Registered Number: 4196996

giffgaff Limited

Annual Report and Financial Statements

Year ended 31 December 2015

giffgaff Limited Registered Number: 4196996

Contents **Page**

Directors and advisers

Directors

Mark Evans
David Plumb

Secretary

O2 Secretaries Limited

Registered Office

260 Bath Road
Slough
Berkshire
SL1 4DX

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Strategic Report

Strategy

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

giffgaff Limited's principal activity is the provision of telecommunications services. The strategy of the Company is to build a member run mobile communications network that utilises the collective resources of its members. This mutuality principle combined with an online and SIM only business model keeps costs low and allows savings to be passed on to customers.

As a result of members' feedback, in 2013 the Company introduced phone sales as a strategy to attract new activations and increase its member base. Phones bought over time were funded by peer to peer loans brokered by the Company under a Consumer Credit Licence as authorised by the Office of Fair Trading at the time and subsequently under the Interim Permissions as authorised by the Financial Conduct Authority (FCA). In April 2015, the Company applied for FCA authorisation to continue to offer handset loans and in June 2015, the Company was granted Full Authorisation under Limited Permissions by the FCA.

Performance and Development

The Company had substantial base growth for the year ended 31 December 2015 in an increasingly competitive market. The Company's revenue for the year ended 31 December 2015 was £284,835,000 (2014: £207,590,000). The Company's profit after tax for the year ended 31 December 2015 was £21,505,000 (2014: £7,949,000).

The handset business has generated £40,345,000 on revenue for the year ended 31 December 2015, contributing to 14% of total company's revenue.

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

A total number of 364,246 net customer additions were added during the year ended 31 December 2015 (2014: 394,037 net customer additions).

Average revenue per user ("ARPU") – ARPU is calculated by dividing total monthly service revenue (excluding inbound roaming) from sales to customers for the preceding 12 months by the weighted average number of active customers for the same period. ARPU is calculated using gross service revenue before deduction of wholesale discounts. The net add growth slowed slightly compared to the previous 12 months, however revenue increase was higher as a result of a significant increase in handset sales revenue.

Total ARPU was up +1.3% year-on-year to £11.53.

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

Churn totalled 53.2% in 2015 (6.6% improvement year-on-year).

Strategic Report (continued)

Risks and Uncertainties

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

The principal risks and uncertainties in the Company are:

Regulatory Intervention: New or more onerous regulatory obligations imposed by the national regulatory Authorities i.e. Ofcom and the Financial Conduct Authority which could negatively affect the Company's profitability and reputation.

The Company employs teams of professionals and regulatory advisers to engage with the associated regulatory authorities on all aspects of its business to ensure that any negative impact on the Company's profitability is mitigated where possible.

Competition: Ongoing risks from new or existing competitors that could challenge the Company's strategy and business model, including M&A activity.

The Company monitors products, prices and customer preferences so that it can compete with new products and services introduced by competitors and offer fair, pre-emptive pricing strategies which successfully deliver the cost-versus-service balance that its customers demand.

Managed Services/Outsourcing: The Company relies on outsourcing for the delivery of various services. Failure to manage outsourced services could result in reduced control over the quality and consistency of services.

Mandatory Service Level Agreements (SLA) and security controls are written into outsourcing contracts. Governance meetings are also held with the key outsourced providers to ensure SLA's and KPI's are regularly monitored, reviewed and reported upon.

Breach of Data Security: A failure to maintain sufficient information security processes could lead to a vulnerability with respect to data protection breaches, resulting in loss of customer confidence, fines and damage to brand reputation.

Data Security is consistently monitored through the deployment of Data Loss Prevention software and through the implementation of Security Information and Event Management (SIEM). The security-in-life process is engaged with every project delivery to ensure adequate security measures are taken to minimize the risk of Data Loss. Payment Card Industry (PCI) and additional security processes and controls have been implemented and continue to be implemented. Full compliance of PCI is planned in Q1 2017 (allowing for a pre-assessment period to achieve this date).

Network Capacity: The Company does not own spectrum. However as the Company uses Telefonica UK's networks, it is heavily impacted by the demand on Telefonica UK's network. The demand for capacity is already exceeding availability in some areas of the country and this is forecast to increase in the coming year(s). Lack of available Spectrum to Telefonica UK could significantly impact on the Company's ability to deliver and acceptable quality of service to its customers.

Through Telefonica UK's continued engagement in future spectrum auctions and the implementation of intelligent, load-balancing network equipment, whilst continuing to deliver Telefonica UK's 4G network rollout and upgrade of our 2G and 3G infrastructure alongside the development of Voice over LTE (4G) and Voice over Wifi technologies the impact of this risk will be reduced.

Strategic Report (continued)

Network Infrastructure: Inadequate resilience in critical systems could negatively affect service delivery to customers in the event of a lengthy outage.

Through the continual roll-out of new network technologies the risk of inadequate resilient systems is continually reducing.

Significant Development

On 24 March 2015 Telefónica S.A. announced that it had entered into a definitive agreement (the Agreement), with Hutchison Whampoa (now known as CK Hutchison Holdings Limited), ("Hutchison") the parent company of Three in the UK, for the sale of Telefónica's UK business which was subject to regulatory clearance by European Commission (the "Commission"). On 11 May 2016, in accordance with the EU Merger Regulation, the Commission announced that following its in-depth investigation it had decided to prohibit the Proposed Transaction due to its competition concerns despite the remedies proposed by Hutchison.

Group reorganisation

During the year the Group undertook a reorganisation of its structure in order to simplify the Group and eliminate dormant companies, where possible. As part of the reorganisation some of the Company's intermediate holding companies were eliminated.

The Strategic Report was approved by the Board on 28 September 2016

By Order of the Board

Robert Harwood
for and on behalf of O2 Secretaries Limited
Company Secretary

Directors' report (continued)

Legal form

giffgaff Limited (the "Company") is a private limited company registered in England and Wales under the registered number 4196996. The registered address is 260 Bath Road, Slough, Berkshire, SL1 4DX. It is a wholly owned subsidiary of Telefónica UK Limited, and its ultimate UK parent is Telefonica Europe plc; both companies are incorporated in England and Wales. The ultimate parent company is Telefónica S.A., a company incorporated in Spain.

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

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

Directors and secretary

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

Ronan Dunne
Mark Evans
Stephen Shurrock (resigned on 30 September 2015)

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

Post Year End event

On 1 August 2016 Ronan Dunne resigned as Director and David Plumb was appointed a Director of the Company.

Directors' liability insurance and indemnity

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

Employees

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

The Company has a wide range of communication channels with employees including face-to-face meetings, team briefings, digital live streaming conferences, interactive microsites and a comprehensive intranet with tailored content dependent on employee segmentation. The aim of all these channels is to ensure employees fully understand the Company's objectives and its operational and financial performance as well as our latest products and services, in addition to matters that directly impact employees. In addition, the Company conducts an annual engagement survey with additional regular temperature checks and maintains a constructive dialogue with unions, employee representative bodies and works councils.

The employee experience is paramount and the Company continues to be committed to the development of all people in the organisation, actively promoting this through many training and development initiatives including the provision of e-learning technology, giving people better access to a wide range of learning opportunities which are also beneficial to the employees outside work related matters. People are encouraged and supported in maintaining personal development plans.

The Company is committed to employment policies that follow best practice, based on equal opportunities for all, and recognises the diversity of its people. This approach includes the fair

Directors' report (continued)

treatment of people with disabilities in relation to their recruitment, training and development. The Company has also invested in researching age, gender and disability diversity across the organisation, seeking to support all employees and their career development at every level of the organisation. 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 through working inpartnership with Time to Change and MIND as well as providing a range of occupational health and employee support services to employees.

The Company continually strives to create a high performing culture by targeting and rewarding our employees based on both personal and company performance. We do this through our annual bonus in addition to financial incentives on the Company reaching specific targets which encourage all employees to perform to the best of their capability to contribute to the company's ability to achieve its goals.

Dividends

The Directors do not recommend payment of a dividend for the year ended 31 December 2015 (2014: £nil).

Going concern

At the end of the year, the Company had net liabilities and is therefore dependent on the on-going support of the Group. The Directors are satisfied that this support will be available for at least twelve months from the date of signing of these statutory accounts and accordingly consider that the going concern basis is appropriate.

Political contributions

The Company made no political contributions during the year ended 31 December 2015 (2014: £nil).

Statement as to disclosure to Auditor

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

The Directors' Report was approved by the Board on 28 September 2016

By Order of the Board

Robert Harwood
for and on behalf of O2 Secretaries Limited
Company Secretary

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and regulations.

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

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

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

Independent Auditor's report to the members of giffgaff Limited

We have audited the financial statements of giffgaff Limited for the year ended 31 December 2015 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair value of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Neil Cullum (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 September 2016

Statement of comprehensive income
For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Revenue	18	**284,835**	207,590
Cost of sales		**(205,641)**	(146,705)
Gross profit		**79,194**	**60,885**
Administrative expenses		**(52,127)**	(50,714)
Operating profit before taxation	2	**27,067**	**10,171**
Taxation	3	**(5,562)**	(2,222)
Profit for the year attributable to equity shareholders		**21,505**	**7,949**
Total comprehensive income for year		**21,505**	**7,949**

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

There was no other recognised income or expense other than those shown above.

Statement of financial position
As at 31 December 2015

	Note	2015 £000	2014 £000
Non-current assets			
Property, plant and equipment	4	**15,353**	16,258
Intangible assets	5	**90**	100
Deferred tax assets	10	**503**	181
		15,946	**16,539**
Current assets			
Inventories	8	**4,659**	241
Trade and other receivables	6	**11,660**	6,863
Cash and cash equivalent	7	**78,562**	22,919
		94,881	**30,023**
Current liabilities			
Trade and other payables	9	**(140,733)**	(97,972)
Net current liabilities		**(45,852)**	**(67,949)**
Total assets less current liabilities		**(29,906)**	**(51,410)**
Non-current liabilities			
Deferred tax liabilities	10	-	-
Net liabilities		**(29,906)**	**(51,410)**
Equity shareholders' deficit			
Share capital	11	-	-
Retained earnings		**(29,906)**	(51,410)
Total Equity		**(29,906)**	**(51,410)**

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 September 2016 and were signed on its behalf by:

Mark Evans
Director

Statement of changes in equity
Year ended 31 December 2015

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2014	**-**	**(59,359)**	**(59,359)**
Total comprehensive income for the year	-	7,949	7,949
At 31 December 2014	**-**	**(51,410)**	**(51,410)**
Total comprehensive income for the year	-	**21,505**	**21,505**
At 31 December 2015	**-**	**(29,906)**	**(29,906)**

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

Statement of cash flows
Year ended 31 December 2015

	Note	**2015 £000**	2014 £000
Profit before tax		27,067	10,171
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation and depreciation charges		5,847	6,741
Working capital adjustments:			
(Increase) / Decrease in inventories		(4,418)	109
(Increase) / Decrease in trade and other receivables		(5,119)	(3,671)
(Decrease) / Increase in trade and other payables		39,420	(74,634)
Taxation		(2,222)	(612)
Net cash flow from/(used) operating activities		**60,575**	**(61,897)**
Purchase of PPE and intangible assets		(4,932)	(5,648)
Net cash flow used in investing activities		**(4,932)**	**(5,648)**
Net increase/(decrease) in cash and cash equivalents		55,643	(67,545)
Cash and cash equivalents at start of period		22,919	90,464
Cash and cash equivalents at 31 December	7	**78,562**	22,919

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of preparation

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

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

At the end of the year, the Company had net liabilities and is therefore dependent on the ongoing support of the Group. The directors are satisfied that this support will be available for at least twelve months from the date of signing of these statutory accounts and accordingly consider that the going concern basis is appropriate.

Presentation of financial information

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

Intangible assets

Software Licences

Licence fees which permit telecommunications activities to be operated for defined periods, are capitalised at cost less impairment losses and are amortised from the date of commercial launch of the service to the end of the licence period on a straight line basis.

Software

Software is capitalised and measured at the cost incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of between 2 and 6 years on a straight line basis. Costs that are directly associated with the production of identifiable unique software products controlled by the Company, which are expected to generate economic benefits over a period of more than one year, are recognised as intangible assets. Such computer software development costs recognised as intangible assets are amortised over their estimated useful lives not exceeding 6 years on a straight line basis.

The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is provided on property, plant and equipment from the date they are brought into use over their estimated useful lives on a straight-line basis. The lives assigned to property, plant and equipment are:

Freehold buildings	40 years
Leasehold land and buildings	unexpired portion of lease or 40 years whichever is the shorter
Network assets	5 to 15 years
Computers and office equipment	2 to 5 years

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

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

Revenue

Revenue, which excludes value added tax and other sales taxes, comprises the value of services provided and other revenue.

Mobile telecommunications service revenue includes revenue earned for usage of Telefónica UK Limited's wireless network for voice and data transmission by the Company's customers, outbound roaming and interconnect revenue.

Revenue for pre-pay customers is recognised as the pre-pay services are rendered. Prior to delivery of the services, top-ups are recognised as deferred income.

Interconnect revenue, earned from other telecommunications operators whose customers terminate calls on the Company's network, is recognised based on usage.

Handset Revenue

Revenue, which excludes value added tax and other sales taxes, comprises the value of handsets sold.

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

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

Subscriber acquisition and loyalty programme cost

Subscriber acquisition and retention costs, other than loyalty programme costs, are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Employee benefits

Pension Obligations

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

In Telefonica UK Limited's capacity as a participating employer of the defined contribution section of the Telefónica PP, Telefónica UK Limited pays contributions into the plan on behalf of employees of the Company. Telefónica UK Limited has no further payment obligations once the contributions have been paid. The contributions are recharged to the Company and are recognised as employee benefit expense when they are due. Further disclosures on the Telefónica PP can be found in the financial statements of Telefónica Europe Plc.

Share based payments

The Company recognises an expense for share awards and share options, which are both equity and cash settled, based on the fair value of the share awards or share options granted as compensation for the services rendered by employees. The fair value is calculated at the grant date using an adjusted statistical model and excludes the impact of non-market conditions. Instead, the expense is adjusted for the effect of non-market conditions at each reporting date through the number of share awards or share options expected to be exercisable. The effect of market and non-vesting conditions is included in the fair value at the date of grant and is recognised as an expense irrespective of whether the market or non-vesting condition is satisfied. Any proceeds received are credited to share capital and share premium when the share option or award is exercised. In addition, for cash-settled share based payment transactions, the Company measures the services received and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period.

Taxation

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable future taxable profits will be available against which deductible temporary differences can be utilised.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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.

Income tax relating to items recognised directly in equity is recognised in equity.

Cash and cash equivalents

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

Inventories

Inventories comprise mainly SIM cards and handsets, are stated at the lower of cost and net realisable value on a first in, first out basis, after provisions for obsolescence. Cost comprises costs of purchase and costs incurred in bringing inventory to its current location and condition.

Trade and other receivables

Trade and other receivables are carried at original invoice amount less provision for doubtful debts.

Leases

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

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are capitalised at the lower of the present value of the minimum lease payments and the fair value of the asset at the inception of the lease, and are depreciated over the estimated useful lives of the assets. Finance charges are allocated over the period of the leases in proportion to the capital amount outstanding and are charged to the statement of comprehensive income.

Financial risk factors and management

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

Liquidity risk

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

Fair value estimation

The fair value of the trade and other receivables, trade and other payables and cash at bank approximates to the book carrying value due to the short-term or on demand maturity of these instruments.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

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

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

Effective for annual periods beginning after 31 December 2015		
New Standards and amendments		**Effective date: annual periods beginning on or after**
Annual Improvements to IFRS 2012-2014 Cycle		1 January 2016
IFRS 14	*Regulatory Deferral Accounts*	1 January 2016
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*	1 January 2016
Amendments to IAS 1	*Disclosure Initiative*	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*	1 January 2016
Amendment to IAS 12	*Income Taxes*	1 January 2017
Amendment to IAS 7	*Statement of Cash Flows*	1 January 2017
IFRS 15	*Revenues from Contracts with Customers*	1 January 2018
IFRS 9	*Financial instruments*	1 January 2018
Amendments to IFRS 7	*Disclosures - Transition to IFRS 9*	1 January 2018
IFRS 16	*Leases*	1 January 2019

Notes to the financial statements (continued)

1. Accounting policies (continued)

The company is currently analysing the potential impact of the application of the aforementioned standards, amendments and interpretations. As there are a significant number of changes, it is possible that such application may have some impact on its financial statements in the initial period of application.

Critical accounting estimates and judgements

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

Software and software licences

Accounting for software and software licences involves the use of estimates and judgements for determining the useful lives over which they are to be depreciated or amortised and the existence and amount of any impairment.

Software and software licences are depreciated or amortised on a straight line basis over their estimated useful lives and taking into account their expected residual values.

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

2. Operating profit

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

	2015	2014
	£000	£000
Staff costs (note 16)	**6,676**	4,413
Amortisation of intangible assets (note 4)	**68**	199
Depreciation of property, plant and equipment (note 5)	**5,778**	6,542
Operating lease costs	**275**	160
Auditor's remuneration (note 21)	**25**	20
Inventories:		
Cost of inventories recognised as an expense (included in cost of sales)	**2,057**	2,302

Notes to the financial statements (continued)

3. Taxation

	2015 £000	2014 £000
Current tax - current year	**5,884**	2,812
Current tax – adjustments in respect of prior periods	**(0)**	(8)
Deferred tax - current year	**(378)**	(580)
Deferred tax - adjustments in respect of prior periods	**0**	(2)
Deferred tax - Effect of change in tax rate	**56**	0
Taxation	**5,562**	2,222

	2015 £000	2014 £000
Profit before taxation	**27,067**	10,171
Profit before taxation multiplied by rate of corporation tax in the UK of 20.25% (2014: 21.50%)	**5,481**	2,187
Effects of:		
Expenses not deductible for tax purposes	**21**	2
Prior year adjustment	**(0)**	(10)
Effect of change in tax rate	**61**	43
Total taxation charge	**5,562**	2,222

The Finance Act 2013 was enacted in July 2013 and introduced a reduction in the headline rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. The Summer Budget announced on 8 July 2015 included reductions in the rate of corporation tax from 20% to 19% and 18% effective from 1 April 2017 and 1 April 2020 respectively. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. At the balance sheet date, the new legislation had been substantively enacted, and therefore the revised reduced rates have been reflected in these accounts.

Notes to the financial statements (continued)

4. Property, Plant and Equipment

	Land and Buildings £000	Plant and Equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2014	111	19,094	1,375	20,580
Additions	-	563	5,085	5,648
Reclassifications	(111)	6,048	(1,371)	4,566
At 31 December 2014	-	25,705	5,089	30,794
Additions	-	1,924	2,949	4,873
At 31 December 2015	**-**	**27,629**	**8,038**	**35,667**
Depreciation				
At 1 January 2014	28	4,149	-	4,177
Reclassifications	(28)	3,845	-	3,817
Charge for the year	-	6,542	-	6,542
At 31 December 2014	-	14,536	-	14,536
Charge for the year	-	5,778	-	5,778
At 31 December 2015	**-**	**20,314**	**-**	**20,314**
Net book value				
At 31 December 2015	**-**	**7,315**	**8,038**	**15,353**
At 31 December 2014	-	11,170	5,088	16,258

Notes to the financial statements (continued)

5. Intangible Assets

	Software Licences £000	Software £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2014	155	5,084	-	5,239
Additions	-	-	-	-
Reclassifications	5	(4,571)	-	(4,566)
At 31 December 2014	160	513	-	673
Additions	-	58	-	58
At 31 December 2015	**160**	**571**	**-**	**731**
Amortisation				
At 1 January 2014	124	4,067	-	4,191
Reclassifications	(63)	(3,754)	-	(3,817)
Charge for the year	-	199	-	199
At 31 December 2014	61	512	-	573
Charge for the year	-	68	-	68
At 31 December 2015	**61**	**580**	**-**	**641**
Net book value				
At 31 December 2015	**99**	**(9)**	**-**	**90**
At 31 December 2014	99	1	-	100

6. Trade and other receivables

	2015	2014
	£000	£000
Prepayments	**1,917**	991
Other debtors	**1,441**	813
Amounts owed by group companies	**8,301**	5,059
Trade and other receivables	**11,660**	**6,863**

7. Cash and cash equivalents

	2015	2014
	£000	£000
Cash and cash equivalents	**78,562**	**22,919**

Notes to the financial statements (continued)

8. Inventories

	2015 £000	2014 £000
Handset	**4,493**	-
SIM	**166**	241
Inventories	**4,659**	**241**

9. Trade and other payables

	2015 £000	2014 £000
Amounts owed to group companies	**107,657**	71,352
Other taxation and social security	**13,714**	9,779
Accrued expenses	**2,423**	5,187
Deferred income	**16,938**	13,288
Trade and other payables	**140,732**	**99,606**

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

10. Deferred taxation

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 18% (2014:20%)

The movement on the deferred tax assets and liabilities is as shown below:

Analysis of charge in the year

	£'000
At 1 January 2014	(401)
Current year (charge) / credit to statement of comprehensive income	2
Effect of change in tax rate	580
At 31 December 2014	181
Prior year (charge) / credit to statement of comprehensive income	(0)
Current year (charge) / credit to statement of comprehensive income	378
Effect of change in tax rate	(56)
At 31 December 2015	**503**

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Deferred tax assets

	Accelerated tax depreciation	Other £'000	Total £'000
At 31 December 2014	161	20	181
(Charge) / credit to statement of comprehensive income	366	12	378
Effect of change in tax rate	(53)	(3)	(56)
At 31 December 2015	474	29	503

Notes to the financial statements (continued)

11. Share capital

	Number of shares	2015 £	Number of shares	2014 £
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 each. Subject to the Company's articles of association, and applicable law, the Company's ordinary shares confer on the holder the right to receive notice of and vote at general meetings of the Company, the right to receive any surplus assets on a winding up of the Company and an entitlement to receive any dividend declared on ordinary shares.

12. Financial commitments and contingent liabilities

Operating lease commitments

At 31 December 2015 the Company was committed to making the following total future lease payments in respect of operating leases for each of the following periods:

	2015 £000	2014 £000
Within one year	**275**	160
Total operating lease commitment	275	160

Other commitments

There were no other commitments at 31 December 2015 (2014: £nil)

13. Related party disclosure

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

	2015 £000	2014 £000
Revenue		
Sales to group companies	-	-
Purchases		
Purchase from group companies	**(85,044)**	(68,831)
Total net transactions	**(85,044)**	**(68,831)**

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 note 6 and 9.

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

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

Notes to the financial statements (continued)

14. Financial instruments

Financial risk factors and management

The Company has financial assets in the form of cash. The purpose of the Company's policy on risk management is to manage the interest rate risk that arises from the Company's operations and sources of finance.

The main sources or risk arising from the Company's financial instruments are interest rate risk, credit risk and liquidity risk. Management of the Company's financial risks is achieved mostly through being a part of the larger Telefónica group, which operates group wide policies in each area and is able to hedge positions on a group basis.

Credit risk

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

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

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

Liquidity risk

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

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

Interest rate risk

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

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

Fair value of financial instruments

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

Notes to the financial statements (continued)

14. Financial instruments (continued)

	2015 Carrying value £000	2015 Fair value £000	2014 Carrying value £000	2014 Fair value £000
Financial Assets				
Cash and cash equivalents	**78,562**	**78,562**	22,919	22,919
Amounts owed by group companies	**8,301**	**8,301**	5,059	5,059
Other debtors	**1,441**	**1,441**	813	813
Total financial assets	**88,304**	**88,304**	**28,791**	**28,791**
Financial Liabilities				
Amounts owed to group companies	**107,658**	**107,658**	71,352	71,352
Accrued expenses	**2,423**	**2,423**	5,187	5,187
Total financial liabilities	**110,081**	**110,081**	**76,539**	**76,539**

Fair value estimation

The fair value of the cash and cash equivalents approximates to the book carrying value due to the short-term or on demand maturity of these instruments.

15. Key management and Directors' compensation

The key management of the Company are the same as the Directors of the Company.

The Directors are remunerated directly by other companies in the Telefónica Group for their services to the Telefonica Group as a whole. It is not considered practical to apportion the Directors' remuneration between the qualifying services performed for each of their Company directorships or other management responsibilities within the Telefónica Group. The following disclosure is therefore the total remuneration to the Directors for their services to the Telefónica Group as a whole throughout the year ended 31 December 2015 and not only in respect of the Company.

The remuneration of the Directors for their services to the Telefónica Group as a whole who held office for all or part of the year ended 31 December 2015 was as follows:

	2015 £000	2014 £000
Aggregate emoluments in respect of qualifying services	**2,635**	4,668
Aggregate amounts paid under long term incentive plans	**929**	**1,458**
Aggregate amount of company contributions paid to a pension scheme	**43**	67
	3,606	**6,193**

Notes to the financial statements (continued)

15. Key management and Directors' compensation (continued)

During the current year, no directors accrued retirement benefits under a defined benefit pension plan. Two Directors (2014: none) accrued retirement benefits under a defined contribution pension plan during the year. Three Directors were entitled to receive shares in respect of qualifying service under long-term incentive plans (2014: one).

In respect of the highest paid Director:

	2015	2014
	£000	£000
Aggregate emoluments in respect of qualifying services	1,525	1,006
Aggregate amounts paid under long term incentive plans	482	1,219
Aggregate amount of company contributions paid to a pension scheme	-	3
	2,007	2,228

The highest paid Director is a member of the Telefónica Pension Plan.

16. Employees

	2015	2014
Average number of full time employee equivalents (including executive Directors)	No.	No.
Technology	17	15
Customer Operations	49	42
Administration	6	8
Total employees	72	65

As per the Director's report the Company does not have contractual employees in its own right. The employees are seconded from Telefonica UK Limited, its immediate parent company.

The benefits expense incurred in respect of these employees were:

	2015	2014
	£000	£000
Wages and salaries	5,507	3,672
Social security costs	706	417
Pension costs	456	315
Share based payments	7	9
Total employee benefits expense	6,676	4,413

Notes to the financial statements (continued)

17. Shared based payments

The amounts recognised in operating loss for share based payment transactions with employees were as follows:

	December 2015	December 2014
	£'000	£'000
Equity settled share based payments	7	9
Total share based payments	**7**	9

Equity-settled share schemes

The main share-based payment plans in place in the 2011-2015 periods are as follows:

Telefónica Performance Investment Share Plan 2011-2016

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

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

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

The specific number of Telefónica, S.A. shares deliverable within the maximum amount established to each member at the end of each phase will be contingent and based on the Total Shareholder Return ("TSR") of Telefónica, S.A. shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in the Dow Jones Global Sector Titans Telecommunications Index. For the purposes of this Plan, these companies make up the comparison group ("Comparison Group").

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

Notes to the financial statements (continued)

17. Shared based payments (continued)

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

- 30% of the number of notional shares if Telefónica, SA.'s TSR is at least equal to the median of the Comparison Group, and

- 100% if Telefónica S.A's TSR is within the third quartile or higher than that of the Comparison Group. The percentage is calculated using linear interpolation when it falls between the median and third quartile.

- No shares will be delivered if Telefónica, S.A's TSR is below the Comparison Group's median.

The plan includes an additional condition regarding compliance by all or part of the participants with a target investment and holding period of Telefónica, S.A. shares through each phase ("Co-Investment"), to be determined for each participant, as appropriate, by the Board of Directors based on a report by the Nominating, Compensation and Corporate Governance Committee. Participants meeting the co-investment requirement will receive an additional number of shares, provided the rest of the requirements established in the plan are met.

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

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

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

Regarding the third allocation of shares under this plan, the maximum number of shares assigned and the number of shares outstanding at December 31, 2015 is as follows:

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

Telefónica Performance Investment Share Plan 2014-2019

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

Notes to the financial statements (continued)

17. Shared based payments (continued)

Like its predecessor, the term of the new plan is a total of five years divided into three phases. Shares will be delivered at the end of each phase (in 2017, 2018, and 2019, respectively).

The initial share allocation took place on October 1, 2014 and 2015 respectively. The third allocation is scheduled for October 1 2016.

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

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

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

The plan lasts five years and is divided into three independent three-year phases (i.e. delivery of the shares for each three-year phase three years after the start date). The first phase began on 1 October 2014 (with the delivery of the related shares from 30 September 2017). The second phase began on 1 October 2015 (with delivery of the related shares from 30 September 2018). The third phase began on 1 October 2016 (with delivery of the related shares from 30 September 2019).

The specific number of Telefónica, S.A. shares deliverable within the maximum amount established to each member at the end of each phase will be contingent and based on the Total Shareholder Return ("TSR") of Telefónica, S.A. shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in Comparator Group.

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

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

- 30% of the number of notional shares if Telefónica, S.A.'s TSR is just above the TSR of the companies making up 50th percentile of the Comparator Group, and
- 100% of the number of notional shares if Telefónica S.A's exceeds the TSR of the companies making up the 50th percentile of the Comparator Group
- Where Telefónica S.A.'s TSR is between the 50th percentile and the 75th percentile of the Comparator Group, the percentage of notional shares to be received will be determined on a straight-line basis.
- No shares will be delivered if Telefónica, S.A's TSR is below the TSR of the companies making up 50th percentile of the Comparator Group.

17. Shared based payments (continued)

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

Shares will be delivered at the end of each phase (in 2017, 2018, and 2019, respectively).

The initial and second share allocation took place on October 1, 2014 and 2015 respectively. The third allocation is scheduled for October 1 2016.

Phase	No. Shares assigned	Unit fair value	End date
1st phase October 2014	1,516	€6.82	September 30, 2017
2nd phase October 2015	-	€6.46	September 30,2018

Cash-settled share-based payments

Telefónica Performance Cash Plan

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

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

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

Other share-based payment plans

Global Employee Share Plan 2011

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

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

Notes to the financial statements (continued)

17. Shared based payments (continued)

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

The plan's shareholding period came to an end in December 2014. At the vesting date (1 December 2014), 2 employees adhered to the plan and received free matching shares. This plan was equity-settled via the delivery of shares to the employees in December 2014.

Global Employee Share Plan 2015

At the May 30, 2014 General Shareholders' Meeting of Telefónica, S.A., the shareholders approved the introduction of a new Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide. Under the Plan the possibility of acquiring shares of Telefónica S.A. is offered with

the commitment of the latter to allot free of charge to the participants in the Plan a certain number of shares of Telefónica S.A., provided certain requirements are met.

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

18. Revenue

The total revenue for the Company's for the year ended 31 December 2015 was £284,835,000 (2014: £207,590,000), significant revenue streams are detailed below:

	2015	2014
	£000	£000
Mobile service revenue	**244,455**	190,512
Handsets revenue	**40,380**	17,078
Total revenue	**284,835**	**207,590**

19. Parent company and controlling party

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

Notes to the financial statements (continued)

20. Significant Events

On 24 March 2015 Telefónica S.A. announced that it had entered into a definitive agreement (the Agreement), with Hutchison Whampoa (now known as CK Hutchison Holdings Limited), ("Hutchison") the parent company of Three in the UK, for the sale of Telefónica's UK business which was subject to regulatory clearance by European Commission (the "Commission"). (the "Proposed Transaction"). On 11 May 2016, in accordance with the EU Merger Regulation, the Commission announced that following its in-depth investigation it had decided to prohibit the Proposed Transaction due to its competition concerns despite the remedies proposed by Hutchison.

On 1 August 2016 Ronan Dunne resigned as Director and David Plumb was appointed a Director of the Company.

21. Auditor's remuneration

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

	2015	2014
	£000	£000
Audit services:		
UK statutory audit fees	**25**	20
Total revenue	**25**	**20**

The fees were paid to Ernst & Young LLP.