

Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2021



Contents	Page
Company information	1
Strategic report	2
Energy and carbon report	14
Directors' report	15
Statement of Directors' responsibilities	18
Independent Auditors' report to the members of giffgaff Limited	19
Statement of comprehensive income	23
Statement of financial position	24
Statement of changes in equity	25
Statement of cash flows	26
Notes to the financial statements	27 - 45

Company information

Directors

Gareth Leslie Turpin
Ashley Schofield
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Secretary

VMED O2 Secretaries Limited

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Strategic Report

giffgaff Limited ("the Company" or "giffgaff") is a wholly owned subsidiary under the ultimate parent of VMED O2 UK Limited (VMED O2). VMED O2 is jointly owned by Liberty Global plc (through Liberty Global Europe 2 Limited) (Liberty Global) listed on NASDAQ (LBTYA, LBTYB and LBTYK) and Telefonica SA (through Telefonica O2 Holdings Limited) (Telefonica) listed on the Spanish Stock Market as well as New York and Lima. giffgaff's immediate parent is Telefonica UK Limited ("TUK"), a mobile network operator trading under the O2 brand.

The Joint Venture

On 7 May 2020, Liberty Global and Telefonica, amongst others, entered into the Contribution Agreement and agreed to form a 50:50 joint venture, VMED O2 UK Limited, combining the operations of Virgin Media Inc. in the UK (Virgin Media) with the operations of O2 Holdings Limited and its subsidiaries in the UK (including TUK and giffgaff). The Joint Venture was consummated on 1 June 2021.

As part of the formation of the Joint Venture, on 1 June 2021, Liberty Global and Telefonica (amongst other parties) entered into a shareholders agreement (the Joint Venture Shareholders Agreement) whereby Liberty Global and Telefonica directly or indirectly hold 50% of the issued share capital of VMED O2 UK Limited, our ultimate parent, and to which Liberty Global contributed the operations of Virgin Media (other than the Virgin Media businesses that were excluded from the transaction) (the Virgin Media Contribution) and Telefonica contributed O2 (the O2 Contribution and, together with the Virgin Media Contribution, the Contributions).

Principal activity

giffgaff is an online Mobile Virtual Network Operation (MVNO) which runs on the O2 network providing telecommunication services to the consumer mobile segment.

Our Purpose and Values

At giffgaff we set out to create mutually beneficial connections. We do this by harnessing the power of people, challenging the established way and improving it.

Our values are Positive, Curious, Collaborative and Gritty.

Our Strategy

giffgaff as an online MVNO does not have any call centres instead giffgaff works with its members (customers) to; source ideas and feedback, provide frontline service support through its community and be a source of growth through the giffgaff member get member scheme. We call it "Run by you". As a result, giffgaff has market leading levels of recommendation (net promoter score) and a low-cost operating model that helps giffgaff give its members great value tariffs. Our lean and agile operating model has helped us to continue to adapt to the ongoing impacts of the COVID-19 pandemic and continue to grow the business.

In 2021 we achieved this through:

- **Our members and community:**

Every year we say thank you to our members for their contribution to making giffgaff what it is today through our Payback scheme. In the reporting period we paid back over £1m to our members through this scheme and at the end of 2021 we reached the milestone of £20m paid back to our members since the scheme started 12 years ago. Of this £20m, our members have opted to share over £1m with their favourite charities. A great example of mutual benefit, the giffgaff way.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)

Our Strategy (continued)

- **Our propositions:**

We have rewarded our members' commitment by extending and improving our Golden goodybag range of plans where members get more data every month when they set up a recurring payment. We also made 5G available to members with 5G phones across all our plans at no extra charge.

On the phones side of the business, while we stock a wide range of new devices, refurbished phones stay front and central to our offer, allowing us to respond to an emerging need for better value and more sustainable upgrade options when people choose their next phone.

- **Our people:**

We believe engagement drives performance and we measure it through Gallup's Q12 survey methodology. Our latest engagement scores place us amongst the most engaged companies in the UK and we have also seen our employee net promoter score increase from 48 to 50 in a time when we have embraced a hybrid working model to facilitate both working from home and the office.

- **Our technology:**

As a digital platform business, technology underpins our performance. In 2021 we have focused on the experience through our giffgaff App to better serve our members. In doing so we have seen our App ratings climb on both iOS and Android.

We continue to invest in improving our portal code base to make it more flexible, so we can efficiently improve experiences for our members as well as upgrading our other key supporting technology platforms so we can realise our future potential as a digital first business. To ensure we continue to keep our information assets secure we have again achieved the ISO 27001 standard.

- **Our corporate responsibility approach:**

To help keep the nation talking through extended social lockdowns due to Covid 19 we zero rated calls for days in February and June and encouraged people to have a proper chat with someone who would benefit.

Over the course of the year our partnership with Global (media company) also enabled us to highlight 14 grassroots charities including charities for the visually impaired, the elderly, LGBTQ+ and young families facing isolation. We worked to raise their profile and also cash donations. This was supplemented with our work with Neighbourly which enabled us to donate phones to the grassroots charity that needed them.

As a business we have always taken sustainability seriously and this year saw an ad campaign ('Urgent Call') encouraging people to reduce waste by trading in or recycling their old mobile phones. We have also worked hard with refurbished suppliers to establish a baseline battery charge benchmark, to give people the confidence to buy refurbished phones from us. We now include eco ratings on some of our phones on the website, again, encouraging people to make environmentally aware decisions.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**Our members and community**

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.

Our experience of working this way with our members makes us believe that 'together with our members anything is possible' and helps us bring to life the thought of being 'the mobile network run by you'. Members contribute in many ways including helping other members on the forum by answering their questions and creating helpful video content for other members on 3rd party platforms like YouTube. The giffgaff community has over 300,000 visitors a month and members answer over 3,800 new questions a month.

When members get involved, because we believe in the benefits of mutuality, we say thank you with payback which can be taken as credit, cash or donated to charity. 2021 was another challenging year for many people, with the lockdowns and restrictions causing isolation across the nation. Building on purposeful work we did in 2020, giffgaff continued to support people to feel connected and tackled other issues close to people's hearts:

- At the peak of the final lockdown, we encouraged the UK to pick up the phone and talk to their loved ones. We free rated all calls and texts for an hour throughout different periods between February and June urging people to Have a Proper Chat. We helped thousands of our members to combat loneliness and isolation
- We partnered with Doro to donate over 500 phones to isolated elderly people throughout the UK, helping older members in the community have access to a means of communicating with their loved ones rather than suffering from loneliness due to the pandemic
- Additionally, we worked with Neighbourly to encourage individuals to clear out their draws and gift an old device to those that need it more. During this campaign, we also encouraged the nation to recycle their phone or trade it in to help address the growing issue of e-waste
- giffgaff continuously listens to its community, so in 2021 when a member asked for an advert to be inclusive of the deaf community, we created our first advert using British Sign Language. Highlighting our approach to exploring areas of advertising that remain untapped but are crucial to inclusivity

Our propositions

giffgaff's 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 have rewarded our members' commitment by extending and improving our Golden goodybag range of plans where members get more data every month when they set up a recurring payment. We also made 5G available to members with 5G phones across all our plans at no extra charge. In October we added more data into 6 of our goodybags across the range, notably doubling the data allowance in our lowest priced goodybag, £6, from 500MB to 1GB.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**Our propositions (continued)**

On the phones side of the business, while we stock a wide range of new devices, refurbished phones stay front and central to our offer, allowing us to respond to an emerging need for better value and more sustainable upgrade options when people choose their next phone. We continue to promote refurbished phones as a great value option and a more environmentally friendly choice.

To provide choice we continued to service our members who looked for the new alternatives in the market by launching the most popular latest flagship phones as and when these became available.

Recent awards

During 2021 giffgaff have received several awards as external validation for value for money and customer satisfaction. These included:

- Uswitch Awards 2021- Network of the Year Winner
- D&AD New Blood Awards 2021 - Winner
- Global Search Awards 2021 - Best Use of Search (Retail/Ecommerce PPC) Havas Media UK & giffgaff Winners
- Blogosphere Awards 2021 – Lifestyle influencer brand campaign of the year giffgaff #chooserefurbished by Studio 71 Winner
- Ofcom Customer Satisfaction Tracker - giffgaff top of mobile leader board
- Expert Reviews Mobile Network Awards 2021 - Best Overall Highly Commended 2021, Best Value Highly Commended 2021 and Most Reliable Highly Commended 2021

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 TUK and as such we benefit from their support, including operating the same employee related policies and procedures. These policies and procedures are communicated to employees via Workplace (the Company's intranet) and all giffgaff employees have access to the policies through the VMED O2 intranet. Further details of the people engagement and relations can be found in VMED O2 UK Holdings Limited consolidated Annual Report 2021, published on the website, www.virginmediao2.co.uk

Our people strategy is simple: attract, develop and retain a diverse and talented team. 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 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 through internal and external development opportunities and encourage flexible working so they can achieve a balance between their professional and personal lives.

Diversity and inclusion, fair treatment of our people and high engagement within the working environment are especially important to us. 35% of our total population are female and 25% from an ethnic background.

Our policies and line manager guidance ensures fair treatment of people with disabilities in relation to their recruitment, training and development and reasonable adjustments and considerations in relation to disabilities.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**Our corporate responsibility approach**

We take being a responsible business seriously and believe the way we do business matters. We are committed to do the right thing for our members, our community, our people and wider stakeholders, underpinned by our purpose – to harness the power of people, to challenge the established way and improve it.

Our approach to ethical conduct is reflected in our Code of Conduct which underpins our commitments to our stakeholders and is centred on three core values:

- **Our commitment to members.** We manage our business to the highest standards of corporate governance and treat our customers fairly.
- **Our commitment to our people.** We support having a diverse and inclusive workplace where all our people are welcome. We support our employees' professional development. There is no place in our workplace for harassment of any type.
- **Our commitment to operating ethically.** We have no tolerance for bribery and corruption. We don't offer or receive gifts, hospitality or other incentives which might influence a business decision.

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 Code of Conduct, which is essential for everyone working either for or on our behalf. As a wholly owned subsidiary of VMED O2, a significant proportion of our policies and processes are cascaded 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 VMED O2, as well as external audits on behalf of regulators as and when needed. Further details of the group's responsible business approach can be found in the VMED O2 UK Holdings Limited consolidated Annual Report 2021, published on the website, www.virginmediao2.co.uk.

Our suppliers

Being part of the VMED O2 Group 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 Small or Medium sized Entity (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 Health & Safety with vendors involved in construction and other high-risk activities
- Reviewing modern slavery risks with vendors in at risk categories
- Managing sustainability in new tenders
- Maintaining a view of suppliers operating in high sustainability risk categories and ensuring they complete EcoVadis assessment

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 SME, 30 day payment terms are available upon request.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**Our suppliers (continued)**

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 our Modern Slavery Statement published annually on the giffgaff website, www.giffgaff.com.

Key Performance Indicators (KPI)

At the end of 2021, the key operating performance highlights of the Company are:

Revenue	giffgaff achieved revenue growth of 5% for the year ended 31 December 2021. Our revenue for the year was £524,439,000 (2020: £500,081,000).
Mobile service revenue	The mobile service business generated £468,694,000 (2020: £439,798,000), contributing 89.4% of our total revenue. The increase in revenue is driven by a higher volume of members and a greater proportion of members (2021: 2,421,452 members vs 2020: 970,781) taking one of our Golden goodybags.
Handsets	The handset business generated £55,745,000 of revenue for the year (2020: £58,935,000), contributing 10.6% of our total revenue. The reduction in handset revenue is driven by a lower average selling price in 2021 as our focus was on refurbished handsets (2021: 63.4% (2020: 50.6%) refurbished vs 2021: 36.6% (2020: 49.4%) new).
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 216,935 (2020: 237,495) net members to the mobile business during the year ended 31 December 2021 taking the base to 3,835,750 members (2020: 3,618,815 closing base).
Churn	Churn 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 decreased from 3.8% in 2020 to 3.2% in 2021 with fewer people looking to move providers.
Average revenue per user ("ARPU")	Average revenue per user ("ARPU") is calculated by dividing monthly total mobile service revenue 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 £0.09 year-on-year to £10.58 (2020: £10.67).
Net promoter score (NPS)	Net promoter score (NPS) relates to how likely members are to recommend giffgaff. The average NPS for 2021 was 66.4 (2020: 68.7).

The Company's profit for the year ended 31 December 2021 was £42,550,000 (2020: £25,517,000). The increase in profit for the year is mainly due to the increase in mobile service revenue.

The net assets of the Company as at 31 December 2021 were £154,340,000 compared to £111,790,000 at 31 December 2020, the movement of which is due to £42,550,000 of profit for the year.

giffgaff Limited

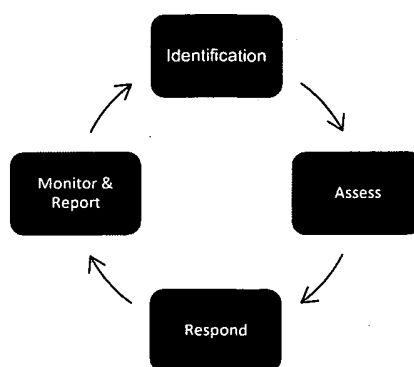
Registered Number: 4196996

Strategic Report (continued)**Principal risks and uncertainties**

giffgaff has a risk management process that enables identification, analysis and reporting of risks relevant to the business. Mitigations are defined and implemented 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 ultimate shareholder, VMED O2, on a regular basis. giffgaff's Business Assurance function has access to risk management specialists internally as well as at VMED O2.

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 (COSO II Report and ISO31000:2018 Principles and Guidelines for Risk Management) and supported by VMED O2 risk and assurance experts.

The framework is designed to identify, assess, manage, monitor, and respond to 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, whilst also encouraging the risk management process to be both Enterprise wide and cyclical in nature so that we are constantly drawing on experience and data to feed our identification process.



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.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**Principal risks and uncertainties (continued)**

Risk	Why is this important?	How we manage it	Trend
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 regularly and adapted continuously based on experience and new scenarios to mitigate impact.	Decreased
Legal & Compliance	At giffgaff our members are at the heart of everything we do. Ensuring compliance with the regulations and laws that govern the markets we operate in, helps us continue to deliver positive member outcomes.	Dedicated teams monitor the requirements that are applicable to us. Any changes to regulation are communicated and acted upon to ensure ongoing compliance. The use of regular risk reviews, compliance monitoring and internal audit activities reinforce our operations.	Maintained
Security breach of systems	Any breach of a system that prevents giffgaff 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
Brand equity and integrity risk	The risk of market competition removing giffgaff's differentiators leading to a mass loss of members & lack of new members. giffgaff places great importance on its brand equity and the integrity of the business. Expansion or growth could threaten this if it the activity is undertaken incorrectly	Adapt and expand current offerings. Invest in giffgaff's key differentiators and forensically maximise the advantages of each. giffgaff's marketing team monitor a set of agreed metrics on a frequent and ongoing basis to ensure that we continue to outperform the market.	Increasing

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)

Regulators and government

Our three main Regulators are the Office of Communications (Ofcom), the Information Commissioner's Office (ICO) and the Financial Conduct Authority (FCA). We engage with all these regulators to foster a constructive relationship and support our business strategy.

We respond and engage with Ofcom both directly through consultations and in correspondence to assist them in the development of the UK's mobile strategy.

The ICO is the UK's independent body set up to uphold information rights. We monitor relevant regulatory developments and take appropriate measures accordingly. We engage constructively with the ICO in relation to any enquiries we may receive from the regulator under relevant data protection law.

giffgaff is also authorised by the FCA to act as a credit broker and holds permissions relating to insurance contracts. We are committed to treating customers fairly and giving due regard to the FCA's objectives of protecting consumers, ensuring market integrity, and promoting effective competition. Due to the impacts of the Covid-19 pandemic on consumers, one of the FCA's focus areas in 2021 was the treatment of customers in financial difficulty. Examples of how we have given regard to the FCA's interest during the reporting year include maintaining our inclusive roaming allowance to allow members to roam to destinations all over Europe and use their data, calls and texts as they would in the UK and our "goodybank" which supports members in financial difficulty through offering mobile connectivity.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**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.

Introduction

In discharging our responsibilities as Directors to the Company, to the extent permissible by law we are aligned to the governance framework set out for VMED O2. The Board of Directors of VMED O2 have put in place a governance framework for VMED O2 which includes best practice procedures to support the assessment of those matters necessary to make informed decisions in furtherance of the long-term success and sustainability of VMED O2 as a whole. The Directors of the Company, (which consists of the giffgaff CEO and members of VMED O2 Executive Management Team) are supported by the Senior Leadership Team in discharging the statutory duties in the best interest of the Company and the VMED O2 as a whole.

VMED O2 governance framework

The Board of VMED O2 is made up of an equal number of Directors nominated by Telefonica and Liberty Global, the ultimate shareholders who have agreed that the role of the Board of VMED O2 includes ensuring that the affairs of VMED O2 are conducted in accordance the provisions of the shareholders' agreement and the articles of association of the respective companies within VMED O2, making sure that each shareholder's interests are taken into account in decision-making. The Directors of VMED O2 have delegated the day-to-day management of VMED O2 to the Executive Management Team whilst retaining sufficient oversight over specific reserved matters in addition to statutory matters. Subsequently each subsidiary company within VMED O2 has delegated authority to the Executive Management Team (of which members are also the statutory directors of the subsidiary companies) to the extent permissible by law and the shareholders' agreement. The Executive Management Team are made of 12 members with the requisite skills and experience from diverse disciplines. Further details of our governance arrangements can be found in the Corporate Governance Statement of VMED O2 UK Holdings Limited published on the group, website www.virginmediao2.co.uk

The Joint Venture was formed to bring together two major businesses in the UK, O2 (including giffgaff) and Virgin Media, to create a connectivity challenger in the market. As a customer-first organisation, we bring a range of connectivity services together in one place with a clear mission: to upgrade the UK. Accordingly, the VMED O2 Board has defined our corporate purpose as being to "Reimagine Connectivity and Upgrade the UK", taking action to close the digital divide and helping to build a more inclusive, resilient and low carbon economy. We continue to focus on all our key stakeholders; employees, customers, the regulators and the community and to take their interests into account in decision-making.

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)**giffgaff Limited– Section 172(1) Statement (continued)****VMED O2 governance framework (continued)**

The size and spread of VMED O2's business and our stakeholders mean that a proportion of our stakeholder engagement generally takes place at the group operational level, led by a member of the Executive Management Team supported by the Senior Leadership Team which consists of professionals for the respective areas. We find that this is the most efficient and effective approach and helps us achieve a greater positive impact on environmental, social and other issues that are relevant to our business. Furthermore, during 2021, with the support of VMED O2, giffgaff has taken this one step further and with the balance of profit, planet and people in mind has begun to assess the Company's readiness to become B Corp certified. Certified B Corporations are companies verified by B Lab (a non-profit organisation) to meet high standards of social and environmental performance, transparency and accountability. The B Corp certification process will continue into 2022.

Regular updates are provided to the VMED O2 Board and the Executive Management Team (including the Directors of the Company) to help them understand the interests and views of VMED O2's key stakeholders and other relevant factors, which ensures that the Directors can take them into account when making decisions and can comply with their section 172 duty to promote the success of the Company. We set out below some examples of how the matters set out in section 172(1)(a) to (f) have been taken into account and the impact that has had on our decisions.

The Directors and Senior Leadership Team of giffgaff are of the opinion that they have fulfilled their statutory obligations under Section 172. In addition, the Directors have maintained the formal contract signature process and procedure outlined in the "Other measures taken" section below, to ensure adequate consideration of all their Section 172 duties matters before entering into any contractual agreement or transaction.

At the beginning of 2021, the Directors and Senior Leadership Team considered and set Company objectives, with associated key results (that would indicate the fulfilment of an objective) ("OKRs"). These covered: (i) profitable growth; (ii) member experience; (iii) strategy; (iv) people; and (v) regulatory compliance, (vi) future platform technology capability and were therefore closely aligned with the Section 172 duties. The Company OKRs were shared with all giffgaff people and constantly reviewed by the Senior Leadership Team throughout the year.

The Company understands that its people are vital to the long-term success of giffgaff. The Company kept its people informed of the plan to navigate through the unprecedented times caused by the Covid 19 pandemic and kept them updated on the Company's performance. This was achieved through giffgaff's regular weekly Company wide meeting, and also by way of daily blog posts from the Company's Chief Executive Officer (who is also a Director) on Workplace. Due to the pandemic, working flexibly was commonplace across the company in 2021. As we approached the end of the year office working restrictions were relaxed and the company embraced hybrid working to allow those employees who were keen to return to the office to do so. Giffgaff meeting room technology supported a mixture of attendees both in person and virtually with this trend set to continue into 2022.

Other measures taken

To further ensure compliance with their Section 172 duties (and appropriate governance more generally) the Directors and Senior Leadership Team follow an electronic contract approval mechanism. This requires all commercial arrangements to be explicitly approved by senior leadership members, with the Section 172 requirements explicitly flagged during the approval process to the relevant Director or Senior Leadership Team member (who by giving their approval, indicate that they are acting in accordance with the duties).

giffgaff Limited

Registered Number: 4196996

Strategic Report (continued)

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

Other measures taken (continued)

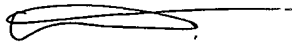
Additionally, regular and minuted bi-monthly Assurance Forum meetings are held with the Senior Leadership Team to provide oversight of key risks and issues relating to the long-term success of the Company. This provides the Chief Executive Officer and his Senior Leadership Team the clear facts to allow them to fulfil their Section 172 duties and take strategic decisions with full knowledge of the business health and risks. During the year the Company has also enhanced its risk management framework, giving clearer and more comprehensive risk management insight to the Senior Leadership Team and also to the Company's shareholder.

Conclusion

All the above measures ensured that Section 172 duties have been met and that strategic decisions happened with full oversight of the Directors and Senior Leadership Team, enabling the Company and its people to remain true to the Company's purpose to; harness the power of people, challenge the established way, and improve it.

The Strategic Report was approved by the Board on 26 September 2022.

By Order of the Board



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

giffgaff Limited

Registered Number: 4196996

Energy and Carbon Report

We are pleased to report on our energy and carbon report for the financial year ending 31 December 2021.

The scope of the report includes our office. The calculation approach is based on invoicing. Emissions Factors have been taken from the BEIS 2021 Conversion Factors published in June 2021 and our data has been externally validated by Aenor.

Emissions	2021 (tCO₂e)	2020 (tCO₂e)
Scope 1 - Direct emissions from activities owned or controlled by the Company.		
This is low impact and fuel used is primarily for company lease vehicles.		
Vehicle Fuel Consumption	0.2	1
Total	0.2	1
Scope 2 - Indirect emissions into the atmosphere associated with purchased electricity, heat, steam and cooling		
Electricity Consumed at our office		
Total Electricity Consumption (Location based)	894	19
Renewable Energy Purchase	894	19
Scope 3 a consequence of an indirect source (e.g. business travel by vehicles not owned by the Company)		
Business travel (business mileage).		
Air Travel	0.3	0
Land travel	0.1	2
Total	0.4	2
Methodology for scope data	ISO14001:2015 and GHG Protocol	ISO14001:2015 and GHG Protocol
Intensity Ratio using the UK Gov BEIS emissions factors	78.9 tCO ₂ e/PB	121.8 tCO ₂ e/PB
Carbon offsets (tCO₂e)	Zero	Zero

We purchased 83,247 kWh of electricity for consumption (renewable) in our own or controlled sources. The renewable energy has a zero-emission factor using the market approach. The saving compared to a location approach is 894 tCO₂e.

Our energy supplier is Total Gas & Power and is a Green 3-year flex tariff with 100% certified renewable electricity.

During 2021 we continued to recycle office waste where possible. Plastic waste has significantly been reduced and reusable coffee cups are offered to all members of staff and strongly encouraged. All food waste is recycled or donated to the food bank.

giffgaff Limited

Registered Number: 4196996

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:

Ashley Schofield

Gareth Leslie Turpin – Appointed 21 June 2021

Patricia Cobian – Resigned 22 April 2022

Mark Evans – Resigned 21 June 2021

Mark David Hardman – Appointed 23 August 2022

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

Directors' liability insurance and indemnity

In accordance with the Company's articles of association the Directors shall be indemnified out of the Company's assets to the extent permissible by UK Company Law. 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 was comprised of the Chief Executive Officer of giffgaff, the Chief Commercial Officer of VMED O2 and the Chief Financial Officer of VMED O2 (resigned on 22nd April 2022), who are 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 Senior Leadership Team consisting of the Chief Marketing Officer, Chief Commerce Officer, Chief Operating and Technical Officer, Chief Product and design Officer, Head of Legal and People director. Priorities for the Leadership Team include maintaining our growth performance, 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 Executive Management Team of VMED O2.

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 community's 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 3 and 4 for members & community, our people on page 5, our suppliers on pages 6 and 7, regulators, and government on pages 10 of the Strategic Report.

giffgaff Limited

Registered Number: 4196996

Directors' report (continued)**UK employee engagement statement**

The company does not have any employees in its own right; the Company's employees are employed by Telefonica UK Limited which operates solely in the UK and employees are based in the UK with the exception of a handful which are seconded to other group companies from time to time. As part of the group governance framework the Board has delegated its duties in respect of the employees to the VMED O2 Executive Management Team.

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 5 of the Strategic Report.

Results and Dividends

The Company's profit for the period, after tax amounted to £42,550,000 (2020: £25,517,000). The Company did not pay a dividend for the year ended 31 December 2021 (2020: £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

There are no 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 20 & 21 of the financial statements.

Going concern

The Company's business activity is that of a mobile cellular telecommunications provider and operator. The financial position of the Company is described on page 7 of the strategic report. In addition, note 22 to the financial statements includes the Company's objectives, policies, and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk, liquidity risk and interest rate risk. The Directors believe that the Company is well placed to manage its financing and business risks successfully.

The Company prepares detailed annual budgets and forecasts as part of its planning process. These budgets and forecasts are subject to rigorous review which include sensitivity testing of key assumptions, analysis of growth rates, market guidance and macroeconomic indicators. There are processes in place to review the appropriateness of financial outlooks regularly and monitor market activity on an ongoing basis. Rate and volume assumptions are stress tested and triangulated with market insight/trading updates as well as monthly results and third party economic/other relevant sources. The Directors have reviewed the budgets, forecasts and business plan which reflects our current view of the impacts of Covid 19 on the business for the period to 31 December 2023.

giffgaff Limited

Registered Number: 4196996

Directors' report (continued)

Going concern (continued)

The Company has proved to be resilient, but not entirely immune to the effects of Covid 19. The need for connectivity by our members has been just as strong. The Company does not anticipate that an unexpected fall in volumes and/or prices will result in sustained losses that have a material impact on its' ability to continue in operation. Having considered the impact of a severe but plausible downside scenario for Covid 19, OIBDA is expected to be a significant positive number and thus causes no concern in respect of going concern considerations. The Company has demonstrated its' ability to pull on sufficient levers to mitigate a significant impact on profitability and liquidity. In light of this, the Directors believe that the Company is well placed to continue to mitigate the impacts of Covid 19 during 2022 and beyond.

The Company is considered to be in a strong financial position as at 31 December 2021 and has identified no factors that cast doubt on its' ability to continue as a going concern in future financial reporting periods.

The Directors have noted no significant issues causing them to believe that the going concern assumption is not appropriate for the Company for the year ended 31 December 2021. With the commitment received from VMED O2 UK Limited to provide financial support if needed, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result, we continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Political donations

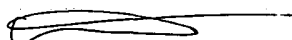
The Company made no political donation during the year ended 31 December 2021 (2020: £nil).

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 26 September 2022.

By Order of the Board



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

giffgaff Limited

Registered Number: 4196996

Statement of Directors' responsibilities in respect of the financial statements

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 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.

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. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

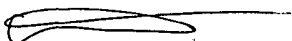
Directors' confirmation

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 26 September 2022.

By Order of the Board



Vivienne Aziba
For and on behalf of VMED O2 Secretaries Limited

Independent Auditors' report to the members of giffgaff Limited

Opinion

We have audited the financial statements of giffgaff Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management as to the Company and Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes;

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

Fraud and breaches of laws and regulations – ability to detect (continued)

- Considering remuneration incentive schemes and performance targets for management/directors;
- Using analytical procedures to identify any unusual or unexpected relationships;

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the straight forward recognition of revenue and the low value nature of the individual revenue transaction

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted manually and those posted to unusual accounts

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate.

We identified the following areas as those most likely to have such an effect: data and privacy law reflecting the growing amount of personal data held and competition and markets regulation, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

Fraud and breaches of laws and regulations – ability to detect (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 18, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

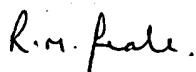
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Robert Seale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

27 September 2022

giffgaff Limited

Registered Number: 4196996

**Statement of comprehensive income
For the year ended 31 December 2021**

	Note	2021 £000	2020 £000
Revenue	3	524,439	500,081
Cost of sales		(411,009)	(395,215)
Gross profit		113,430	104,866
Administrative expenses		(77,202)	(73,019)
Operating profit	4	36,228	31,847
Financial income	8	6,401	66
Financial costs	8	(146)	(161)
Profit before taxation	4	42,483	31,752
Taxation	9	67	(6,235)
Profit for the year		42,550	25,517
Total comprehensive income for the year		42,550	25,517

The accompanying notes on pages 27 to 45 are an integral part of these financial statements.

giffgaff Limited

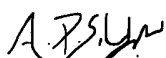
Registered Number: 4196996

**Statement of financial position
For the year ended 31 December 2021**

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	10	10,358	11,284
Right of use assets	11	4,670	5,254
Intangible assets	12	9,565	9,233
		24,593	25,771
Current assets			
Inventories	13	1,722	5,257
Trade and other receivables	14	513,701	173,121
Cash and cash equivalents	15	863	48,710
		516,286	227,088
Current liabilities			
Trade and other payables	16	(378,449)	(132,243)
Lease liabilities	19	(631)	(792)
Provisions	18	(155)	(155)
		(379,235)	(133,190)
Net current assets		137,051	93,898
Total assets less current liabilities		161,644	119,669
Non-current liabilities			
Deferred tax liabilities	17	(1,013)	(788)
Lease liabilities	19	(4,710)	(5,355)
Provisions	18	(1,581)	(1,736)
		(7,304)	(7,879)
Net assets		154,340	111,790
Equity			
Share capital	20	-	-
Retained earnings		154,340	111,790
Total Equity		154,340	111,790

The accompanying notes on pages 27 to 45 are an integral part of these financial statements.

The financial statements on pages 27 to 45 were approved and authorised for issue by the Board of Directors on 26 September 2022 and were signed on its behalf by:



Ashley Schofield
Director

giffgaff Limited

Registered Number: 4196996

**Statement of changes in equity
For the year ended 31 December 2021**

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2020	-	86,273	86,273
Profit and total comprehensive income for the year	-	25,517	25,517
At 31 December 2020	-	111,790	111,790
Profit and total comprehensive income for the year	-	42,550	42,550
At 31 December 2021	-	154,340	154,340

The accompanying notes on pages 27 to 45 are an integral part of these financial statements.

giffgaff Limited

Registered Number: 4196996

**Statement of cash flows
For the year ended 31 December 2021**

	Note	2021 £000	2020 £000
Profit before tax		42,483	31,752
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Property, plant and equipment depreciation	10	2,944	2,985
Right of use depreciation	11	584	584
Intangible asset amortisation	12	3,226	3,387
Lease interest payable	19	146	161
Financial income	8	(6,401)	(66)
Taxation	9	293	(6,249)
<i>Working capital adjustments:</i>			
(Increase)/decrease in inventory		3,535	(990)
Decrease/(increase) in trade and other receivables		(334,180)	47,947
Increase/(decrease) in trade and other payables		246,206	11,430
Decrease in other provisions		(155)	(219)
Net cash flow generated from/(used in) operating activities		(41,319)	90,722
Purchase of property, plant and equipment and intangible assets		(5,576)	(5,697)
Net cash flow (used in)/generated from investing activities		(5,576)	(5,697)
Loan issued to parent company		-	(165,000)
Lease payments		(952)	(378)
Net cash flow used in financing activities		(952)	(165,378)
Net decrease in cash and cash equivalents		(47,847)	(80,353)
Cash and cash equivalents at the start of the year		48,710	129,063
Cash and cash equivalents at the end of the year	15	863	48,710

The accompanying notes on pages 27 to 45 are an integral part of these financial statements.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements**1. Accounting policies****General information**

The principal activity of giffgaff Limited (the "Company") is that of a mobile virtual network operator running on the VMED 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 accounting standards in conformity with the requirements of the Companies Act 2006.

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

New and amended standards adopted by the Company

The Company has not adopted any new standards or amended any standards during the year.

New standards and interpretations not yet adopted

Certain new accounting standards and amendments have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company as the adoption of the following standards is not expected to have a material impact. Those that may have an impact on the Company are set out below.

	Annual periods beginning on or after
Amendments to IAS 16: Property, Plant and Equipment	31 January 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	31 January 2022
Annual Improvements 2018-2020	31 January 2022
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as current or non-current	31 January 2023

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. Further details of our going concern statement can be found in the directors' report on pages 16 and 17.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**1. Accounting policies (continued)****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).

Mobile service revenue

Mobile service revenue includes revenue earned for usage of TUK 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 third party loans, brokered by the Company. The revenue related to these handsets is recognised when the products are delivered and accepted by the member.

Under IFRS 15, for bundled packages that combine mobile service and hardware revenue, the total revenue is allocated to each performance obligation based on their standalone selling prices. There is no reallocation between mobile service and hardware revenue streams.

Other revenue

Other revenue comprises revenue earned as commission for peer-to-peer handset loans brokered by the Company 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.

Cost of sales

Cost of sales principally includes the costs of acquiring, retaining and servicing members, hardware costs and the cost recharged by our immediate parent for using the VMED O2 network.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**1. Accounting policies (continued)****Administrative expenses**

Administrative expenses principally include staff costs, IT and system support costs and marketing costs comprising of advertising, promotion, sponsorship and communication. These costs are expensed as incurred.

Employee benefitsPension obligations

The Company does not have any contractual employees. Since September 2015 the Company's employees are seconded from TUK (previously seconded from Telefonica Digital Limited), an associate company within the Telefónica Group, which participates in the TUK Pension Plan ("Telefonica PP"), a scheme sponsored by TUK that provides benefits for the majority of UK employees within TUK. O2 Holdings Limited (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 TUK as the majority of employees participating in the plan are employees of TUK.

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 TUK's capacity as a participating employer of the defined contribution section of the Telefonica PP, TUK pays contributions into the plan on behalf of employees of the Company. TUK 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 UK Limited.

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.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**1. Accounting policies (continued)****Taxation (continued)**

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.

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.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**1. Accounting policies (continued)****Financial assets**

The Company's financial assets consist of cash and cash equivalents, accrued income, intra-group receivables and other receivables.

Financial assets are recognised on the date the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Company measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Company assesses the expected credit losses associated with its financial assets carried at amortised cost on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

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.

Leases

The Company acts as a lessee on an office building. 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.

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.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**1. Accounting policies (continued)****Lease (continued)**

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 reasonably 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 is charged to profit and loss.

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 VMED O2 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 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.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**3. Revenue**

Significant revenue streams are detailed below:

	2021 £000	2020 £000
Mobile service revenue	468,694	439,798
Handsets revenue	55,745	58,935
Other revenue	-	1,348
Total revenue	524,439	500,081

4. Profit before taxation

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

	2021 £000	2020 £000
Staff costs (note 5)	13,223	12,176
Amortisation of intangible assets (note 12)	3,226	3,387
Depreciation of property, plant and equipment (note 10)	2,944	2,985
Right of use asset depreciation (note 11)	584	584
Audit related assurance services (note 7)	33	30
UK statutory audit fees (note 7)	76	76
Inventories:		
Cost of inventories recognised as an expense (included in cost of sales)	49,424	57,021

5. Employees

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

	2021 No.	2020 No.
Monthly average number of full-time employee equivalents (including executive Directors)		
Member Operations	162	159
Administration	21	22
Total employees	183	181

The benefits expense incurred in respect of these employees was:

	2021 £000	2020 £000
Wages and salaries	10,185	9,377
Social security costs	1,547	1,400
Other Pension costs	1,515	1,335
Share based payments	(24)	64
Total employee benefits expense	13,223	12,176

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**6. Key management and Directors' compensation**

As disclosed in Note 5, the Company does not have contractual employees in its own right. All employees are seconded from TUK, who incur the employee costs and recharge these to the Company on a monthly basis. The emoluments of the key management and the Directors were therefore all paid by TUK. During the year ended 31 December 2021, the services provided by three out of the four directors of the Company is not considered to represent a significant amount of their time and are considered to be incidental, consequently no disclosure has been made in respect of the emoluments of these directors during this period. These three directors provide services to entities throughout the whole VMED O2 group and in some cases are directors of other Companies within the group. Therefore, during the current period, key management is defined as one director and the giffgaff Senior Leadership team.

The Company's employees and directors participated in a number of employee incentive share schemes operated by Telefónica S.A. (see note 21 for further details).

During the current year, no directors accrued retirement benefits under a defined benefit pension plan (2020: None). One disclosed director (2020: Two) accrued retirement benefits under a defined contribution pension plan during the year. One disclosed director was entitled to receive shares in respect of qualifying service under long-term incentive plans (2020: One).

Key management compensation for services to the Company for the period were as follows:

	2021	2020
	£000	£000
Salaries and short-term employee benefits	1,624	3,684
Post-employment benefits	-	68
Aggregate amounts paid under long term incentive plans	7	456
Total key management compensation	1,631	4,208

The remuneration of the Directors of the Company for the year ended 31 December was as follows:

	2021	2020
	£000	£000
Aggregate emoluments in respect of qualifying services	322	2,795
Aggregate amount of company contributions paid to a pension scheme	41	10
Aggregate amounts paid under long term incentive plans	6	456
Total directors' remuneration	369	3,261

In respect of the highest paid Director during the period:

	2021	2020
	£000	£000
Aggregate emoluments in respect of qualifying services	322	1,736
Aggregate amount of company contributions paid to a pension scheme	41	-
Aggregate amounts paid under long term incentive plans	6	456
	369	2,192

giffgaff Limited

Registered Number: 4196996

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:

	2021	2020
	£000	£000
Audit services:		
UK statutory audit fees	76	76
PSD2 exemption assurance reporting services	33	30
Total auditors' remuneration	109	106

The fees relating to services for PSD2 were paid to PricewaterhouseCoopers LLP, these services were exempted from assurance reporting. In 2020, UK statutory audit fees were paid to PricewaterhouseCoopers LLP.

8. Financial income and financial cost

	2021	2020
	£000	£000
Financial income:		
Interest income on Loan to parent company	1,793	66
Interest income on Loan to other group company	4,608	-
Total financial income	6,401	66
Financial costs:		
Lease interest	(146)	(161)
Total financial costs	(146)	(161)
Net financial income and financial cost	6,255	(95)

9. Taxation

	2021	2020
	£000	£000
Current tax - current year	-	6,282
Current tax – adjustments in respect of prior year	(293)	(33)
Deferred tax - current year	(249)	(218)
Deferred tax – adjustments in respect of prior year	232	122
Effect of change in tax rate	243	82
Taxation	(67)	6,235

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**9. Taxation (continued)**

	2021	2020
	£000	£000
Profit before taxation	42,483	31,752
Profit before taxation multiplied by rate of corporation tax in the UK of 19% (2019: 19%)	8,072	6,033
Effects of:		
Expenses not deductible for tax purposes	13	16
Income not taxable	(18)	(10)
Adjustments in respect of prior year	(62)	88
Effect of change in tax rate	243	108
Group relief not paid for	(8,315)	-
Total taxation charge	(67)	6,235

The statutory tax rate for U.K is 19.0%. In March 2021, legislation was introduced to increase the U.K. corporate income tax rate from 19.0% to 25.0% from 1 April 2023. This rate change was substantively enacted on 24 May 2021 (Finance Bill 2021). The effect of the increased tax rate on our deferred tax balances is reflected in our statement of financial position at 31 December 2021.

10. Property, Plant and Equipment

	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2020	15,477	2,228	17,705
Additions	-	2,849	2,849
Reclassifications	3,083	(3,083)	-
At 31 December 2020	18,560	1,994	20,554
Additions	-	2,018	2,018
Reclassifications	2,037	(2,037)	-
Disposals			
At 31 December 2021	20,597	1,975	22,572
Accumulated depreciation and impairment			
At 1 January 2020	6,285	-	6,285
Charge for the year	2,985	-	2,985
At 31 December 2020	9,270	-	9,270
Charge for the year	2,944	-	2,944
At 31 December 2021	12,214	-	12,214
Net book amount			
At 31 December 2021	8,383	1,975	10,358
At 31 December 2020	9,290	1,994	11,284

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**11. Right of use assets**

	Land and buildings £000	Asset Restoration Provision £000	Total £000
Cost			
At 1 January 2020	5,940	500	6,440
At 31 December 2020	5,940	500	6,440
At 31 December 2021	5,940	500	6,440
Accumulated depreciation			
At 1 January 2020	540	62	602
Charge for the year	540	44	584
At 31 December 2020	1,080	106	1,186
Charge for the year	540	44	584
At 31 December 2021	1,620	150	1,770
Net book amount			
At 31 December 2021	4,320	350	4,670
At 31 December 2020	4,860	394	5,254

12. Intangible Assets

	Software £000	Intangible assets in construction £000	Total £000
Cost			
At 1 January 2020	31,567	302	31,869
Additions	-	2,848	2,848
Reclassifications	2,989	(2,989)	-
At 31 December 2020	34,556	161	34,717
Additions	-	3,558	3,558
Reclassifications	109	(109)	-
Disposals	(842)	-	(842)
At 31 December 2021	33,823	3,610	37,433
Accumulated amortisation and impairment			
At 1 January 2020	22,097	-	22,097
Charge for the year	3,387	-	3,387
Impairment loss	-	-	-
At 31 December 2020	25,484	-	25,484
Charge for the year	3,226	-	3,226
Disposals	(842)	-	(842)
At 31 December 2021	27,868	-	27,868
Net book amount			
At 31 December 2021	5,955	3,610	9,565
At 31 December 2020	9,072	161	9,233

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**13. Inventories**

	2021	2020
	£000	£000
Handsets held for resale	1,280	4,743
SIM cards	442	514
Inventories	1,722	5,257

14. Trade and other receivables

	2021	2020
	£000	£000
Prepayments	1,693	3,158
Other debtors	1,978	1,966
Accrued revenue	2,649	2,422
Amounts owed by immediate parent	172,223	165,575
Amounts owed by other group companies	335,158	-
Trade and other receivables	513,701	173,121

On 17 December 2020 a loan was issued to the Company's immediate parent, Telefonica UK Limited, for £165,000,000. The terms of the facility allow for further advances up to a total value of £200,000,000 subject to agreement between both parties. The loan is repayable upon the demand of the Company at any time. Interest is payable on the loan at the rate of 100 basis points plus 3 month LIBOR. The balance included within amounts owed by immediate parent as at 31 December 2021 was £165,000,000 (2020: £165,000,000) plus interest accrued in the year of £1,792,985 (2020: £66,199).

On 1 June 2021 an agreement was put in place between the company and VMED O2 UK Holdco 4 Limited, a subsidiary of VMED O2 UK Limited. This agreement stipulated that the company's excess cash would be swept into VMED O2 UK Holdco 4 Limited's investment account on a monthly basis. The principal amount and accrued interest are repayable 9 years after the effective date or at any time prior to the repayment date. Interest is payable on the loan at the rate of Virgin Media's quarterly WACD plus 12.5 basis points. The balance included within the amounts owed by other group companies as at 31 December 2021 was £330,550,000 plus interest accrued in the year of £4,607,738 (2020: nil).

All other amounts owed by group companies (including the immediate parent) relate to trading activities. These amounts are unsecured, interest free and repayable on demand.

At the end of the year ended 31 December 2021, the Company had no provisions relating to amounts owed by other group companies (2020: nil). This assessment is undertaken each financial year through an examination of the financial position of the related party.

15. Cash and cash equivalents

	2021	2020
	£000	£000
Cash and cash equivalents	863	48,710

In the year ended 31 December 2020, the Company's cash and cash equivalents were deposited with Telfisa Global B.V., a related party.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**16. Trade and other payables**

	2021	2020
	£000	£000
Amounts owed to group companies	311,743	52,284
Other taxation and social security	25,668	43,668
Accrued expenses	10,344	7,750
Deferred income	30,694	28,541
Trade and other payables	378,449	132,243

Amounts owed to group companies relate to trading activities (including group tax relief). These amounts are unsecured, interest free and repayable on demand. The total future revenue of £30,694,000 as at 31 December 2021 for performance obligations not yet delivered to customers is expected to be recognised within 12 months of the year end.

17. Deferred tax liabilities

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 25% (2020:19%). The movement on the deferred tax asset/ (liability) is as shown below:

	£000
At 1 January 2020	(802)
Prior year charge to statement of comprehensive income	(122)
Current year credit to statement of comprehensive income	218
Effect of change in tax rate	(82)
At 31 December 2020	(788)
Prior year charge to statement of comprehensive income	(232)
Current year credit to statement of comprehensive income	250
Effect of change in tax rate	(243)
At 31 December 2021	(1,013)

Deferred tax assets/(liabilities)	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 January 2020	(843)	41	(802)
Prior year credit / (charge) to statement of comprehensive income	11	(133)	(122)
Current year credit to statement of comprehensive income	218	-	218
Effect of change in tax rate	(71)	(11)	(82)
At 31 December 2020	(685)	(103)	(788)
Prior year credit / (charge) to statement of comprehensive income	(130)	(102)	(232)
Current year credit to statement of comprehensive income	250	-	250
Effect of change in tax rate	(179)	(64)	(243)
At 31 December 2021	(744)	(269)	(1,013)

In March 2021, legislation was introduced to increase the U.K. corporate income tax rate from 19.0% to 25.0% from 1 April 2023. This rate change was substantively enacted on 24 May 2021 (Finance Bill 2021). The effect of the increased tax rate on our deferred tax balances is reflected in our statement of financial position as at 31 December 2021.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**18. Provisions**

A breakdown of the company's current and non-current provisions is as follows:

	Asset retirement obligation £000	Lease Incentive £000	Total £000
Current	-	155	155
Non-current	500	1,081	1,581
	500	1,236	1,736

	Asset retirement obligation £000	Lease Incentive £000	Total £000
At 1 January 2020	500	1,610	2,110
Utilised in the year	-	(155)	(155)
Amounts released to the income statement	-	(64)	(64)
At 31 December 2020	500	1,391	1,891
Utilised in the year	-	(155)	(155)
Amounts released to the income statement	-	-	-
At 31 December 2021	500	1,236	1,736

Asset Retirement Obligation

The Company 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

The Company'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.

19. Lease liabilities

	Lease liabilities £000
At 1 January 2020	6,364
Lease Payments	(378)
Interest applied	161
At 31 December 2020	6,147
Lease payments	(952)
Interest applied	146
At 31 December 2021	5,341

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**19. Lease liabilities (continued)****Maturity of lease liabilities**

	2021	2020
	£000	£000
Within one year	631	792
Later than one year but not later than five years	2,691	2,589
Later than five years	2,019	2,766
Total lease liabilities	5,341	6,147

20. Share capital

	Number of shares	2021 £	Number of shares	2020 £
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.

21. Share based payments

The amounts recognised in profit before taxation for share based payment transactions with employees for the year ended 31 December 2021 were as follows:

Period from 1 January to 31 December	2021	2020
	£000	£000
Equity settled share-based payments	(24)	64
Total share-based payments	(24)	64

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 ended 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 was conditional upon the employee remaining in the entity's employ during the vesting period.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**21. Share based payments (continued)**

- 2) The final number of shares granted was subject to certain performance conditions based on:
- 50% of the total shares delivered upon achievement of a certain Total Shareholder Return ("TSR") target that was satisfied during the period in which the evolution of the TSR of the Telefónica Group is measured.
 - 50% of the total shares was delivered if a certain free cash flow ("FCF") target was met.

Thus, if certain performance levels and FCF targets were achieved, the employee was entitled to receive 100% of the maximum number of shares awarded, whereas if only one of the targets was met, the employee received 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.

12,264 shares were assigned in the second phase with a fair value of €6.14 per share for the FCF linked shares and €4.44 per share for TSR linked shares.

7,247 shares were assigned in the third phase with a fair value of €3.21 per share for the FCF linked shares and €1.64 per share for TSR linked shares.

Telefonica Performance Investment Share Plan 2021-2025

In July 2021, the first cycle of the new LTIP/TFSP stock incentive plan was delivered, so the corresponding expense has to start accruing. Under the terms of the plan, certain employees are entitled to receive a maximum number of Telefónica shares based on performance, measured on the basis of TSR (total shareholder return), free cash flow (FCF) and CO2 emission neutralization targets.

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 2021 and ends on 31 December 2023. 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:

- 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.
- 40% of the total shares shall be delivered if a certain free cash flow ("FCF") target is met.
- 10% of the total shares shall be delivered if a certain CO2 emissions target is met.

71,494 shares were assigned in the first phase with a fair value of €3.16 per share for the FCF and CO2 linked options and €2.65 per share for TSR linked options.

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. were delivered to participants selected by the company who had opted to take part in the scheme and meet the requirements and conditions stipulated to this end.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**21. Share based payments (continued)**

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 ended on 31 December 2020. Under the terms of the Plan, employees were 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 was conditional upon the employee remaining in the entity's employ during the vesting period.
- 2) The final number of shares granted was subject to certain performance conditions based on:
 - a. 50% of the total shares were 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 were delivered if a certain free cash flow ("FCF") target is met.

Thus, if certain performance levels and FCF targets were achieved, the employee was entitled to receive 100% of the maximum number of shares awarded, whereas if only one of the targets was met, the employee received 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 €6.14 per share for the FCF linked shares and €4.44 per share for TSR linked shares.

1,000 shares were assigned in the third phase with a fair value of €3.21 per share for the FCF linked shares and €1.64 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 ended in June 2020. The plan's shareholding period came to an end in July 2021. Shares were delivered in July 2021 at the end of the vesting period.

22. Financial instruments**Financial risk factors and management**

The Company has financial assets in the form of cash, accrued income, intra-group receivables and other receivables. 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.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**22. Financial instruments (continued)**

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 VMED O2, 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 and amounts due from group companies. 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 VMED O2 Group.

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

31 December 2021				
	Within one year £000	Later than one year but not later than five years £000	Later than five years £000	Total £000
Trade and other payables	322,087	-	-	322,087
Lease liabilities	762	3,046	2,097	5,905
	322,849	3,046	2,097	327,992

31 December 2020				
	Within one year £000	Later than one year but not later than five years £000	Later than five years £000	Total £000
Trade and other payables	60,034	-	-	60,034
Lease liabilities	939	3,015	2,842	6,796
	60,973	3,015	2,842	66,830

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 and on the loan issued to the immediate parent company, Telefonica UK Limited.

giffgaff Limited

Registered Number: 4196996

Notes to the financial statements (continued)**22. Financial instruments (continued)****Fair value estimation**

The fair value of the cash and cash equivalents and amounts due from group companies is equal 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:

	2021	2020
	£000	£000
Interest from other group companies	4,608	241
Interest received from immediate parent	1,793	66
Purchases from immediate parent	(285,927)	(257,032)
Total transactions	(279,526)	(256,725)

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 14 and 16.

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

24. Parent company and controlling party

The immediate parent company is Telefonica UK Limited, a company incorporated in England and Wales. Telefonica UK Limited is a wholly owned subsidiary of VMED O2 UK Limited created on 1 June 2021 and the results of Telefonica UK Limited are consolidated into VMED O2 UK Limited accounts.

The smallest and largest groups of which the Company is a member and into which the Company's accounts were consolidated at 31 December 2021 are VMED O2 UK Holdings Limited and VMED O2 UK Limited, respectively.

The Company's ultimate parent undertaking and controlling party at 31 December 2021 was VMED O2 UK Limited.

Copies of VMED O2 UK Holdings Limited and VMED O2 UK Limited accounts referred to above which include the results of the company are available from the company secretary, at 500 Brook Drive, Reading, United Kingdom, RG2 6UU and Griffin House, 161 Hammersmith Road, London, United Kingdom, W6 8BS, respectively.