telfisa Global B.V., a related party.

15. Trade and other payables

	2019 £000	2018 £000
Amounts owed to group companies	**61,925**	142,094
Other taxation and social security	**21,552**	21,136
Accrued expenses	**10,771**	11,082
Deferred income	**26,565**	30,791
Trade and other payables	**120,813**	205,103

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

Notes to the financial statements (continued)

16. Deferred tax assets/ (liabilities)

The movement on the deferred tax asset/ (liability) is as shown below:

	£000
At 1 January 2018	(1)
Prior year credit to statement of comprehensive income	132
Current year credit to statement of comprehensive income	124
At 31 December 2018	**255**
Prior year credit to statement of comprehensive income	106
Current year charge to statement of comprehensive income	(1,163)
At 31 December 2019	**(802)**

Deferred tax assets / (liabilities)	**Accelerated tax depreciation £'000**	**Other £'000**	**Total £'000**
At 1 January 2018	(105)	104	(1)
Prior year credit to statement of comprehensive income	118	14	132
Current year credit to statement of comprehensive income	8	116	124
At 31 December 2018	**21**	**234**	**255**
Prior year (charge) / credit to statement of comprehensive income	136	(30)	106
Current year charge to statement of comprehensive income	(1,000)	(163)	(1,163)
At 31 December 2019	**(843)**	**41**	**(802)**

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £93k, and to increase the deferred tax liability to £885k.

Notes to the financial statements (continued)

17. Provisions

	Asset retirement obligation £000	Lease Incentive £000	Total £000
At 1 January 2018	**-**	**-**	**-**
Current	-	155	155
Non-current	500	1,546	2,046
At 31 December 2018	**500**	**1,701**	**2,201**
Current	-	155	155
Non-current	500	1,455	1,955
At 31 December 2019	**500**	**1,610**	**2,110**

	Asset retirement obligation £000	Lease Incentive £000	Total £000
At 1 January 2018	**-**	**-**	**-**
Additional provision in year	500	1,765	2,265
Charge for the year	-	-	-
Utilised in the year	-	(64)	(64)
Amounts released to the income statement	-	-	-
Reclassifications	-	-	-
At 31 December 2018	**500**	**1,701**	**2,201**
Additional provision in year	-	-	-
Charge for the year	-	-	-
Utilised in the year	-	(91)	(91)
Amounts released to the income statement	-	-	-
Reclassifications	-	-	-
At 31 December 2019	**500**	**1,610**	**2,110**

Asset Retirement Obligation

giffgaff is required to restore the lease premises of its office to its original condition at the end of its lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the right of use asset and are amortised over the shorter of the term of the lease and the useful life of the asset.

Lease Incentive

giffgaff's lease accommodation includes partial fit-out costs provided by the lessor as a lease incentive. The assets obtained by the Company have been recognised as furniture and equipment at fair value and are depreciated over the shorter of their useful life and the lease term. The lease incentive is unwound to the statement of comprehensive income on a straight-line basis over the lease term. The remaining value will be taken in equal instalments for the term of the lease.

Notes to the financial statements (continued)

18. Lease liabilities

	2019 £000	2018 £000
Current lease liabilities	410	-

	2019 £000	2018 £000
Non-Current lease liabilities	5,954	-

Maturity of lease liabilities

	2019 £000	2018 £000
Within one year	410	-
Later than one year but not later than five years	2,558	-
Later than five years	3,396	-
Total lease liabilities	6,364	-

The future minimum lease payments for operating leases for the year ended 31 December 2018 is included in note 21. Upon first time adoption of IFRS 16 Leases these operating leases are recognised as lease liabilities on the statement of financial position. See note 1 for further information on first time adoption of IFRS 16.

19. Share capital

	Number of shares	2019 £	Number of shares	2018 £
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.

Notes to the financial statements (continued)

20. Share based payments

The amounts recognised in profit before taxation for share based payment transactions with employees for the year ended 31 December 2019 were as follows:

Period from 1 January to 31 December 2018	**2019**	**2018**
	£000	**£000**
Equity settled share based payments	**60**	27
Total share based payments	**60**	27

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

Telefonica Performance Investment Share Plan 2018-2022

The Telefónica, S.A. General Shareholders' Meeting on 8 June 2018 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 Telefonica Group.

The term of the plan is a total of five years divided into three phases, each of a three year duration. The first cycle was deemed to have started on 1 January 2018 and will end on 31 December 2020. Under the terms of the Plan, employees will be entitled to receive a certain maximum number of shares of Telefónica S.A., upon fulfilment of certain requirements, namely:

1. The final delivery of shares is conditional upon the employee remaining in the entity's employ during the vesting period.
2. The final number of shares granted is subject to certain performance conditions based on:
   a. 50% of the total shares shall be delivered upon achievement of a certain Total Shareholder Return ("TSR") target that must be satisfied during the period in which the evolution of the TSR of the Telefónica Group is measured.
   b. 50% of the total shares shall be delivered if a certain free cash flow ("FCF") target is met.

Thus, if certain performance levels and FCF targets are achieved, the employee is entitled to receive 100% of the maximum number of shares awarded, whereas if only one of the targets is met, the employee shall receive the related shares.

19,370 shares were assigned in the first phase with a fair value of €6.46 per share for the FCF linked shares and €4.52 per share for TSR linked shares.

15,260 shares were assigned in the second phase with a fair value of €6.46 per share for the FCF linked shares and €4.52 per share for TSR linked shares.

Telefonica Performance Investment Share Plan 2018-2022

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

At the General Shareholders' Meeting of Telefónica S.A. held on 8 June 2018, a long-term share-based incentive plan called "Talent for the Future Share Plan" was approved for certain Telefonica Group employees.

Under this Plan, a certain number of shares of Telefónica S.A. will be delivered to participants selected by the company who have opted to take part in the scheme and meet the requirements and conditions stipulated to this end.

The term of the plan is a total of five years divided into three phases, each of a three year duration. The first cycle was deemed to have started on 1 January 2018 and will end on 31 December 2020. Under the

Notes to the financial statements (continued)

20. Share based payments (continued)

Telefonica Performance Investment Share Plan 2018-2022 (continued)

terms of the Plan, employees will be entitled to receive a certain maximum number of shares of Telefónica S.A., upon fulfilment of certain requirements, namely:

1) The final delivery of shares is conditional upon the employee remaining in the entity's employ during the vesting period.
2) The final number of shares granted is subject to certain performance conditions based on:
   a. 50% of the total shares shall be delivered upon achievement of a certain Total Shareholder Return ("TSR") target that must be satisfied during the period in which the evolution of the TSR of the Telefónica Group is measured.
   b. 50% of the total shares shall be delivered if a certain free cash flow ("FCF") target is met.

Thus, if certain performance levels and FCF targets are achieved, the employee is entitled to receive 100% of the maximum number of shares awarded, whereas if only one of the targets is met, the employee shall receive the related shares."

2,250 shares were assigned in the first phase with a fair value of €6.46 per share for the FCF linked shares and €4.52 per share for TSR linked shares.

1,500 shares were assigned in the second phase with a fair value of €6.46 per share for the FCF linked shares and €4.52 per share for TSR linked shares.

Other share-based payment plans

The Global Employee Share Plan 2019 was launched on 20 May 2019. Under the plan employees were offered the option to acquire Telefónica S.A. shares during a twelve-month period (the acquisition period), with the company undertaking to deliver a certain number of free shares to participants, subject to certain requirements.

The total term of the plan is two 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 per month. Those employees who hold the shares for a further twelve months after the end of the acquisition period, are entitled to receive one free share for every two acquired shares, within the Plan conditions.

The acquisition period commenced in July 2019 and will end in June 2020. The plan's shareholding period will come to an end in July 2021. Shares will be delivered in July 2021 at the end of the vesting period.

Notes to the financial statements (continued)

21. Financial commitments and contingent liabilities

Operating lease commitments

From 1 January 2019 the Company has recognised right of use assets and lease liabilities.

At 31 December 2018 the Company was committed to making the following total future lease payments in respect of operating leases for each of the following years:

	2019	2018
	£000	£000
Within one year	-	71
Between two and five years	-	2,666
Over five years	-	4,569
Total operating lease commitment	-	7,306

From 1 January 2019 the Company has recognised right of use assets and lease liabilities in respect of these commitments. See notes 1, 10 and 18 for further information.

Other commitments

There were no other commitments at 31 December 2019 (2018: £nil).

22. 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 of 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 part of the larger Telefonica 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 Telefónica Group.

Notes to the financial statements (continued)

22. Financial instruments (continued)

The following tables set out contractual undiscounted cash outflows of financial liabilities, including interest payments:

31 December 2019	< 1 year £000	Total £000
Trade and other payables	72,696	**72,696**
	72,696	**72,696**

31 December 2018	< 1 year £000	Total £000
Trade and other payables	153,176	**153,176**
	153,176	**153,176**

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

Fair value 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.

Capital management

The Company's capital comprises share capital and retained earnings.

The Company's objectives when managing capital are to safeguard the Company's ability to continue to operate as a going concern, to maintain optimal capital structure commensurate with risk and return and to reduce the cost of capital.

23. Related party disclosure

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

	2019 £000	2018 £000
Income from other group companies	**1,078**	2,436
Purchases from immediate parent	**(232,230)**	(190,677)
Total transactions	**(231,152)**	(188,241)

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 13 and 15.

Related party transactions with Directors and key management are detailed in note 6.

Notes to the financial statements (continued)

24. Subsequent events

O2 and Virgin Media Joint Venture

On 7 May 2020, Telefónica SA and Liberty Global announced that both companies had entered into an agreement together to create a 50:50 joint venture in the UK, bringing together the Telefonica UK (O2) and Virgin Media businesses. The arrangement is still subject to regulatory clearance has been agreed in order to create a national connectivity champion capable of competing at the highest level with the combined mobile and home connections. It is anticipated that closing of the transaction, subject to regulatory clearance is expected to take place around the middle of 2021.

Covid-19

Worldwide or national health-related events, including the outbreak of contagious diseases, epidemics or pandemics, such as COVID-19 (coronavirus), could significantly affect our operations. Such events could cause, among others, delays in the supply chain due to problems in factories or logistic services; impact on employees or third parties due to quarantine periods or infection, and also affecting global and therefore national economic growth. The latter stemming from a variety of adverse impacts on supply (paralysis of integrated production chains, freezing of productive resources) and demand (deterioration of confidence and expectations, negative income and wealth effects) caused by a substantial deterioration in financial markets, unprecedented falls in commodity prices, sharp slowdown in commercial activity or heavy restrictions on transport. Like every other business we are not immune to the consequences of the pandemic and are committed to ensuring that the Business can navigate through the unprecedented uncertain times, supporting our members and our people as well as contributing to the recovery of the economy which we operate in. As Britain works through this national crisis, mobile is playing a more critical role than ever to keep people connected. The Company is ensuring that now, more than ever, community remains at the heart of all that it does: securing essential connectivity for its members and donating directly to those who need it.

The main impacts to the business as a result of COVID-19 and what the business has done to address them are included in the strategic report on page 11.

25. Parent company and controlling party

The immediate parent company is Telefonica UK Limited. Copies of the financial statements of Telefonica UK Limited may be obtained from its registered office 260 Bath Road, Slough, Berkshire, SL1 4DX. 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. Telefónica, S.A. is the largest group for which consolidated financial statements are prepared. O2 Holdings Limited is the smallest group for which consolidated financial statements are prepared. Consolidated financial statements of O2 Holdings Limited may be obtained from 260 Bath Road, Slough, Berkshire, SL1 4DX.