Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2022

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Company information

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Gareth Leslie Turpin
Ashley Schofield
Mark David Hardman

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.

Principal activity

giffgaff is an online Mobile Virtual Network Operator (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 brand 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". 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 a challenging macro-economic environment and continue to grow the business.

In 2022 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 £1m to our members through this scheme (or they opted to donate their reward to charity). A great example of mutual benefit, the giffgaff way.

- **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.

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

- **Our people**:

  We believe engagement drives performance and we measure it through Gallup's Q12 engagement survey methodology (www.gallup.com). Our latest engagement scores place us in the 67th percentile amongst the companies Gallup survey and our employee net promoter score was 37 in a time when we have embraced a hybrid working model to facilitate both working from home and the office.

Strategic Report (continued)

Our Strategy (continued)

- **Our technology:**

  As a digital platform business, technology underpins our performance. Investment in our backend capability and reliability has helped us achieve record breaking uptime of 99.9% for giffgaff.com, whilst also delivering our highest number of code releases in a year (over 16,000).

  We continue to invest in improving our portal code base to make it more flexible. This enables a greater level of efficiency in improving experiences for our members as well as upgrading our other key supporting technology platforms to help us 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 and ISO 27017 standards certification.

Our corporate responsibility approach

PEOPLE

Employees:

Progressive policies and practices for employees:

- Flexible and hybrid working arrangements allowing the freedom to vary start and finish times.
- Telecommuting (e.g., working from home one or more days per week).
- Family leave policy that grants 14 weeks of paid leave for paternity and adoption leave as well as up to 39 weeks of paid maternity leave.
- Working from abroad for up to 30 days in any one year.
- Job-sharing initiative implemented.
- The continued roll out of the giffgaff Reverse Mentoring programme that has the objective to enable underrepresented employees to contribute to the growth of leaders in the organisation through knowledge sharing from their life experiences.
- Cost of living payments were made to permanent employees earning £35,000 a year or less (including Firstsource, our member support provider).

External People:

- Fixed prices for 2022 in response to the cost of living crisis facing the UK.
- Free rating to Ukraine in response to the war.
- Free rating to Pakistan in response to the floods.

PLANET

- 100% of giffgaff Scope 1 and 2 GHG emissions were offset in 2022.
- We've made our SIM packaging from 100% FSC accredited MIX paper, a mix of recycled pulp and sustainable forests and our refurbished handset packaging from 100% FSC accredited MIX cardboard, a mix of sustainably sourced and recycled material.
- Our SIMs are made from recycled plastic material. They are either recycled polystyrene (rPS) or recycled ABS plastic (rABS).

Supply chain greenhouse gas improvement:

- We collaborate with or require suppliers to collect data and report on greenhouse gas emissions.
- We now screen suppliers to reduce greenhouse gas emissions (e.g., performance of suppliers, selection of materials, source locations).

Strategic Report (continued)

Our members and community

giffgaff is an ancient Scottish word that means mutual giving and, as such, we have 'members' as opposed to '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 that's up to good'. 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. 2022 continued to be challenging for many people, with the cost-of-living crisis really biting. Building on the purposeful work we did in 2020 and 2021, giffgaff continued to support people to bring peace of mind financially and tackled other issues close to people's hearts:

- Ukraine: we continued our free rating of calls, texts and data throughout 2022. As other networks reverted to standard pricing, we implemented a 'profit-free' approach, putting in charges simply to cover the cost of usage.
- The devastating floods in Pakistan also required a humanitarian response: we free-rated usage in, to and from the country for the critical period.
- The earthquake tragedy in Turkey was also a scenario in which we free-rated usage at the time it was most needed.
- We have increased our sales of refurbished handsets by 25% in comparison to 2021 to grow our sustainable refurbished business.
- Throughout 2022 we also worked towards and achieved B-Corp certification.
- We confirmed in September 2022 that we would be continuing to freeze our prices throughout the whole of 2023 too – giving that further peace of mind into the future.

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).

On the handset side of the business, while we stock a wide range of new handsets, refurbished handsets 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 handset. We continue to promote refurbished handsets 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 handsets as and when those became available.

Recent awards

During 2022 giffgaff have received several awards as external validation for value for money and customer satisfaction. These included:

- Which? Recommended Provider 2022
- Uswitch - Network of the Year 2022, Best PAYG Network 2022 and Best SIM only Network 2022
- KPMG Nunwood - rated 49th in UK Top 100 Companies for Customer Experience

Strategic Report (continued)

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 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 the VMED O2 UK Limited consolidated Annual Report 2022, published on the website, https://news.virginmediao2.co.uk/corporate-statements/.

Our people strategy is simple: to attract, develop and retain a diverse and talented team, and to nurture a sense of belonging. We have a handful of internal 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 fully 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; 38% of our people are female, and 28% of our people from a global majority 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.

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 from 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 at VMED O2, as well as external audits on behalf of regulators as and when needed. Further details of the VMED O2's responsible business approach can be found in the VMED O2 UK Limited consolidated Annual Report 2022, published on the website, https://news.virginmediao2.co.uk/corporate-statements/.

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.
- 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.

Strategic Report (continued)

Our suppliers (continued)

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.

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 2022, the key operating performance highlights of the Company are:

Revenue	giffgaff achieved revenue growth of 7% for the year ended 31 December 2022. Our revenue for the year was £559,054,000 (2021: £524,439,000).
Mobile service revenue	The mobile service business generated £492,086,000 (2021: £468,694,000), contributing 88% of our total revenue. The increase in revenue is driven by a higher volume of members and a greater proportion of members taking one of our Golden goodybags (2022: 3,179,062 of members vs. 2021: 2,421,452 of members).
Handsets	The handset business generated £66,968,000 of revenue for the year (2021: £55,745,000), contributing 12% of our total revenue. The increase in handset revenue is driven by a higher average selling price in 2022 as our focus was on higher end refurbished handsets (refurbished 75.7% (2021: 63.4%) vs. new 24.3% (2021: 36.6%)).
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 107,930 (2021: 216,935) net members to the mobile business during the year ended 31 December 2022 taking the base to 3,943,680 members (2021: 3,835,750 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 increased from 3.2% in 2021 to 3.5% in 2022 due to a highly competitive pre-pay market, increased market mobility and an ongoing market shift towards longer term contracts.
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 £0.11 year-on-year to £10.47 (2021: £10.58).
Net promoter score (NPS)	Net promoter score (NPS) relates to how likely members are to recommend giffgaff. The average NPS for 2022 was 63.9 (2021: 66.4).

The Company's profit for the year ended 31 December 2022 was £66,337,000 (2021: £42,550,000). The increase in profit for the year is mainly due to the increase in mobile service revenue and financial income.

The net assets of the Company as at 31 December 2022 were £220,677,000 compared to £154,340,000 at 31 December 2021, the movement of which is due to £66,337,000 of profit for the year.

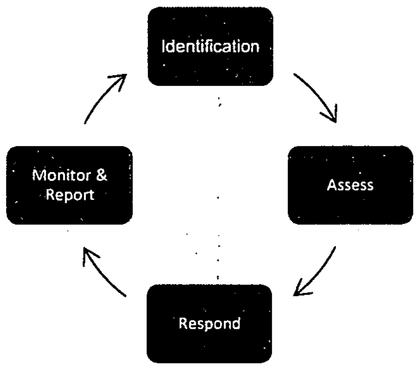
Strategic Report (continued)

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 the giffgaff Leadership Team 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.

Risk	Why is this important?	How we manage it	Trend
Regulation & 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 & Privacy	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.	Increasing

Strategic Report (continued)

Principal risks and uncertainties (continued)

Risk	Why is this important?	How we manage it	Trend
Market Dynamics	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.	Adapt and expand current offerings in the context of the cost of living crisis. 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.	Maintained
People	Giffgaff has a strategy to attract, develop & retain a diverse talented team. This provides the required foundation to meet the organisations objectives, whilst also providing an Employee Value Proposition (EVP) which makes giffgaff a desirable organisation to work for.	The risks associated with attracting and retaining talent as the Company continues its's growth plans are primarily controlled via our strong EVP, our People team who run bi-annual engagement surveys and our work with expert organisations who seek talent with the skillsets desired by giffgaff.	Increasing

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. 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. Examples of how we have given regard to the FCA's interest during the reporting year include retaining an inclusive roaming allowance to allow members to roam to destinations all over Europe and use their data, calls and texts similar to how they would in the UK.

Strategic Report (continued)

giffgaff Limited– Section 172(1) Statement

We understand the importance of regular constructive two-way discussions with our stakeholders on how we create value and the delivery of our strategy and success. This is balanced against the needs of the business as we face industry-wide and macroeconomic challenges.

This statement explains how the Board has acted in good faith in the interest of the shareholders, whilst having regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006. This includes our obligation to have regard to the long-term sustainability when taking principal decisions of strategic importance which are significant to any of our key stakeholders.

Introduction

In discharging our responsibilities, a governance framework has been put in place which includes procedures to support the assessment of those matters necessary for us to make informed decisions in our delivery of the long-term success and sustainability of the Company and the Group.

The Directors of the Company (which consists of the giffgaff CEO and members of the VMED O2 Executive Management Team and the Senior Leadership Team) are supported by the Company's Leadership Team in discharging the statutory duties in the best interest of the Company and VMED O2. For administrative efficiencies, key stakeholder engagements are conducted at operational level led by members of the Executive Management Team as Executive Sponsors (Executives). 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. During 2022, 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 achieved B Corp certification. 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.

Some examples of how we considered matters of concern to our key stakeholders including the outcomes are detailed below:

Members

Our member base comprises of consumers. Member satisfaction is essential to our long-term success and putting our members first is, and will always be, a foundational strategic priority for the Company. The business remains increasingly focused on meeting and exceeding members needs as the household economic outlook continues to prove challenging.

Topic	How we engage and monitor	Outcomes
Championing and prioritising member fairness Product simplicity and flexibility Member reward scheme	**How we engage:** • giffgaff works with its members to source ideas and feedback and provide frontline service support through its community • Member focus groups; to identify member pain-points and make improvements. **How we monitor:** • Member insight from NPS • Member insight from giffgaff community forums and Social Media.	We extended and improved our Golden goodybag range of plans where members get more data every month when they set up a recurring payment. We froze our UK prices for the whole of 2022 and 2023 to give people some peace of mind during the cost-of-living crisis. In the reporting period we paid back £1m to our members through payback schemes. Awarded Uswitch network of the Year 2022.

Strategic Report (continued)

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

People

Our people are core to the continuing success of our business and the wellbeing of our people is important to us.

Topic	How we engage and monitor	Outcomes
Attract, develop and retain a diverse and talented team. Diversity, Equity and Inclusion (DE&I). Wellbeing and to nurture a sense of belonging.	**How we engage:** • DE&I cultural calendar and updates in the Company's weekly meeting. • Workplace, an interactive social platform enabling two-way communication. **How we monitor:** • Bi-annual Gallup Q12 engagement survey to understand the views and perceptions of employees. • Annual employee performance reviews.	Increased awareness of the Company's DE&I strategy. Introduced an updated family policy across VMED O2. One-off cost of living support package for employees earning £35,000 and below. Above average Gallup Q12 engagement survey employee net promoter scores.

Suppliers

We rely on a number of partners for important aspects of our operations, in particular the provision of products and services to our members. The Directors and Leadership Team recognise that effective management of suppliers is important to the business reputation and long-term success of the Company. The Company leverages off the procurement processes of our ultimate parent, VMED O2.

Topic	How we engage and monitor	Outcomes
Supply continuity and protecting service quality against a volatile geopolitical background. Managing sustainability in new tenders and maintaining a view of suppliers operating in high sustainability risk categories and ensuring they complete EcoVadis assessment. Alignment with our ESG strategy, decarbonisation goals and our supply chain sustainability standards. Strengthening our management of security in the supply chain.	**How we engage:** • Dialogue with selected suppliers to understand any exposure and impacts of the pandemic and the Ukraine conflict on their ability to deliver services to us and how any impact would be managed. **How we monitor:** • Data Privacy Impact Assessments (DPIA) for all third parties who process member data on behalf of the Company. • Formal reviews for critical third parties who process personal data. • Corrective actions and continual improvement registers to record and action any gaps that may exist across any regulatory requirements.	We shared our ESG goals and the strategy expectation with our suppliers. Integrated ESG goals into our procurement process and established and implemented carbon reduction programmes for significant supply chain emission sources both at supplier level. Despite an unusual year of disruptive events impacting the supply chain we have been able to successfully work with our supplier partners to adapt and have maintained supply and members service quality. Continual improvement of supplier security.

Strategic Report (continued)

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

Regulators

Our regulators are important to delivering on our business strategy and provide services to our members at affordable prices in a competitive market whilst taking into account the wider economic challenges impacting businesses and members.

Topic	How we engage and monitor	Outcomes
Member affordability. Monitor relevant regulatory developments and take appropriate measures.	**How we engage:** • 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. • We engage constructively with the ICO in relation to any enquiries we may receive from the regulator under relevant data protection law. **How we monitor:** • 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.	Ongoing engagement and discussions with Ofcom on a range of issues affecting the mobile industry including members network switching process and vulnerable members. We introduced our fixed prices promise for 2022 to further assist and limit the impact of the cost of living crisis for our members.

Other measures taken

Regular updates are provided by the Company 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.

At the beginning of 2022, the 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 Leadership Team throughout the year.

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

Strategic Report (continued)

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

Additionally, regular and minuted bi-monthly Assurance Forum meetings are held with the 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 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 continued to enhance its risk management framework, giving clearer and more comprehensive risk management insight to the Leadership Team and 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 the 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 14 June 2023.

By Order of the Board

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

Energy and Carbon Report

We are pleased to report on our energy and carbon report for the financial year ending 31 December 2022.

The scope of the report includes our office. The calculation approach is based on invoicing. Emissions Factors have been taken from the Department of Business, Energy and Industrial Strategy (BEIS) 2022 Conversion Factors. The 2021 carbon figures have been restated in line with WMED O2's environmental reporting policy and have not been reassured. In 2022 we saw a rise in tCO2e levels as more people returned to working in the office on a regular basis and started travelling more again as covid lockdown restrictions eased.

Emissions	**2022 (tCO2e)**	**2021 (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	0.3	0.2
Total	**0.3**	**0.2**
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)	1,014	894
Renewable Energy Purchase	1,014	894
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	1.1	0.3
Land travel	1.8	0.1
Total	**2.9**	**0.4**
Methodology for scope data	ISO14001:2015 and GHG Protocol	ISO14001:2015 and GHG Protocol
Intensity Ratio using the UK Gov BEIS emissions factors	0.58 tCO2e/PB	0.61 tCO2e/PB
Carbon offsets (tCO_2e)	Zero	Zero

We purchased 97,006 kWh (2021: 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.

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

During 2022 we continued to recycle office waste where possible. Reusable coffee cups are offered to all members of staff and strongly encouraged, and food waste is recycled or donated to the food bank.

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
Patricia Cobian – Resigned 22 April 2022
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, the Chief Financial Officer of VMED O2 (resigned on 22nd April 2022) and the Finance Director - Finance Operations of VMED O2 (appointed on 23rd August 2022), 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 Leadership Team consisting of the Chief Marketing Officer, Chief Commerce Officer, Chief Operating and Technical Officer, Chief Product and Design Officer, General Counsel 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 page 4 for members & community, our people on page 5, our suppliers on pages 5 and 6, regulators, and government on pages 8 of the Strategic Report.

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 except for 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 £66,337,000 (2021: £42,550,000).
The Company did not pay a dividend for the year ended 31 December 2022 (2021: £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 financial statements have been prepared on a going concern basis, which the Directors consider to be appropriate for the reasons below.

The Company prepares detailed annual budgets and forecasts as part of its own planning processes, which show continued strong financial performance. In these forecasts 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. In the current financial period, the Company had net assets of £220,677,000 (2021: £154,340,000) and made a profit of £66,337,000 (2021: £42,550,000). The financial position of the Company is described on page 6 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.

Directors' report (continued)

Going concern (continued)

However, the Company is operationally and financially integrated with the wider VMED O2 Group, so for the purposes of making this going concern assessment the Directors have made suitable enquiries and obtaining the necessary assurances, including a letter of support from VMED O2 UK Limited, sufficient resources would be made available to the Company if required to meet any liabilities as they fall due. Therefore, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Forecasts and projections which take into account reasonably possible downsides in trading performance, have been prepared for the VMED O2 Group as a whole and these showed that cash on hand, together with cash from operations and the revolving credit facility, are expected to be sufficient for the group and hence the Company's cash requirements through to at least 12 months from the approval of these financial statements.

When taking into account its own financial position, the VMED O2 Group forecasts and projections and after making enquiries, the Directors have a reasonable expectation that the Company has adequate support and resources to continue in operational existence for the foreseeable future. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

Political donations

The Company made no political donation during the year ended 31 December 2022 (2021: £nil).

Research and Development

Details of our Research and Development during the year ended 31 December 2022 are included in VMED O2 UK Limited Consolidated Annual Report and Financial Statements for the year end 31 December 2022 published on the website https://news.virginmediao2.co.uk/.

Task Force on Climate-Related Disclosures (TCFD)

Details of 'Task Force on Climate-Related Disclosures (TCFD)' during the financial year ended 31 December 2022 are included in the 2022 Consolidated Annual Report of VMED O2 UK Limited published on the website https://news.virginmediao2.co.uk/.

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 14 June 2023.

By Order of the Board

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

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 14 June 2023.

By Order of the Board

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

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 2022 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 2022 and 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over 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.

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

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;
- 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.

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

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

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.

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.

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

Directors' responsibilities

As explained more fully in their statement set out on page 17, 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.

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.

R.M. Seale.

Robert Seale (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

15 June 2023

Statement of comprehensive income
For the year ended 31 December 2022

	Note	2022 £000	2021 £000
Revenue	3	**559,054**	524,439
Cost of sales		**(437,921)**	(411,009)
Gross profit		**121,133**	113,430
Administrative expenses		**(83,360)**	(77,202)
Operating profit	4	**37,773**	36,228
Financial income	8	**28,963**	6,401
Financial costs	8	**(131)**	(146)
Profit before taxation	4	**66,605**	42,483
Taxation	9	**(268)**	67
Profit for the year		**66,337**	42,550
Total comprehensive income for the year		**66,337**	42,550

The accompanying notes on pages 26 to 42 are an integral part of these financial statements.

giffgaff Limited Registered Number: 4196996

Statement of financial position
For the year ended 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	10	**10,239**	10,358
Right of use assets	11	**4,086**	4,670
Intangible assets	12	**12,527**	9,565
		26,852	24,593
Current assets			
Inventories	13	**5,144**	1,722
Trade and other receivables	14	**580,129**	513,701
Cash and cash equivalents	15	**817**	863
		586,090	516,286
Current liabilities			
Trade and other payables	16	**(384,691)**	(378,449)
Lease liabilities	19	**(647)**	(631)
Provisions	18	**(155)**	(155)
		(385,493)	(379,235)
Net current assets		**200,597**	137,051
Total assets less current liabilities		**227,449**	161,644
Non-current liabilities			
Deferred tax liabilities	17	**(1,281)**	(1,013)
Lease liabilities	19	**(4,063)**	(4,710)
Provisions	18	**(1,428)**	(1,581)
		(6,772)	(7,304)
Net assets		**220,677**	154,340
Equity			
Share capital	20	**-**	-
Retained earnings		**220,677**	154,340
Total Equity		**220,677**	154,340

The accompanying notes on pages 26 to 42 are an integral part of these financial statements.

The financial statements on pages 26 to 42 were approved and authorised for issue by the Board of Directors on 14 June 2023 and were signed on its behalf by:

A.P.S.yn

Ashley Schofield
Director

Statement of changes in equity
For the year ended 31 December 2022

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2021	**-**	**111,790**	**111,790**
Profit and total comprehensive income for the year	-	42,550	42,550
At 31 December 2021	**-**	**154,340**	**154,340**
Profit and total comprehensive income for the year	-	66,337	66,337
At 31 December 2022	**-**	**220,677**	**220,677**

The accompanying notes on pages 26 to 42 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2022

	Note	2022 £000	2021 £000
Profit before tax		**66,605**	42,483
Adjustments to reconcile profit before tax to net cash flows:			
Property, plant and equipment depreciation	10	3,232	2,944
Right of use depreciation	11	584	584
Intangible asset amortisation	12	3,155	3,226
Lease interest payable	19	131	146
Financial income	8	(28,963)	(6,401)
Taxation	9	-	293
Working capital adjustments:			
(Increase)/ decrease in inventory		(3,422)	3,535
(Increase)/ decrease in trade and other receivables		(37,465)	(334,180)
Increase/ (decrease) in trade and other payables		6,242	246,206
Decrease in other provisions		(153)	(155)
Net cash flow generated from/(used in) operating activities		**9,946**	(41,319)
Purchase of property, plant and equipment and intangible assets		(9,230)	(5,576)
Net cash flow (used in)/generated from investing activities		**(9,230)**	(5,576)
Lease payments	19	(762)	(952)
Net cash flow used in financing activities		**(762)**	(952)
Net decrease in cash and cash equivalents		(46)	(47,847)
Cash and cash equivalents at the start of the year		863	48,710
Cash and cash equivalents at the end of the year	15	**817**	863

The accompanying notes on pages 26 to 42 are an integral part of these financial statements.

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 2022 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 International Accounting Standard (IAS) 1	31 January 2024
Amendments to IAS 1 and IFRS Practice Statement 2	31 January 2023
Amendments to IAS 8	31 January 2023
Amendments to IAS 12	31 January 2023
Amendments to IFRS 4	31 January 2023
IFRS 17 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 15 and 16.

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 the 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 comprised of commissions earned for peer-to-peer handset loans brokered by the Company, which are 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.

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 benefits

Pension 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 compensation

The Company recognises all share-based and long-term incentive payments from Telefónica to our employees, including grants of employee share-based incentive awards, based on their grant-date fair values and our estimates of forfeitures. We recognise share-based compensation expense as a charge to operations over the vesting period based on the grant-date fair value of outstanding awards, which may differ from the fair value of such awards on any given date. Where borne by the Company, payroll taxes incurred in connection with the vesting or exercise of share-based incentive awards are recorded as a component of share-based compensation expense in the Statement of Comprehensive Income. The fair value of share-based payments is calculated at the grant date using an adjusted statistical model. We consider historical trends in our calculation of the expected life of options, where applicable. We use the straight-line method to recognise share-based compensation expense for outstanding share awards to our employees that do not contain a performance condition and the accelerated expense attribution method for our outstanding share awards that contain a performance condition and vest on a graded basis.

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.

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 is 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

<u>Software</u>

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.

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.

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.

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.

3. Revenue

Significant revenue streams are detailed below:

	2022	2021
	£000	£000
Mobile service revenue	**492,086**	468,694
Handsets revenue	**66,968**	55,745
Total revenue	**559,054**	524,439

Notes to the financial statements (continued)

4. Profit before taxation

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

	2022	2021
	£000	£000
Staff costs (note 5)	**14,376**	13,223
Amortisation of intangible assets (note 12)	**3,155**	3,226
Depreciation of property, plant and equipment (note 10)	**3,232**	2,944
Right of use asset depreciation (note 11)	**584**	584
Audit related assurance services (note 7)	**22**	33
UK statutory audit fees (note 7)	**95**	76
Inventories:		
Cost of inventories recognised as an expense (included in cost of sales)	**62,416**	49,424

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.

	2022	2021
Monthly average number of full-time employee equivalents (including executive Directors)	**No.**	No.
Member Operations	**163**	162
Administration	**22**	21
Total employees	**185**	183

The benefits expense incurred in respect of these employees was:

	2022	2021
	£000	£000
Wages and salaries	**10,656**	10,185
Social security costs	**1,717**	1,547
Other Pension costs	**1,548**	1,515
Share based payments	**455**	(24)
Total employee benefits expense	**14,376**	13,223

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 monthly. The emoluments of the key management and the Directors were therefore all paid by TUK. During the year ended 31 December 2022, 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. Therefore, key management is defined as one Director and the giffgaff Leadership Team.

Notes to the financial statements (continued)

6. Key management and Directors' compensation (continued)

The Company's employees and directors participated in employee incentive share schemes operated by Telefónica S.A. and VMED O2 (see note 21 for further details).

During the current year, no directors accrued retirement benefits under a defined benefit pension plan (2021: None). One disclosed director (2021: One) 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 (2021: One).

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

	2022	2021
	£000	£000
Salaries and short-term employee benefits	**1,563**	1,624
Post-employment benefits	**74**	-
Aggregate amounts paid under long term incentive plans (a)	**27**	7
Total key management compensation	**1,664**	1,631

(a) Aggregate amounts paid under long term incentive plans include charges for awards associated with ordinary shares of Telefónica S.A. In addition to the amounts in the table above, a payable of £0.3m related to the VMED O2 long term incentive plan is due to key management with vesting expected during 2025. See note 21 for further information.

The remuneration of the Director paid for by the Company for the year ended 31 December was as follows:

	2022	2021
	£000	£000
Aggregate emoluments in respect of qualifying services	**334**	322
Aggregate amount of Company contributions paid to a pension scheme	**4**	41
Aggregate amounts paid under long term incentive plans	**16**	6
Total Directors' remuneration	**354**	369

7. Auditors' remuneration

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

	2022	2021
	£000	£000
Audit services:		
UK statutory audit fees	**95**	76
PSD2 exemption assurance reporting services	**22**	33
Total auditors' remuneration	**117**	109

The fees relating to services for PSD2 were paid to PricewaterhouseCoopers LLP, these services were exempted from assurance reporting.

Notes to the financial statements (continued)

8. Financial income and financial cost

	2022	2021
	£000	£000
Financial income:		
Interest income on Loan to parent company	**5,142**	1,793
Interest income on Loan to other group company	**23,821**	4,608
Total financial income	**28,963**	6,401
Financial costs:		
Lease interest	**(131)**	(146)
Total financial costs	**(131)**	(146)
Net financial income and financial cost	**28,832**	6,255

9. Taxation

	2022	2021
	£000	£000
Current tax - current year	**-**	-
Current tax – adjustments in respect of prior year	**-**	(293)
Deferred tax - current year	**(93)**	(249)
Deferred tax – adjustments in respect of prior year	**361**	232
Effect of change in tax rate	**-**	243
Taxation charge/ (credit)	**268**	(67)

	2022	2021
	£000	£000
Profit before taxation	**66,605**	42,483
Profit before taxation multiplied by rate of corporation tax in the UK of 19% (2021: 19%)	**12,655**	8,072
Effects of:		
Expenses not deductible for tax purposes	**11**	13
Income not taxable	**(21)**	(18)
Adjustments in respect of prior year	**361**	(62)
Effect of change in tax rate	**(22)**	243
Group relief not paid for	**(12,716)**	(8,315)
Total taxation charge/ (credit)	**268**	(67)

The statutory tax rate is the U.K. rate of 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. The effect of the increased tax rate on our deferred tax balances is reflected in our statement of financial position at 31 December 2022.

Notes to the financial statements (continued)

10. Property, Plant and Equipment

	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost			
At 1 January 2021	18,560	1,994	**20,554**
Additions	-	2,018	2,018
Reclassifications	2,037	(2,037)	-
At 31 December 2021	20,597	1,975	**22,572**
Additions	-	3,113	**3,113**
Reclassifications	2,654	(2,654)	-
Disposals	(354)	-	**(354)**
At 31 December 2022	**22,897**	**2,434**	**25,331**
Accumulated depreciation and impairment			
At 1 January 2021	9,270	-	**9,270**
Charge for the year	2,944	-	2,944
At 31 December 2021	12,214	-	**12,214**
Charge for the year	3,232	-	3,232
Disposals	(354)	-	(354)
At 31 December 2022	**15,092**	**-**	**15,092**
Net book amount			
At 31 December 2022	**7,805**	**2,434**	**10,239**
At 31 December 2021	8,383	1,975	10,358

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 2021	5,940	500	**6,440**
At 31 December 2021	5,940	500	6,440
At 31 December 2022	**5,940**	**500**	**6,440**
Accumulated depreciation			
At 1 January 2021	**1,080**	**106**	**1,186**
Charge for the year	540	44	584
At 31 December 2021	1,620	150	**1,770**
Charge for the year	540	44	584
At 31 December 2022	**2,160**	**194**	**2,354**
Net book amount			
At 31 December 2022	**3,780**	**306**	**4,086**
At 31 December 2021	4,320	350	4,670

12. Intangible Assets

	Software £000	Intangible assets in construction £000	Total £000
Cost			
At 1 January 2021	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**
Additions	-	6,117	6,117
Reclassifications	3,438	(3,438)	-
Disposals	(1,576)	-	**(1,576)**
At 31 December 2022	**35,685**	**6,289**	**41,974**
Accumulated amortisation and impairment			
At 1 January 2021	25,484	-	**25,484**
Charge for the year	3,226	-	3,226
Disposals	(842)	-	**(842)**
At 31 December 2021	27,868	-	**27,868**
Charge for the year	3,155	-	3,155
Disposals	(1,576)	-	(1,576)
At 31 December 2022	**29,447**	**-**	**29,447**
Net book amount			
At 31 December 2022	**6,238**	**6,289**	**12,527**
At 31 December 2021	5,955	3,610	9,565

Notes to the financial statements (continued)

13. Inventories

	2022	2021
	£000	£000
Handsets held for resale	**4,070**	1,280
SIM cards	**1,074**	442
Inventories	**5,144**	1,722

14. Trade and other receivables

	2022	2021
	£000	£000
Prepayments	**4,457**	1,693
Other debtors	**1,884**	1,978
Accrued revenue	**3,964**	2,649
Amounts owed by immediate parent	**172,001**	172,223
Amounts owed by other group companies	**397,823**	335,158
Trade and other receivables	**580,129**	513,701

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 2022 was £165,000,000 (2021: £165,000,000) plus interest accrued in the year of £5,142,263 (2021: £1,792,985).

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 2022 was £374,001,587 (2021: £330,550,000) plus interest accrued in the year of £23,821,450 (2021: 4,607,738).

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 2022, the Company had no provisions relating to amounts owed by other group companies (2021: nil). This assessment is undertaken each financial year through an examination of the financial position of the related party.

15. Cash and cash equivalents

	2022	2021
	£000	£000
Cash and cash equivalents	**817**	863

Notes to the financial statements (continued)

16. Trade and other payables

	2022	2021
	£000	£000
Amounts owed to group companies	315,270	311,743
Other taxation and social security	25,416	25,668
Accrued expenses	12,080	10,344
Deferred income	31,925	30,694
Trade and other payables	**384,691**	378,449

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 £31,925,000 as at 31 December 2022 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% (2021: 25%). The movement on the deferred tax asset/ (liability) is as shown below:

	£000
At 1 January 2021	(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)**
Prior year charge to statement of comprehensive income	(361)
Current year credit to statement of comprehensive income	93
Effect of change in tax rate	-
At 31 December 2022	**(1,281)**

Deferred tax assets/(liabilities)	**Accelerated tax depreciation £'000**	**Other £'000**	**Total £'000**
At 1 January 2021	(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)**
Prior year credit / (charge) to statement of comprehensive income	(238)	(123)	(361)
Current year credit to statement of comprehensive income	93	-	93
Effect of change in tax rate	-	-	-
At 31 December 2022	**(889)**	**(392)**	**(1,281)**

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. The effect of the increased tax rate on our deferred tax balances is reflected in our statement of financial position at 31 December 2022.

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	928	1,428
	500	**1,083**	**1,583**

	Asset retirement obligation £000	Lease Incentive £000	Total £000
At 1 January 2021	**500**	**1,391**	**1,891**
Utilised in the year	-	(155)	(155)
At 31 December 2021	**500**	**1,236**	**1,736**
Utilised in the year	-	(153)	(153)
At 31 December 2022	**500**	**1,083**	**1,583**

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 2021	**6,147**
Lease Payments	(952)
Interest applied	146
At 31 December 2021	**5,341**
Lease payments	(762)
Interest applied	131
At 31 December 2022	**4,710**

Notes to the financial statements (continued)

19. Lease liabilities (continued)

Maturity of lease liabilities

	2022	2021
	£000	£000
Within one year	**647**	631
Later than one year but not later than five years	**2,761**	2,691
Later than five years	**1,302**	2,019
Total lease liabilities	**4,710**	5,341

20. Share capital

	Number of shares	**2022 £**	**Number of shares**	**2021 £**
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 compensation

The amounts recognised in profit before taxation for share-based compensation with employees for the year ended 31 December 2022 were as follows:

Period from 1 January to 31 December	**2022**	2021
	£000	£000
Performance-based incentive awards	**377**	-
Other share-based incentive awards	**78**	(24)
Total share-based compensation	**455**	(24)

Our share-based compensation expense relates to (i) charges for share-based incentive awards associated with ordinary shares of Telefónica held by certain employees of the Company and (ii) charges for incentive awards associated with the performance of the VMED O2 Joint Venture, under the Joint Venture's long term incentive plan, held by certain employees of the Company.

All the outstanding share-based incentive awards from Telefónica will vest in 2024. Share-based compensation expense is allocated to our Company by Telefónica via a recharge from TUK and is included within administrative expenses in our Statement of Comprehensive Income.

All the outstanding incentive awards for the VMED O2 Joint Venture long term incentive plan will vest by the end of 2024. The associated expense is included within administrative expenses in our Statement of Comprehensive Income.

Notes to the financial statements (continued)

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.

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 2022	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	327,350	-	-	**327,350**
Lease liabilities	762	3,046	1,335	**5,143**
	328,112	**3,046**	**1,335**	**332,493**

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**

Notes to the financial statements (continued)

22. Financial instruments (continued)

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.

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:

	2022	2021
	£000	£000
Interest from other group companies	**23,821**	4,608
Interest received from immediate parent	**5,142**	1,793
Purchases from immediate parent	**(299,133)**	(285,927)
Total transactions	**(270,170)**	(279,526)

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.

The group of which the Company is a member and into which the Company's accounts were consolidated at 31 December 2022 is VMED O2 UK Limited.

The Company's ultimate parent undertaking and controlling party at 31 December 2022 was VMED O2 UK Limited.

Copies of VMED O2 UK Limited accounts referred to above which include the results of the Company are available at Griffin House, 161 Hammersmith Road, London, United Kingdom, W6 8BS and published on their website https://news.virginmediao2.co.uk/corporate-statements/.