Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2017

giffgaff Limited Registered Number: 4196996

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Company information

Directors

Mark Evans
Michael Fairman

Secretary

O2 Secretaries Limited

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Independent Auditors

PricewaterhouseCoopers LLP
The Atrium
1 Harefield Road
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Strategic report

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

Strategy

Our strategy is to grow a member-run mobile communications network that utilises and rewards the collective resources of its members. This mutuality principle, combined with a predominantly online and SIM only business model, keeps costs low and allows savings to be passed on to members. In 2017 our monthly SIM only plans, or 'goodybags', were enhanced to include more data and minutes, and we increased the availability of our SIMs in the retail sector. We offer handsets to attract new activations and retain more members, thereby increasing our member base.

giffgaff gameplan is authorised and regulated by the Financial Conduct Authority (FCA). We broker peer-to-peer loans for the purchase of handsets, earning revenue on a commission basis. In 2017 we launched additional price comparison products and intend to develop an app that helps members understand their financial health and take control of their money.

Business model

giffgaff is a mobile virtual network operator 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'. We seek to attract a different profile of member to that which would be attracted to the O2 brand.

Our core business is the provision of SIM only mobile services, but we also offer the purchase of handsets (outright or via loans), price comparison services (managed under the name 'giffgaff gameplan'), and we provide online charging platform services to other mobile virtual network operators.

giffgaff community

At giffgaff, we believe in listening to our members, involving them, being run by them and rewarding them with money. The idea is that "together with our members anything is possible". Members can help each other by answering one another's questions. They can recruit new members to the cause. They can come up with new ideas that improve the way we're run. They can suggest worthy causes for us to plough our money into. In essence, we seek to minimise costs by working in collaboration with our members and running a lean operation, without the need for our own retail shops or traditional call centres. By keeping our business lean we've also minimised our impact on the environment as the business has grown.

At giffgaff we keep our community of members at the heart of everything we do. In fact, we had an online community before we had any SIMs to send out. We've grown quite a bit since those early days and our members continue to help one another, so if you ever run into trouble they'll be there to help you out. In fact our members do so within a few minutes on average.

In addition to providing Which? and uSwitch award winning services, our members get involved in everything at giffgaff. As well as guest starring in our adverts and creating content for other members to enjoy in the form of videos, blogs and images, our members have had over 700 of their ideas implemented. That's why we're the mobile network run by you.

Strategic report (continued)

Performance and development

At the end of 2017, the key operating performance highlights of the Company are:

Revenue	giffgaff had substantial member base growth for the year ended 31 December 2017 in an increasingly competitive market. Our revenue for the year was £407,412,000 (2016: £351,444,000) and our profit after tax for the year was £28,696,000 (2016: £23,393,000).
Handsets	The handset business generated £48,199,000 of revenue for the year (2016: £45,641,000), contributing 11.8% (2016: 13.0%) of our total revenue, and we brokered 67,110 handset loans (2016: 69,640).
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. We added 261,417 net member additions to the mobile business during the year ended 31 December 2017 (2016: 421,874 net additions).
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 customers for the preceding 12 months by the weighted average number of active customers for the same period. Total ARPU increased by £0.12 year-on-year to £11.75.
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 4.22% in 2016 to 4.29% in 2017.

Responsible business

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 £600,000 to more than 20 different charities.

Our dedicated 'Ministry of Good Deeds' keeps generosity and giving back to local communities at the forefront of our minds. In 2017 we hosted a range of events including a sponsored bake-off, a food collection for the homeless and a festive Santa run around Uxbridge. We also raised £30,000 for Great Ormond Street Hospital when a troop of brave giffgaff cyclists pedalled their way across the mountains of Catalonia in a sponsored 3-day bike ride.

Our people

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 the big challenges, grow and develop them, and don't take ourselves too seriously. We have a handful of values - gritty, collaborative, curious, positive – and as we have grown they have kept us grounded and helped us deliver some amazing things in the 'giffgaff' way. It's all underpinned by our central belief, or mission if you like, that 'together with our members anything is possible'.

We operate the same employee related policies and procedures as our parent company. 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

Strategic report (continued)

Our people (continued)

in our jobs. 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.

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.

Supplier relationships

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.

The General Data Protection Regulation

The General Data Protection Regulations (GDPR), which apply from 25 May 2018, aim to harmonise data protection rules across all EU member states. The UK Government has confirmed that the decision to leave the EU will not impact GDPR implementation in the UK. We have reviewed our systems and processes and our focus has been to align the GDPR implementation programme with our data principles. We ask our people to complete computer based training or more in-depth certifications to ensure that we are all aware of our responsibilities, and our dedicated 'Data Privacy Squad' will proactively carry out Privacy Impact Assessments to ensure continued governance and compliance. We will continue to maintain awareness of GDPR to ensure that 'privacy' remains embedded in our culture.

Operating with integrity

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 Telefonica UK Limited, 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 Telefonica UK Limited, 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.

Principal risks and uncertainties

giffgaff has a risk management process that enables discovery, collation 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, Telefonica UK Limited, on a regular basis. Additionally giffgaff has access to risk management specialists in Telefonica UK Limited.

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 Telefonica UK Limited risk and assurance experts.

Strategic report (continued)

Principal risks and uncertainties (continued)

The framework is designed to identify, assess, manage, monitor and treat significant risks that could have a negative 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 18 to the financial statements. We also consider our non-financial or 'global' risks, the most significant of which are summarised below.

giffgaff was audited by the Information Commissioner's Office in January 2018 and awarded a 'green' rating for information risk management.

Risk Name	Risk Impact	Risk Treatment	Risk Evolution
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.	Diversify into non-mobile services (giffgaff gameplan). 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
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.	Maintained
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.	Decreased

Strategic report (continued)

The Strategic Report was approved by the Board on 14 September 2018.

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 IFRSs as adopted by the European Union.

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 Director's report.

Directors and secretary

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

Mark Evans
Michael Fairman (appointed on 6 October 2017)
David Plumb (resigned on 11 October 2017)

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

Directors' liability insurance and indemnity

Telefonica Europe plc, the Company's ultimate UK parent company, has granted an indemnity in the form permitted by UK Company Law to Directors appointed to subsidiary companies. This indemnity remains in place and continues until such time as any relevant limitation periods for bringing claims (as defined in the indemnity) against the Director has expired, or for so long as the past Director, where relevant, remains liable for any losses (as defined in the indemnity).

Corporate Governance

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

The Board is assisted in its function by two principle committees, the Executive Committee (comprising Chairman, Chief Executive Officer, Chief Financial Officer) and the giffgaff gameplan Committee (comprising Chairman, Chief Executive Officer, Managing Director - giffgaff gameplan, Chief Financial Officer). Priorities for the Executive Committee have included 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. Priorities for the gameplan Committee have been the expansion of our price comparison product offering, and the development of an app and a website to help members achieve their savings goals.

The Chief Executive Officer is accountable to the Statutory Board of Telefonica UK Limited. The Chief Executive Officer also attends the Telefonica UK Assurance Forum with considers the internal control framework and assists the Telefonica UK Limited board in its oversight responsibilities for governance, risk and compliance.

Employee disclosures / Employment policies

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

Directors' report (continued)

Employee disclosures / Employment policies (continued)

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.

Dividends

The Company did not pay a dividend for the year ended 31 December 2017 (2016: £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 18 "Financial Instruments".

Important events since the end of the financial year

In the recent Ofcom auction which concluded on 5 April 2018, Telefonica UK Limited secured 80 MHz of spectrum at a cost of £523.6m. This included 40MHz of immediately useable (2.3GHz) spectrum, which was all of the spectrum available in this band, as well as 40MHz of 3.4 GHz spectrum, earmarked for 5G. As a subsidiary of Telefonica UK Limited and user of this network, this provides the Company with the capability to increase network capacity significantly for the benefit of its members.

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 15 & 16 of the financial statements.

Going concern

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future, thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Political donations

The Company made no political donation during the year ended 31 December 2017 (2016: £nil).

Statement of disclosure of information to Auditors

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

Directors' report (continued)

Independent Auditors

During the year, PricewaterhouseCoopers LLP were appointed as auditors in accordance with section 485 of the Companies Act 2006. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

The Directors' Report was approved by the Board on 14 September 2018.

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 14 September 2018.

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; 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 when:

- 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)

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 2017 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 10, 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.

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

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.

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
14 September 2018

Statement of comprehensive income
For the year ended 31 December 2017

	Note	2017 £000	As restated* 2016 £000
Revenue	2	**407,412**	351,444
Cost of sales		**(294,334)**	(251,195)
Gross profit		**113,078**	100,249
Administrative expenses		**(77,482)**	(70,096)
Profit before taxation	3	**35,596**	30,153
Taxation	7	**(6,900)**	(6,760)
Profit for the year		**28,696**	23,393
Total comprehensive income for year		**28,696**	23,393

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

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

Statement of financial position
As at 31 December 2017

	Note	31 December 2017 £000	As restated* 31 December 2016 £000	As restated* 1 January 2016 £000
Non-current assets				
Property, plant and equipment	8	**9,350**	7,635	9,648
Intangible assets	9	**9,652**	9,623	7,812
Deferred tax assets	14	**-**	-	503
		19,002	17,258	17,963
Current assets				
Inventories	10	**6,004**	5,306	4,659
Trade and other receivables	11	**45,220**	40,454	11,660
Cash and cash equivalents	12	**118,398**	63,329	78,562
		169,622	109,089	94,881
Current liabilities				
Trade and other payables	13	**(166,439)**	(132,790)	(142,749)
Net current assets/(liabilities)		**3,183**	(23,701)	(47,868)
Total assets less current liabilities		**22,185**	(6,443)	(29,905)
Non-current liabilities				
Deferred tax liabilities	14	**(1)**	(69)	-
Net assets/(liabilities)		**22,184**	(6,512)	(29,905)
Equity				
Share capital	15	**-**	-	-
Retained earnings		**22,184**	(6,512)	(29,905)
Total Equity		**22,184**	(6,512)	(29,905)

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

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

These financial statements were approved and authorised for issue by the Board of Directors on 14 September 2018 and were signed on its behalf by:

Mark Evans
Director

Statement of changes in equity
Year ended 31 December 2017

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2016	**-**	**(29,905)**	**(29,905)**
Total comprehensive income for the year (as restated*)	-	23,393	23,393
At 31 December 2016 (as restated*)	**-**	**(6,512)**	**(6,512)**
Total comprehensive income for the year	-	28,696	28,696
At 31 December 2017	**-**	**22,184**	**22,184**

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

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

Statement of cash flows
Year ended 31 December 2017

	Note	2017 £000	As restated* 2016 £000
Profit before taxation		**35,596**	30,153
Adjustments to reconcile profit before taxation to net cash flows:			
Amortisation and depreciation charges		**4,698**	4,115
Working capital adjustments:			
Increase in inventory		**(698)**	(646)
Increase in trade and other receivables		**(4,766)**	(28,794)
Increase/(Decrease) in trade and other payables		**33,649**	(9,959)
Taxation paid		**(6,969)**	(6,188)
Net cash flow generated from/(used in) operating activities		**61,510**	(11,319)
Purchase of fixed assets		**(6,441)**	(3,914)
Net cash flow used in investing activities		**(6,441)**	(3,914)
Net increase/(decrease) in cash and cash equivalents		**55,069**	(15,233)
Cash and cash equivalents at start of the year		**63,329**	78,562
Cash and cash equivalents at 31 December	12	**118,398**	63,329

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

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

Notes to the financial statements

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as adopted for use in the EU. In addition the financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared using historical cost principles.

The principal accounting policies of the Company applied in the preparation of these financial statements are set out below. The IFRS accounting policies have been applied consistently to all periods.

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

Certain prior year balances have been restated, refer to note 20 for further details.

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.

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.

Revenue

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

<u>Mobile service revenue</u>

Mobile service revenue includes revenue earned for usage of Telefonica UK Limited's 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.

<u>Hardware revenue</u>

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 customer.

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Revenue (continued)

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 Telefonica UK Limited (previously seconded from Telefonica Digital Limited), an associate company within the Telefónica Group, which participates in the Telefonica UK Pension Plan ("Telefonica PP"), a scheme sponsored by Telefonica Europe plc that provides benefits for the majority of UK employees in the Telefónica Group. 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 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 Telefonica UK Limited's capacity as a participating employer of the defined contribution section of the Telefonica PP, Telefonica UK Limited pays contributions into the plan on behalf of employees of the Company. Telefonica UK Limited has no further payment obligations once the contributions have been paid. The contributions are recharged to the Company and are recognised as employee benefit expense when they are due. Further disclosures on the Telefonica PP can be found in the financial statements of 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 remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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 10 years

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

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

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.

Leases

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

Financial risk factors and management

The Company's operations expose it to a variety of financial risks including liquidity risk. The principal financial risks of the Company and how the Company managed these risks are discussed below. Principal business risks are addressed in the strategic report.

Liquidity risk

Management of the Company's liquidity risk is achieved mostly through being a part of the larger Telefónica group, which operates group wide policies in this area.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

The Company's principal credit risks are attributable to its cash and cash equivalents. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company does not require collateral in respect of financial assets.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

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

At the date of preparation of the financial statements, the following IFRS and IFRIC interpretations have been published.

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

[2] The IASB has acknowledged a conflict between these amendments and IAS 28 Investments in Associates and Joint Ventures. In December 2016 the IASB published an amendment to IFRS 10 and IAS 28, deferring the effective date of these amendments indefinitely.

The Company has analysed the potential impact of the application of the other aforementioned standards, amendments and interpretations. The impact of IFRS 9, IFRS 15 and IFRS 16 are considered immaterial.

Critical accounting estimates and judgements

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

Critical accounting estimates and judgements (continued)

The following are considered significant accounting estimates:

Property, plant and equipment and intangible assets

Accounting for property, plant and equipment and intangible assets involves the use of estimates and judgements for determining the useful lives over which they are to be depreciated or amortised and the existence and amount of any impairment.

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

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

2. Revenue

Significant revenue streams are detailed below:

	2017	2016
	£000	£000
Mobile service revenue	**351,331**	300,744
Handsets revenue	**48,199**	45,641
Other revenue	**7,882**	5,059
Total revenue	**407,412**	351,444

Notes to the financial statements (continued)

3. Profit before taxation

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

	2017 £000	As restated* 2016 £000
Staff costs (note 4)	**7,981**	5,967
Amortisation of intangible assets (note 9)	**2,816**	1,986
Depreciation of property, plant and equipment (note 8)	**1,881**	2,129
Operating lease costs	**506**	566
Auditors' remuneration (note 6)	**13**	19
Inventories:		
Cost of inventories recognised as an expense (included in cost of sales)	**49,853**	47,363

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

4. Employees

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

	2017	2016
Number of full time employee equivalents (including executive Directors)	**No.**	No.
Technology	**28**	18
Customer Operations	**76**	52
Administration	**8**	7
Total employees	**112**	77

The benefits expense incurred in respect of these employees was:

	2017 £000	2016 £000
Wages and salaries	**6,560**	4,940
Social security costs	**805**	604
Pension costs	**628**	418
Share based payments	**(12)**	5
Total employee benefits expense	7,981	5,967

Notes to the financial statements (continued)

5. Key management and Directors' compensation

Key management includes the executive management and the Directors of the Company (two of which were remunerated by Telefonica UK Limited for their services to the Group and whose emoluments are included in full in the disclosures as there is no sensible basis of allocating that can be applied). The key management compensation for services to the Group for the year ended 31 December 2017 was as follows:

	2017	2016
	£'000	£'000
Salaries and short term employee benefits	**3,344**	5,198
Long-term incentive plans	**1,373**	-
Post-employment benefits	**43**	269
Termination benefits	**485**	-
Total key management compensation	**5,245**	5,467

For the year ended 31 December 2017 the emoluments of the Directors (two of which were remunerated by Telefonica UK Limited for their services to the Group) were as follows:

	2017	2016
	£'000	£'000
Aggregate emoluments in respect of qualifying services	**2,975**	4,900
Aggregate amounts paid under long term incentive plans	**1,373**	-
Aggregate amount of company contributions paid to a pension scheme	**14**	13
Termination benefits	**485**	-
Total director remuneration	**4,847**	4,913

During the year, one Director accrued retirement benefits under a defined contribution pension plan (2016: one). One of the Directors was entitled to receive shares under the Performance Share Plan in the year (2016: none).

In respect of the highest paid director:

	2017	2016
	£'000	£'000
Aggregate emoluments in respect of qualifying services	**2,394**	2,386
Aggregate amounts paid under long term incentive plans	**1,373**	-
Aggregate amount of company contributions paid to a pension scheme	**-**	-
Total director remuneration	**3,767**	2,386

6. Auditors' remuneration

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

	2017	2016
	£000	£000
Audit services:		
UK statutory audit fees	**13**	19
Total auditors' remuneration	**13**	19

The fees were paid to PricewaterhouseCoopers LLP (2016: Ernst & Young LLP).

Notes to the financial statements (continued)

7. Taxation

	2017	As restated* 2016
	£000	£000
Current tax - current year	**6,924**	6,179
Current tax – adjustments in respect of prior year	**44**	9
Deferred tax - current year	**(68)**	(113)
Deferred tax – adjustments in respect of prior periods	**-**	685
Effect of change in tax rate	**-**	-
Taxation	**6,900**	6,760

	2017	As restated 2016
	£000	£000
Profit before taxation	**35,596**	30,153
Profit before taxation multiplied by rate of corporation tax in the UK of 19.25% (2016: 20%)	**6,852**	6,031
Effects of:		
Expenses not deductible for tax purposes	**1**	22
Income not taxable	**(2)**	-
Prior year adjustment	**44**	694
Effect of change in tax rate	**5**	13
Total taxation charge	**6,900**	6,760

The Finance Act 2013 reduced the main rate of corporation tax to 20% with effect from 1 April 2015. The Finance Act 2016 further reduced the rate to 19% with effect from 1 April 2017. The rate was further reduced to 17% with effect from 1 April 2020. As a result, the disclosure for deferred tax reflects the enactment of this Act. Deferred tax is calculated on temporary differences under the liability method using a tax rate of 17% (2016:18%).

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

Notes to the financial statements (continued)

8. Property, Plant and Equipment

	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2016 (as restated*)	14,301	5,027	19,328
Additions (as restated*)	75	42	117
Reclassifications (as restated*)	1,805	(1,805)	-
At 31 December 2016 (as restated*)	16,181	3,264	19,445
Additions	2	3,594	3,596
Reclassifications	2,980	(2,980)	-
At 31 December 2017	**19,163**	**3,878**	**23,041**
Accumulated Depreciation			
At 1 January 2016 (as restated*)	9,681	-	9,681
Charge for the year (as restated*)	2,129	-	2,129
At 31 December 2016 (as restated*)	11,810	-	11,810
Charge for the year	1,881	-	1,881
At 31 December 2017	**13,691**	-	**13,691**
Net book amount			
At 31 December 2017	**5,472**	**3,878**	**9,350**
At 31 December 2016 (as restated*)	4,371	3,264	7,635

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

Notes to the financial statements (continued)

9. Intangible Assets

Cost	Software £000	Intangible assets in the process £000	Total £000
At 1 January 2016 (as restated*)	16,685	3,011	19,696
Additions (as restated*)	108	3,689	3,797
Reclassifications (as restated*)	1,700	(1,700)	-
At 31 December 2016 (as restated*)	18,493	5,000	23,493
Additions	19	2,826	2,845
Reclassifications	4,844	(4,844)	-
At 31 December 2017	**23,356**	**2,982**	**26,338**
Accumulated Amortisation			
At 1 January 2016 (as restated*)	11,884	-	11,884
Charge for the year (as restated*)	1,986	-	1,986
At 31 December 2016 (as restated*)	13,870	-	13,870
Charge for the year	2,816	-	2,816
At 31 December 2017	**16,686**	-	**16,686**
Net book amount			
At 31 December 2017	**6,670**	**2,982**	**9,652**
At 31 December 2016 (as restated*)	4,623	5,000	9,623

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

10. Inventories

	2017 £000	2016 £000
Handsets held for resale	**5,707**	5,017
SIM cards	**297**	289
Inventories	**6,004**	5,306

11. Trade and other receivables

	2017 £000	2016 £000
Prepayments	**4,121**	1,982
Other debtors	**962**	1,428
Accrued revenue	**2,244**	1,757
Amounts owed by group companies	**37,893**	35,287
Trade and other receivables	**45,220**	40,454

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

Notes to the financial statements (continued)

12. Cash and cash equivalents

	2017 £000	2016 £000
Cash and cash equivalents	**118,398**	63,329

13. Trade and other payables

	2017 £000	2016* As restated £000
Amounts owed to group companies	**115,273**	88,397
Other taxation and social security	**18,220**	16,766
Accrued expenses	**5,735**	5,334
Deferred income	**27,211**	22,293
Trade and other payables	**166,439**	132,790

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

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

14. Deferred tax assets/(liabilities)

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

	£000
At 1 January 2016	503
Prior year charge to statement of comprehensive income	(685)
Current year credit to statement of comprehensive income	113
At 31 December 2016 (as restated*)	(69)
Current year charge to statement of comprehensive income	68
Effect of change in tax rate	-
At 31 December 2017	**(1)**

Notes to the financial statements (continued)

14. Deferred tax assets/(liabilities) (continued)

Deferred tax assets/(liabilities)	Accelerated tax depreciation £000	Other £000	Total £000
At 1 January 2016	474	29	503
Prior year credit/(charge) to statement of comprehensive income	(685)	-	(685)
Current year credit/(charge) to statement of comprehensive income	106	7	113
At 31 December 2016 (as restated*)	(105)	36	(69)
Credit/(charge) to statement of comprehensive income	(6)	74	68
Effect of change in tax rate	6	(6)	-
At 31 December 2017	**(105)**	**104**	**(1)**

The Finance (No.2) Act 2015 provides that the rate of corporation tax from 1 April 2020 will be 17%. As a result the estimate of deferred tax has been calculated at a rate of 17%, with no significant impact on these financial statements.

* The prior year comparatives have been restated. Refer to note 20 of the financial statements for further details.

15. Share capital

	Number of shares	**2017 £**	Number of shares	2016 £
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.

16. Share based payments

The amounts recognised in profit before taxation for share based payment transactions with employees for the year ended 31 December 2017 were as follows:

Period from 1 January to 31 December 2017	**2017 £000**	2016 £000
Equity settled share based payments	(12)	5
Total share based payments	**(12)**	5

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

Notes to the financial statements (continued)

16. Share based payments (continued)

Telefónica Performance Investment Share Plan 2011-2016

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

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

The plan lasted five years and was divided into three independent three-year phases. At the beginning of each phase, each participant was allocated a notional number of shares. According to the plan, the number of shares to be delivered would depend upon Telefónica S.A.'s Total Shareholder Return ("TSR") performance compared to the TSR of the companies making up the 50th percentile of the Comparison Group.

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

The second phase expired on 30 June 2015. Delivery of shares took place at the end of the phase according to the general conditions of the plan to the value of £0.1 million.

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

Telefónica Performance Investment Share Plan 2014-2019

The Telefónica, S.A. General Shareholders' Meeting on 30 May 2014 approved a new instalment of the long-term share-based incentive "Performance and Investment Plan" for certain senior executives and members of the management team of the Telefónica Group, to be operational on completion of the first Performance and Investment Plan.

The term of the plan is a total of five years divided into three phases. The initial and the second share allocations took place on 1 October 2014 and on 1 October 2015 respectively. Regarding the third phase of this 2016-2019 plan, Telefónica S.A.'s Board of Directors, following a favorable report from the Nomination, Compensation and Corporate Governance Committee, resolved not to execute or implement it, after having decided that it was not sufficiently in line with the Telefónica Group's strategic plan, taking into account the circumstances and macroeconomic environment.

12,574 shares were assigned in the first phase with a fair value of €6.82 per share. 4,375 shares were assigned in the second phase with a fair value of €6.46 per share. No shares were assigned in the third and final phase of the plan.

The first phase expired on 30 September 2017. Delivery of the shares was not required at the end of the phase according to the general conditions of the plan; therefore managers did not receive any shares.

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

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

At the General Shareholders' Meeting of Telefónica S.A. held on 30 May 2014, a long-term share-based incentive plan called "Talent for the Future Share Plan" was approved for certain Telefónica 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.

Notes to the financial statements (continued)

16. Share based payments (continued)

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

The term of the plan is five years and it is divided into three phases. At the beginning of each phase, each participant was allocated a notional number of shares. According to the plan, the number of shares to be delivered will depend upon Telefónica S.A.'s Total Shareholder Return ("TSR") performance compared to the TSR of the companies making up the 50th percentile of the Comparison Group. The initial and the second share allocations took place on 1 October 2014 and on 1 October 2015 respectively. Regarding the third phase of this 2016-2019 plan, Miami S.A.'s Board of Directors, following a favorable report from the Nomination, Compensation and Corporate Governance Committee, resolved not to execute or implement it, after having decided that it was not sufficiently in line with the Telefónica Group's strategic plan, taking into account the circumstances and macroeconomic environment.

2,021 shares were assigned in the first phase with a fair value of €6.82 per share. No shares were assigned in the second and third phases of the plan.

The first phase expired on 30 September 2017. Delivery of shares was not required at the end of the phase according to the general conditions of the plan.

Other share-based payment plans

Global Employee Share Plan 2015-2017

At the Telefónica S.A. Ordinary General Shareholders' Meeting on 30 May 2014, the shareholders approved a new voluntary plan for incentivised purchases of shares for the employees of the Group. 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 was 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. Shares were delivered upon vesting of the plan, on 31 July 2017. The employees that remained part of the Telefónica Group and held on to the shares for one year following the acquisition period (the shareholding period), were entitled to receive one free share for each share they acquired and retained throughout the shareholding period.

The acquisition period commenced in July 2015 and ended in June 2016. The plan's shareholding period came to an end in July 2017. On the vesting date, no employees were delivered shares according to the general conditions of the plan.

17. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2017 the Company was committed to making the following total future lease payments in respect of operating leases for each of the following years:

	2017	2016
	£000	£000
Within one year	**856**	506
Total operating lease commitment	**856**	506

Notes to the financial statements (continued)

17. Financial commitments and contingent liabilities (continued)

Other commitments

There were no other commitments at 31 December 2017 (2016: £nil).

18. 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 a part of the larger Telefónica group, which operates group wide policies in each area and is able to hedge positions on a group basis.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss.

The Company's principal credit risks are attributable to its cash and cash equivalents. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company does not require collateral in respect of financial assets.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities.

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

Interest rate risk

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

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

Fair value 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.

Notes to the financial statements (continued)

19. Related party disclosure

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

	2017	2016
	£000	£000
Purchases from group companies	(164,533)	(133,048)
Total transactions	**(164,533)**	(133,048)

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 11 and 13.

Related party transactions with Directors and key management are detailed in note 5.

20. Correction of prior period errors

During 2017, the Company identified:
(a) that a portion of its fixed assets and the related depreciation and amortisation charges had been excluded from its financial statements in 2016 in error.
(b) Additionally following a review of the Company's assets, portal-related expenditure of £9,315k was considered to be more appropriately classified as intangible assets, rather than property, plant and equipment. These errors have been corrected by restating the relevant financial statement line items for the year ended 31 December 2016. The impact of these corrections is summarised as follows:

i. Statement of comprehensive income

	As previously reported £000	Adjustments £000	As restated £000
Administrative expenses	(68,562)	(1,534)	(70,096)
Profit before taxation	31,687	(1,534)	30,153
Taxation	(6,367)	(393)	(6,760)
Profit for the year	25,320	(1,927)	23,393

ii. Statement of financial position

	As previously reported £000	Adjustments £000	As restated £000
Property, plant and equipment	13,682	(6,047)	7,635
Intangible assets	186	9,437	9,623
Deferred tax assets	488	(488)	-
Trade and other payables	(128,030)	(4,760)	(132,790)
Net current liabilities	(18,941)	(4,760)	(23,701)
Total assets less current liabilities	(4,585)	(1,858)	(6,443)
Deferred tax liabilities	-	(69)	(69)
Net liabilities and total equity	(4,585)	(1,927)	(6,512)

Notes to the financial statements (continued)

20. Correction of prior period errors (continued)

iii. Statement of changes in equity

	As previously reported £000	Adjustments £000	As restated £000
Total equity at 31 December 2015	(29,905)	-	(29,905)
Total comprehensive income for the year	25,320	(1,927)	23,393
Total equity at 31 December 2016	(4,585)	(1,927)	(6,512)

iv. Statement of cash flows

	As previously reported £000	Adjustments £000	As restated £000
Profit before tax	31,687	(1,534)	30,153
Amortisation and depreciation charges	3,330	785	4,115
Decrease in trade and other payables	(12,703)	2,744	(9,959)
Taxation	(6,351)	163	(6,188)
Net cash flow used in operating activities	(13,478)	2,159	(11,319)
Purchase of fixed assets	(1,755)	(2,159)	(3,914)
Net cash flow used in investing activities	(1,755)	(2,159)	(3,914)

21. Parent company and controlling party

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

22. Subsequent events

In the recent Ofcom auction which concluded on 5 April 2018, Telefonica UK Limited secured 80 MHz of spectrum at a cost of £523.6m. This included 40MHz of immediately useable (2.3GHz) spectrum, which was all of the spectrum available in this band, as well as 40MHz of 3.4 GHz spectrum, earmarked for 5G. As a subsidiary of Telefonica UK Limited and user of this network, this provides the Company with the capability to increase network capacity significantly for the benefit of its members.