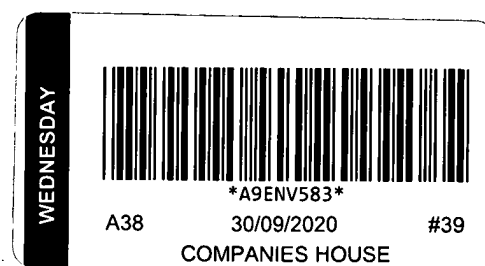


Registered Number: 04780736

**Tesco Mobile Limited**

**Annual Report and Financial Statements  
For the year ended 31 December 2019**



## **Tesco Mobile Limited**

Registered Number: 04780736

<b>Contents</b>	<b>Page</b>
Directors and Advisers	1
Strategic Report	2
Directors' Report	6
Directors' Responsibilities Statement	9
Independent Auditor's Report to the members of Tesco Mobile Limited	10
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Notes to the Financial Statements	16

## **Tesco Mobile Limited**

Registered Number: 04780736

### **Directors and advisers**

#### **Directors**

Alessandra Bellini  
Mark Bowden – appointed 10 June 2019  
Thomas Denyard – appointed 5 November 2019  
Mark Evans  
Mark Hardman  
Roger Keenan – resigned 10 June 2019  
Bhavesh Mistry  
Paul Pattinson – appointed 20 September 2019  
Oliver Potter – resigned 23 August 2019  
Claire Soper Lorains – resigned 5 November 2019  
Jason Tarry

#### **Company Secretary**

Tesco Secretaries Limited

#### **Registered office**

Shire Park  
Welwyn Garden City  
United Kingdom  
AL7 1GA

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
1 New Street Square  
London  
United Kingdom  
EC4A 3HQ

**Tesco Mobile Limited**

Registered Number: 04780736

**Strategic Report**

The directors present their Strategic Report on Tesco Mobile Limited ("The Company") for the year ended 31 December 2019.

**Strategy**

Tesco Mobile Limited ("the Company") is a joint venture owned equally by the Tesco Plc Group ("Tesco") and the Telefónica, S.A. Group ("Telefónica").

The principal activities of the Company during the year were the provision of prepay and postpay mobile communications and related services to consumers under the Tesco Mobile brand, using the Tesco retail network for handset distribution and subscriber acquisition, and Telefónica's mobile communications network for airtime and related services.

**Performance and Future Developments**

The mobile telecommunications market has continued to be highly competitive throughout 2019, yet despite this the Company has had a successful year, growing both its total customer base by 1.0% from a 2018 closing base of 5.14 million to a 2019 closing base of 5.19 million and revenues by 0.1% from £834 million in 2018 to £835 million in 2019.

In the competitive postpay market the Company enjoyed considerable success, growing its customer base significantly during the year from a 2018 closing base of 3.06 million to a 2019 closing base of 3.23 million, an increase of 5.7%.

Following a continued decline in the total UK prepay market, the Company's prepay customer base reduced marginally year on year to 1.96 million in 2019 (2018: 2.08 million).

The net assets of the Company as at the 31 December 2019 were £15.3 million (2018: £14.0 million) and the profit and total comprehensive income for the year ended 31 December 2019 was £1.3 million (2018: £1.9 million).

Throughout 2019 the Company had market leading Net Promoter Score (NPS) and Customer Satisfaction Index (CSI) (Reference: TNS).

In 2019 Tesco increased the number of phone shops from 483 to 511 within Tesco stores with focus turning from further roll-out to store refresh across the estate in 2020 and beyond. The increase in the number of phone shops both broadens the Company's distribution channels and strengthens the ability to service new and existing customers.

The Company intends to continue to increase its customer base by launching new and innovative products and tariffs into the market place, whilst continuing to leverage the growing distribution channels.

**Tesco Mobile Limited**

Registered Number: 04780736

**Strategic Report****Key performance indicators (KPIs)**

The Company's focus has been on the recognised industry key metrics:

- **Customer Base** - As at 31 December 2019 the closing base reached 5.19 million customers, an increase of 1.0% from 5.14 million customers in 2018 (compared to market growth of 0.6%). Customer base growth has resulted from offering customers value for money propositions and a continued focus on customer service.
- **Revenue Growth** - Revenue has grown 0.1% year on year from £834 million in 2018 to £835 million in 2019. A rise in service revenues was largely offset by lower handset revenue (see note 2), reflecting lower market handset sales with the trend towards consumers keeping handsets for longer periods.
- **Customer Satisfaction** - Throughout 2019 the Company had market leading Net Promoter Score (NPS) and Customer Satisfaction Index (CSI) (Reference: TNS). The Company has been a Which? Recommended provider for 10 years running, has been named by Ofcom as the UK mobile network to receive the least complaints for five consecutive years, and has been awarded Best Retailer for Customer Service as the 2020 uSwitch Broadband and Mobile Awards.

**Environment**

The Company promotes environmental sustainability by facilitating the recycling of customer handsets and waste recycling at office locations.

Telefónica UK Limited provides the network for Tesco Mobile customers and its Blueprint programme has committed to a goal of removing non-renewable energy across the network and operations by 2025, becoming a Net Zero carbon business.

Tesco Stores Limited provide the sales and distribution footprint for Tesco Mobile. Tesco has committed to reduce carbon emissions from 2015/16 levels by 35% by 2020, 60% by 2025 and 100% by 2050. Tesco has implemented a renewable electricity transition plan across its property estate within which Tesco Mobile operates.

**Principal Risks and uncertainties**

The Company has in place a comprehensive risk management programme designed to identify, evaluate, actively manage and monitor the effects of risks on the Company's financial performance.

The risk management model is aligned with best practice in Internal Control (COSO / ISO 31000:2009). Regular risk forums are held, involving risk champions from each part of the business to discuss and evaluate key emerging and horizon risks as well as monitoring the Company's response to known existing risks.

Principal risks are reported to and discussed each quarter by the Company's Executive Team and a Board Audit Committee comprising senior representatives from the Company and the Shareholder organisations, ensuring a high degree of risk awareness, continuing improvement, and effective management of principal risks.

The principal risks and uncertainties affecting the Company are as follows:

<b>Risk</b>	<b>Impact</b>	<b>Mitigation/Actions</b>	<b>Trend</b>
<b>Competition</b>	Increased competition in the market may lead to increased churn and prevent the Company meeting its customer base targets.  Competitive pressure from other operators trying to maintain market share may reduce	The Company's products, services, channels and customer interactions are continuously monitored and refined to ensure competitiveness to optimise profitable growth opportunities.	<b>Increased</b>

**Tesco Mobile Limited**

Registered Number: 04780736

**Strategic Report**

	customer ARPU (Average Revenue Per User).		
<b>Operational</b>	<p>The ability to provide network service and sell handsets may be affected by performance of systems provided to the Company by third parties and shareholders.</p> <p>Growth may be constrained by third parties and shareholders lack of capacity to support the development of innovative and timely new products, processes and systems.</p> <p>If customer expectations are not met by our customer service teams then this could lead to possible reputational damage.</p>	<p>Sales, service, billing and operational support capability is subject to ongoing strategic development and continuous support and maintenance.</p> <p>The primary services delivered to the Company by Tesco and Telefónica, together with other third-party services are supported by robust service management models to ensure continuity of critical services and regular development of new capability.</p>	<b>Increased</b>
<b>Regulatory</b>	<p>The loss of permission from the FCA would prevent the ability of the Company from providing consumer credit to our customer base.</p> <p>Regulatory changes may have an adverse financial effect on pricing, for example, termination and roaming charges, end of contract notification or restrictions on contract tenure to facilitate switching.</p>	<p>Dedicated compliance team in place to ensure policy, processes and mandatory compliance training is in place and effectively executed.</p> <p>The impact of regulation on commercial propositions is continuously monitored and offers are adapted to ensure compliance.</p>	<b>Increased</b>
<b>Legal</b>	<p>Potential conflicts between the objectives of the joint venture and/or its shareholders could lead to adverse impacts on the joint venture's performance, strategy or structure in the long term.</p>	<p>The joint venture agreement was updated and extended in August 2019, and a Long-term plan covering a five-year period has been approved by the Tesco Mobile Board (including Tesco and Telefónica).</p>	<b>Stable</b>
<b>Data Privacy</b>	<p>Customer or employee data may be compromised if the company's policies and procedures are not robustly communicated, implemented and enforced, resulting in fines, loss of reputation, loss of customer and employee trust, loss of customers and revenues.</p>	<p>Policies and mandatory compliance training are regularly reviewed and updated.</p> <p>Customer data is encrypted across all sales and customer service channels.</p> <p>IT and third-party security is maintained and assured.</p> <p>A dedicated Data Protection Officer is appointed, ensuring continuous monitoring.</p>	<b>Stable</b>
<b>Cyber-Security</b>	<p>There may be a breach of security through network intrusion, phishing or hacking, resulting in service interruption, or unauthorised access to systems and customer data. This could result in loss of customers and reputational damage.</p>	<p>A dedicated cyber security Management team and security programme is well established.</p> <p>A maturity assessment has been undertaken with third party expert support and a vulnerability management programme is in place. Policies and procedures are supported with mandatory compliance training.</p>	<b>Increased</b>

**Important events post year end**

The Covid-19 global pandemic has impacted the Company in various ways, including the temporary closure of phone shops. This has resulted in a reduction in the number of new customers joining Tesco mobile and the number of customers upgrading with Tesco Mobile. The Company has put in place initiatives to manage the impact of the pandemic and the associated risks effectively. We have worked closely with key suppliers to understand and mitigate impacts and have implemented procedures to enable staff and suppliers to follow government guidelines including working from home where possible. The Company has put in place initiatives to manage its impact and minimise associated risks.

**Tesco Mobile Limited**

Registered Number: 04780736

**Strategic Report**

The impact of Brexit on the Company remains uncertain. We do not expect Brexit to have a material impact on the company, but we continue to monitor the situation closely. Supply chain disruption and international roaming remain the most likely areas of potential impact.

**Section 172 Statement**

Section 172 of the Companies Act requires the Directors to each act in a way they consider, in good faith would most likely promote the success of the Company for the benefit of its members as a whole, and in doing so have regards to a range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006. In discharging this duty, we have regard for these factors taking them into consideration when decisions are made. The factors are as follows:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the company's employees;
- (c) the need to foster the company's business relationships with suppliers, customers and others;
- (d) the impact of the company's operations on the community and the environment;
- (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly between members of the company.

The directors are of the opinion that they have fulfilled their statutory obligations under Section 172. This has been achieved through decision making at periodic board meetings and adherence to the Company's governance process. The Company's key stakeholders in are customers, employees, suppliers, shareholders and the wider community. The Directors' Report provides further details of stakeholder engagement and how these are taken into regard when making decisions.

The Strategic Report has been approved by the Board on 30 September 2020.

By order of the Board



Mark Bowden  
30 September 2020

**Tesco Mobile Limited**

Registered Number: 04780736

**Directors' Report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2019. This report has been prepared under applicable legislation, including those provisions of the Companies Act 2006.

**Legal form**

Tesco Mobile Limited ("the Company") is a private limited company limited by shares incorporated, domiciled and registered in England and Wales under the number 04780736. The registered address is Shire Park, Welwyn Garden City, United Kingdom, AL7 1GA. The Company is a joint venture between companies within the Tesco group and the Telefónica group; ownership details are included in note 20.

**Directors**

The directors (except as noted) who held office during the year and up to the date of signing the financial statements are listed on page 1 of the financial statements.

**Directors' indemnities**

A qualifying third party indemnity provision in the form permitted by company law has been granted by Telefonica O2 Holdings Limited to Mark Evans, Mark Hardman, Mark Bowden and Paul Pattinson, this is in respect of liabilities incurred as a result of their office to the extent permitted by law. This indemnity remains in place during the financial year as well as up to the date of approval of the financial statements.

Both Tesco plc and Telefonica O2 Holdings Limited maintain a directors' and officers' liability insurance policy throughout the financial year, as well as up to the date of approval of the financial statements, in respect of the Directors of the Company.

**Future developments**

Disclosures relating to future developments are included within the Strategic Report.

**Employees**

The total number of reported employees in the business as at 31 December 2019 was 215 (2018: 199); all reported employees are seconded and re-charged to the Company from either Tesco Stores Limited (a Tesco group company) or Telefónica UK Limited (a Telefónica group company).

The Company has a wide range of communication channels with employees including face-to-face meetings, team briefings and weekly and monthly performance reports. The aim of all these channels is to ensure employees fully understand the Company's objectives and its operational and financial performance. The Company continues to be committed to the development of all people in the organisation and actively promotes this through training and development initiatives. People are encouraged and supported to maintain personal development plans.

The Company is committed to treating all its employees fairly. Its objective is to have a company that is free from bias and the Company will strive to ensure that all employees are treated with dignity and respect. The Company is committed to its shareholders' employment policies that follow best practice and are based on equal opportunities for all, and recognises that a diverse workforce is strength in a competitive marketplace. This approach extends to the fair treatment of people with disabilities in relation to their recruitment, training and development.

**Other stakeholder engagement**

Customers are engaged through both sales and customer service channels, and the directors closely monitor the competitiveness and utility of customer offerings, and levels of customer



**Tesco Mobile Limited**

Registered Number: 04780736

**Directors' Report**

service as evidenced by the Company's market leading Net Promotor Score (NPS) and Customer Satisfaction Index (CSI) (Reference: TNS). The Company enjoys strong relationships with key suppliers and its policy is to pay suppliers promptly in accordance with contractual payment terms. The company is committed to delivering strong financial performance to benefit its shareholders.

Decisions were taken during the year included:

- To launch a product offering for Soho (Small office home office) business customers.
- To allow customers who sign up to Tesco's Clubcard plus scheme enhanced data allowances.
- To sell handset accessories providing an enhanced product offering to customers.

**International Financial Reporting Standards (IFRS)**

The financial statements for the year ended 31 December 2019 have been prepared in accordance with the IFRS framework.

**Dividends**

No dividends were paid or are payable for the year ended 31 December 2019 (2018: £nil).

**Political and charitable contributions**

The Company made charitable contributions during the year of £15,915 (2018: £34,510) and political donations of £nil (2018: £nil).

**Research and development**

The Company does not undertake any research and development activities.

**Financial risk management**

The Company's operations expose it to a variety of financial risks that include credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring debt and cash flow levels closely and operating a robust control environment. The Company does not operate in any foreign markets and is therefore not exposed to any direct exchange rate risk.

**Credit risk** - For the majority of sales the goods will not be released until an initial payment has been received. In relation to postpay contracts the Company has implemented policies that require appropriate credit checks on potential customers before a sale is made. The Company operates a continuous review of credit collection processes and risks designed to address the ever-changing face of fraud in the Telecommunications industry in the UK.

**Liquidity risk** - In regard to liquidity, the Company's policy throughout the year has been to ensure continuity of funding. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows. All trade payables (note 16) are due to be paid within twelve months of the balance sheet date.

The Company has undertaken an asset securitisation programme to enable it to continue to manage the liquidity risk and maintain the flow of cash to the shareholders. The maximum facility is £280 million; as at the balance sheet date a total of £187.6 million (2018: £153.9 million) had been utilised against the facility. Further details of the securitisation programme are presented in note 14. The company has also sold certain other future receivables and at the balance sheet date a total of £37.2m (2018: £36.8m) had been received in consideration for sale of receivables.

**Tesco Mobile Limited**

Registered Number: 04780736

**Directors' Report**

**Interest rate risk** - The Company has interest bearing assets and liabilities which earn interest based on the Libor rate. These are made up of both cash balances and loans to shareholders which can be recalled at any time. The Company's asset securitisation programme is also exposed to changes over time to the LIBOR rate. Assuming all other variables remain constant, the impact of a 1% increase in the LIBOR rate, which the Directors consider reasonably possible, would increase finance charges by approximately £2,250,000 (2018: £1,900,000).

**Capital risk management** - The Company's financial instruments comprise cash and cash equivalents, an asset securitisation arrangement, related party balances and items such as trade payables and trade receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations to ensure the Company is able to continue as a going concern while maximising the return to shareholders.

**Independent auditor**

The Company's auditor, Deloitte LLP, was reappointed on 03 May 2019 at the meeting of the Board of Directors; it has indicated its willingness to continue in office and a resolution confirming this reappointment will be proposed at the Annual General Meeting.

**Going concern**

In determining whether the Company's financial statements can be prepared on the going concern basis, the Directors considered the Company's business activities together with factors likely to affect its future development, performance and its financial position including cash flows, liquidity position and the principal risks and uncertainties relating to its business activities, as given in the Strategic Report.

Based on cash flow forecasts which take into account the Directors' best estimate of income and expenditure forecasts as well as the Company's current cash balance, the Directors consider it appropriate to prepare the Company's financial statements on the going concern basis. For further details please refer to note 1.

**Statement on disclosure of information to the auditor**

For all directors at the time the report is approved, the following applies:

- So far as each director is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware.
- Each director has taken all the steps that ought to have been taken as a director 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 has been approved by the Board on 30 September 2020.

By order of the Board



Mark Bowden  
30 September 2020

**Directors' Responsibilities Statement  
For the year ended 31 December 2019**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Tesco Mobile Limited**

Registered Number: 04780736

**Independent Auditor's Report to the members of Tesco Mobile Limited****Opinion**

In our opinion the financial statements of Tesco Mobile Limited (The 'company'):

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

We have audited the financial statements which comprise:

- the Statement of Comprehensive Income,
- the Statement of Financial Position,
- the Statement of Changes in Equity; and
- 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 IFRSs as adopted by the European Union.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial

**Independent Auditor's Report to the members of Tesco Mobile Limited**

statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Report on other legal and regulatory requirements****Opinions on other matters prescribed by the Companies Act 2006** In

our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**


Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

**Use of our report**

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.



**David Griffin, FCA (Senior Statutory Auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

30 September 2020

**Tesco Mobile Limited**

Registered Number: 04780736

**Statement of Comprehensive Income  
For the year ended 31 December 2019**

	Note	2019 £'000	2018 £'000
<b>Revenue</b>	2	<b>835,082</b>	834,495
Cost of sales		(741,870)	(745,972)
<b>Gross profit</b>		<b>93,212</b>	88,523
Administrative expenses		(86,878)	(83,707)
<b>Operating profit</b>	3	<b>6,334</b>	4,816
Financial income	4	-	105
Financial expense	4	(4,766)	(2,559)
<b>Profit before taxation</b>		<b>1,568</b>	2,362
Tax on profit	7	(279)	(480)
<b>Profit for the year attributable to equity shareholders</b>		<b>1,289</b>	1,882

All of the above activities result from continuing operations. There are no other items of comprehensive income.

The accompanying notes on pages 16 to 39 are an integral part of these financial statements.

**Tesco Mobile Limited**

Registered Number: 04780736

**Statement of Financial Position  
As at 31 December 2019**

	Note	2019 £'000	2018 £'000
<b>Non-current assets</b>			
Property, plant and equipment	9	3,183	3,300
Intangible assets	10	13,254	8,621
Deferred income tax assets	8	1,160	1,202
Trade and other receivables	12	139,524	130,824
		<b>157,121</b>	<b>143,947</b>
<b>Current assets</b>			
Inventories	11	46,805	64,222
Trade and other receivables	12	244,345	234,983
Cash and cash equivalents	13	48,173	89,642
		<b>339,323</b>	<b>388,847</b>
<b>Current liabilities</b>			
Borrowings	14	(134,252)	(110,103)
Trade and other payables	16	(255,055)	(325,083)
Current income tax liabilities		47	(300)
		<b>(389,260)</b>	<b>(435,486)</b>
<b>Net current liabilities</b>		<b>(49,937)</b>	<b>(46,639)</b>
<b>Total assets less current liabilities</b>		<b>107,184</b>	<b>97,308</b>
<b>Non-current liabilities</b>			
Borrowings	14	(90,537)	(80,660)
Trade and Other Payables	16	(1,103)	(908)
Provisions for liabilities	15	(245)	(1,738)
		<b>(91,885)</b>	<b>(83,306)</b>
<b>Net assets</b>		<b>15,299</b>	<b>14,002</b>
<b>Equity</b>			
Ordinary share capital	17	40	40
Retained earnings	18	15,259	13,962
<b>Total equity</b>		<b>15,299</b>	<b>14,002</b>

The accompanying notes on pages 16 to 37 are an integral part of these financial statements.

The financial statements on pages 12 to 15 were approved by the board of directors on 30 September 2020 and were signed on its behalf by:

*Mark Bowden*

Mark Bowden  
Director  
30-Sep-20

**Tesco Mobile Limited**

Registered Number: 04780736

**Statement of Changes in Equity  
For the year ended 31 December 2019**

	Note	Ordinary Shares £'000	Retained earnings £'000	Total equity £'000
<b>At 1 January 2018</b>		<b>40</b>	<b>12,080</b>	<b>12,120</b>
Profit for the year and total comprehensive income		-	1,882	1,882
<b>At 1 January 2019</b>		<b>40</b>	<b>13,962</b>	<b>14,002</b>
Impact of implementation of new accounting standards	1		8	8
<b>At 1 January 2019 restated</b>		<b>40</b>	<b>13,970</b>	<b>14,010</b>
Profit for the year and total comprehensive income		-	1,289	1,260
<b>At 31 December 2019</b>		<b>40</b>	<b>15,259</b>	<b>15,270</b>

The accompanying notes on pages 16 to 37 are an integral part of these financial statements.



**Tesco Mobile Limited**

Registered Number: 04780736

**Statement of Cash Flows  
For the year ended 31 December 2019**

	Note	2019 £'000	2018 £'000
<b>Cash flow from operating activities</b>			
Profit before taxation		1,568	2,362
Depreciation of property, plant and equipment	9	1,024	328
Amortisation of intangible fixed assets	10	4,584	4,653
Finance costs	4	4,766	2,559
Decrease / (increase) in inventories		17,417	(2,238)
(Increase) in trade and other receivables	12	(18,062)	(106,525)
(Decrease) / increase in trade and other payables		(72,720)	88,417
<b>Cash used in operations</b>		<b>(61,423)</b>	<b>(10,444)</b>
Corporation tax paid		(240)	(302)
Interest paid		(4,581)	(2,431)
<b>Net cash flow used in operating activities</b>		<b>(66,244)</b>	<b>(13,177)</b>
Purchase of property, plant and equipment	9	(36)	(2,081)
Purchase of intangible assets	10	(9,217)	(4,518)
<b>Net cash flow used in investing activities</b>		<b>(9,253)</b>	<b>(6,599)</b>
Proceeds from borrowings	14	70,914	95,832
Repayments of borrowings	14	(36,888)	(3,475)
<b>Net cash flow generated from financing activities</b>		<b>34,026</b>	<b>92,357</b>
<b>Net (decrease) / (increase) in cash and cash equivalents</b>		<b>(41,469)</b>	<b>72,581</b>
<b>Cash and cash equivalents at 1 January</b>		<b>89,642</b>	<b>17,061</b>
<b>Cash and cash equivalents at 31 December</b>	13	<b>48,173</b>	<b>89,642</b>

The accompanying notes on pages 16 to 37 are an integral part of these financial statements.

**Notes to the financial statements****1. Accounting policies****Basis of preparation**

The financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but have not yet come into effect:

IFRS 17: Insurance Contracts

Amendments to IFRS 3: Definition of Business

Amendments to IAS 1 & IAS 8: Definition of Material

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform

Amendments to References to the Conceptual Framework in IFRS Standards

Amendments to IAS 1 - Presentation of financial statements on classification of liabilities

The Directors anticipate that the adoption of these Standards and Interpretations in future years will not materially impact on the financial statements of the Company.

IFRS 16 'Leases' is a new Standard adopted in the year. IFRS 16 replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising at 1 January 2019 a right-of-use asset of £870,000 and related lease liability in connection with all former operating leases of £945,000.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings of £8,000 for the current period. Prior periods have not been restated.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 1.7%. Additional disclosures are presented in Note 19.

The financial statements have been prepared on a historical cost basis.

**Key Judgements and estimates**

The preparation of financial statements in conformity with IFRSs requires the use of certain critical judgements in the process of selecting and applying the Company's accounting policies. It also requires management to exercise its judgement in matters that require estimations.

Key judgements included revenue recognition and in particular the determination of a stand-alone selling price for handsets (by applying an assumed margin percentage to handset cost price adjusted for supplier funding) and handset airtime (based on a statistical comparison of the relative price of handset airtime versus SIM only airtime over an assumed representative rolling six month period) when applying IFRS 15.

Key sources of estimation uncertainty requiring management estimate included the assessment of expected credit losses for customer receivables and the valuation of inventory provisions.

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

The Company's approach to Financial Risk Management and Capital Risk Management are described in the Directors' report.

**Going concern**

The Directors have considered the Company's financial position, liabilities, future projections and future funding requirements against the available funding in determining the Company's ability to continue as a going concern and concluded there are adequate resources available to prepare the financial statements on the going concern basis. The net current liability position of the Company as at 31 December 2019 is created only by the classification of certain receivables as non-current assets; the Directors do not consider that these carry a significant credit risk or therefore changes the ability of the Company to meet obligations as they fall due. Our existing financing facility with HSBC is due to expire and a new committed financing facility is being implemented in 2020. This will support further growth of The Company's Anytime Upgrade proposition through the continued securitisation of new device receivables, replacing the well-established HSBC structure. Further, sufficient cash reserves and access to borrowing facilities (secured against current and non-current receivables) mean that the net current liability position of the Company does not change their assessment of going concern.

In considering the ongoing COVID-19 pandemic, management has analysed, assessed and scrutinised the resulting projections and has undertaken stress test analysis against the cashflows. In this regard the directors have confirmed that the overall going concern position is fully supported, and that they have not been able to identify any material uncertainties in relation to going concern.

A summary of the accounting policies, which have been applied consistently throughout the year, is set out below.

**Revenue recognition**

In accordance with IFRS 15 revenue is recognised in any period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue, and related balance sheet items (such as contract assets and liabilities, contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of subjective key judgements and assumptions. This includes an assessment of standalone selling prices (SSPs) for handsets based on cost price plus an appropriate mark up and service based on the pricing of comparable SIM only contracts. Transaction prices attributable to performance obligations are calculated by allocating total contract revenue in the proportion to the SSPs for each performance obligation.

Revenue is recognised either when the performance obligation in the contract has been performed at a point in time (provision of handset at contract commencement) or 'over time' as control of the performance obligation is transferred to the customer (provision of monthly service). Customers are entitled to return handsets within 14 days or 28 days if the handset is found to be faulty. Customer payments are due monthly over the lifetime of the contract which results in the creation of a contract asset (or a contract liability) at contract commencement which is derecognised over the contract period. Customer payments are variable with respect to family perks discounts which may be received at any point in the contract term, and revenue is constrained in respect of this on a portfolio basis. Contracts do not have a significant financing component.

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

Prepay service revenue is recognised in the Statement of Comprehensive Income as prepaid credit is utilised by the customer on airtime services. Purchased prepaid credit that has not been utilised is held as deferred income until utilised by the customer with the exception that credit that is predicted to remain utilised indefinitely is recognised immediately in accordance with IFRS 15.

Interconnection fees from mobile to mobile and fixed to mobile calls and other customer services are recognised in the period in which the calls are made.

**Cost of sales*****Subscriber acquisition costs***

Subscriber acquisition costs, which include commission costs associated with acquiring new subscribers and other incremental costs of customer acquisition, are amortised over the expected average customer life.

***Marketing and other promotion costs***

Marketing and other promotion costs are charged to the Statement of Comprehensive Income as incurred. All costs to develop and produce television marketing campaigns and the related materials are expensed when incurred. Amounts payable to television broadcast providers are expensed when the advertisement airs.

**Tangible fixed assets**

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. The cost of tangible fixed assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is provided on tangible fixed assets from the date they are available for use, in equal instalments over their estimated useful economic lives, taking into account any residual values. No depreciation is provided on construction in progress assets, for depreciation to commence on these assets they first need to be completed and transferred to the relevant asset category.

The useful economic lives assigned to tangible fixed assets within plant and equipment is 3 to 5 years, assets in the course of construction are not depreciated.

**Intangible fixed assets**

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 3 years on a straight line basis. Software assets which are constructed by the Company are classified as construction in progress and transferred to the relevant asset category when construction is complete and available for use, at which point amortisation is provided.

**Inventory**

Inventory consists entirely of handsets and SIM packs and is stated at the lower of cost and net realisable value on a FIFO (first in, first out) valuation basis, after making due allowance for obsolete and slow moving items. Where inventory has been delivered to the Company, but the title has not been passed, this is excluded from the year-end balance and accounted for on a consignment basis.

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

Employees seconded from Tesco Stores Limited and Telefónica UK Limited are able to continue participating in their respective Company schemes. Pension costs are recharged from Tesco Stores Limited and Telefónica UK Limited to Tesco Mobile Limited and charged to the Statement of Comprehensive Income in the period in which they relate. There are no specific pension obligations to the Company.

**Trade and other receivables**

Trade receivables are amounts due from post-pay customers for services provided which have been invoiced to the customer; trade receivables are measured at amortised cost less a provision for doubtful debts. Trade and other receivables also includes certain accrued income related to the sale of goods yet to be invoiced, once invoiced these amounts are recorded as trade receivables until the amounts due are settled by the customer. Where necessary, accrued income balances not receivable within 12 months are recorded within non-current assets. Securitised receivables are discussed in detail within note 14. Expected customer credit losses are based on the difference between the lifetime contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. Expected future credit risk profiles are reviewed periodically based on historic levels of customer default (non-payment) and did not change significantly during the year. Potential new customers are both credit checked and assessed as to the level of service they can afford, to ensure acceptable levels of credit risk. Customer debts unpaid after two months where no payment plan has been established are passed to debt collection agencies. Trade debtors are considered to have low credit risk in accordance with paragraph 5.5.10 of IFRS 9, but for trade debtors more than 30 days overdue increased credit risk is reflected in the bad debt provision.

**Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are classified as current liabilities as payments are due within one year. Trade payables are initially recognised as fair value then are subsequently measured at amortised cost.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held on call with banks.

**Borrowings**

Interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Borrowings are recognised initially at the proceeds received less attributable transaction costs.

Any difference between the cost and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest rate basis. Accrued interest on borrowings is included within the carrying value.

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

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company.
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

Prior to this our policy was to charge all leases to the Profit and Loss statement as an operating expense.

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

The tax expense represents the sum of the tax currently payable and deferred tax.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**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.

Provisions booked relate to future obligations under property leases. These are recognised in the period in which the Company becomes legally or constructively committed to payment. A provision has been made for the cost which would be likely to be incurred in carrying out repair or reinstatement of the head office premises in accordance with the requirements of the lease.

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****2. Revenue from contracts with customers**

The following amounts relating to revenue are recognised in the statement of profit and loss

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Revenue from sale of mobile phone handsets and airtime services	823,505	824,380
Revenue from other sources	11,577	10,115
<b>Total revenue</b>	<b>835,082</b>	<b>834,495</b>

Revenue from other sources includes commissions received from the sale of insurance services.

Unsatisfied performance obligations at the end of the period were £177,753,000 (2018: £180,926,000). These are expected to be recognised as revenue over the following periods:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Within 1 year	141,294	142,085
Between 1 year and 2 years	36,459	38,841
<b>Total unsatisfied performance obligations</b>	<b>177,753</b>	<b>180,926</b>

**Disaggregation of revenue from contracts with customers**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
At a point in time	312,337	324,008
Over time	511,168	500,372
<b>Total revenue from contracts with customers</b>	<b>823,505</b>	<b>824,380</b>

Revenue from the transfer of goods and services to customers are derived over time as airtime services and at a point in time as handset sales.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was £1,700,000 (2018: £1,600,000).

All Revenue is derived from the United Kingdom.



**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****3. Operating Profit**

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

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs (note 6)	15,189	13,505
Depreciation of property, plant and equipment (note 9)	812	328
Depreciation of right-of-use assets (note 9)	212	-
Amortisation of intangible assets (note 10)	4,586	4,653
Auditor's remuneration		
Audit of financial statements	97	99
Taxation compliance services	8	9
Other Services	84	9
Operating property lease rentals payable	-	261
Charge to provision for doubtful debts	19,201	17,838
Contract asset impairment	2,169	2,373
Cost of inventories recognised as an expense (included in cost of sales)	300,933	292,540

**4. Net financial expense**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial income</b>		
Interest income on loans to related parties	-	105
<b>Total financial income</b>	-	105
<b>Financial expense</b>		
Interest payable and other financial expense	(4,766)	(2,559)
<b>Total financial expense</b>	(4,766)	(2,559)
<b>Net financial expense</b>	(4,766)	(2,454)

**5. Key management and Directors' compensation**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and short-term employee benefits	1,218	491
Company pension contributions	9	6
<b>Aggregate emoluments in respect of qualifying services</b>	<b>1,227</b>	<b>497</b>

Directors' emoluments were paid by Tesco and Telefónica respectively. All amounts shown above represent the portion that directly relates to the services provided to Tesco Mobile Limited, recharged from the parent group companies.

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****5. Key management and Directors' compensation (continued)*****In respect of the highest paid Director:***

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Salaries and short-term employee benefits	823	324
Company pension contributions to defined contribution scheme	1	3
<b>Total emoluments in respect of the highest paid director</b>	<b>824</b>	<b>327</b>

This includes £626k relating to compensation for loss of office.

Retirement benefits are accruing to two (2018: two) directors under defined benefit schemes of the parent companies.

***Defined benefit pension scheme:***

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Accrued annual pension at the end of the year	68	83
Cash lump sum	187	179

All pension obligations of the defined benefit scheme presented above are recorded in the financial statements of either the Telefónica group or the Tesco group. There are no long term pension obligations to the Company in respect of defined benefit pension schemes.

**6. Employees**

All reported employees and directors are either employees of Tesco Stores Limited or Telefónica UK Limited and their costs are recharged to the Company. Staff costs, including director costs, recharged from Tesco Stores Limited and Telefónica UK Limited for the year ended 31 December 2019 were as follows:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	12,942	11,464
Social security costs	1,401	1,252
Pension costs	846	789
<b>Total employee benefits expense</b>	<b>15,189</b>	<b>13,505</b>

Employees seconded from Tesco and Telefónica are able to continue participating in their respective company pension schemes. Details of these schemes are included in the financial statements of these companies, which are publicly available (see note 21 for further details).

The average monthly number of employees (including directors) on secondment to the Company, for the year ended 31 December 2019 was as follows:

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Average number of full time employee equivalents:		
Administrative	84	78
Operational	61	54
Sales and marketing	60	61
<b>Total employees</b>	<b>205</b>	<b>193</b>

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****7. Taxation****Analysis of charge in the year**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Current tax - current year charge	193	620
Adjustment in respect of prior year	44	-
<b>Total current tax charge</b>	<b>237</b>	<b>620</b>
Deferred tax - current year (note 8)	109	(152)
Adjustment in respect of prior year (note 8)	(56)	-
Effect of change in tax rate (note 8)	(11)	12
<b>Total deferred tax</b>	<b>42</b>	<b>(140)</b>
<b>Total taxation charge for the year</b>	<b>279</b>	<b>480</b>

The tax assessed for the year varied from the amount computed by applying the corporation tax standard rate to profit before taxation. The difference was attributable to the following factors:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit before taxation</b>	<b>1,568</b>	<b>2,362</b>
<b>Profit before taxation multiplied by rate of corporation tax in the UK of 19.00% (2018: 19.00%)</b>	<b>298</b>	<b>449</b>
Effects of:		
Adjustments in respect of prior year	(12)	-
Expenses not deductible	3	19
IFRS 16 adjustment	1	-
Effect of change in tax rate	(11)	12
<b>Total taxation</b>	<b>279</b>	<b>480</b>

**8. Non-current deferred tax assets**

	<b>£'000</b>
<b>At 1 January 2018</b>	<b>1,062</b>
Prior year movement	140
<b>At 31 December 2018</b>	<b>1,202</b>
Prior year charge to statement of comprehensive income (IFRS 16)	55
Current year charge	(97)
<b>At 31 December 2019</b>	<b>1,160</b>

Deferred tax assets of £1,160,058 (2018: £1,201,827) have been recognised in the financial statements as the directors consider it more likely than not that the assets will be recoverable

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****8. Non-current deferred tax assets (continued)**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Fixed Assets	1,152	1,202
Temporary differences trading	8	0
<b>Total deferred tax asset</b>	<b>1,160</b>	<b>1,202</b>

**Factors affecting future tax charges**

At the balance sheet date, the Finance Act 2017 has been enacted, which confirmed that the main UK corporation tax rate will reduce to 17% from 1 April 2020. Therefore, at December 2019, deferred tax assets and liabilities have been calculated based on a rate of 17% where the temporary difference is expected to reverse after the balance sheet date. Deferred tax assets and liabilities are measured at the rate that is expected to apply to the period when the asset is realised or the liability is settled, based on the rates that have been enacted or substantively enacted at the balance sheet date.

On 11 March 2020 the Chancellor announced that in April 2020 the UK government will legislate to retain the current 19% rate. This change was substantively enacted on 17 March 2020, after the balance sheet date, and therefore is not included in these financial statements. At 31 December 2019, deferred tax assets and liabilities have been calculated based on the 17% which has been enacted by the balance sheet date.

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****9. Property, plant and equipment**

	<b>Assets in the course of construction £'000</b>	<b>Plant and equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2018	1,151	1,854	3,005
Additions	2,081	-	2,081
Reclassifications	(3,161)	3,161	-
Disposals	-	(1,132)	(1,132)
At 31 December 2018	71	3,883	3,954
Adjustment on transition to IFRS16	-	1,060	1,060
Additions	36	-	36
Reclassifications	(107)	107	-
Disposals	-	-	-
<b>At 31 December 2019</b>	<b>-</b>	<b>5,050</b>	<b>5,050</b>
<b>Depreciation</b>			
At 1 January 2018	-	1,458	1,458
Charge for the year	-	328	328
Disposals	-	(1,132)	(1,132)
At 31 December 2018	-	654	654
Adjustment on transition to IFRS16	-	189	189
Charge for the year	-	1,024	1,024
Disposals	-	-	-
<b>At 31 December 2019</b>	<b>-</b>	<b>1,867</b>	<b>1,867</b>
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>-</b>	<b>3,183</b>	<b>3,183</b>
At 31 December 2018	71	3,229	3,300

Depreciation of property, plant and equipment is charged to administrative expenses in the Statement of Comprehensive Income.

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****10. Intangible assets**

	<b>Assets in the course of construction £'000</b>	<b>Computer Software £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2018	2,401	34,147	36,548
Additions	4,518	-	4,518
Reclassifications	(4,197)	4,197	-
Disposals		(4,701)	(4,701)
At 31 December 2018	2,722	33,643	36,365
Additions	9,217	-	9,217
Reclassifications	(6,182)	6,182	-
Disposals	-	(3,221)	(3,221)
<b>At 31 December 2019</b>	<b>5,757</b>	<b>36,604</b>	<b>42,361</b>
<b>Amortisation</b>			
At 1 January 2018	-	27,791	27,791
Charge for the year	-	4,653	4,653
Disposals	-	(4,700)	(4,700)
At 31 December 2018	-	27,744	27,744
Charge for the year	-	4,584	4,584
Disposals	-	(3,221)	(3,221)
<b>At 31 December 2019</b>	<b>-</b>	<b>29,107</b>	<b>29,107</b>
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>5,757</b>	<b>7,497</b>	<b>13,254</b>
At 31 December 2018	2,722	5,899	8,621

Assets in the course of construction consist entirely of computer software. Amortisation of Intangible assets is charged to administrative expenses in the Statement of Comprehensive Income.

**11. Inventories**

	<b>2019 £'000</b>	<b>2018 £'000</b>
Goods for resale	55,757	73,979
Less inventory provision	(8,952)	(9,757)
<b>Net goods for resale</b>	<b>46,805</b>	<b>64,222</b>

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****12. Trade and other receivables**

	2019 £'000	2018 £'000
Transfer of trade receivables (note 14)	127,451	122,071
Contract assets	12,073	8,753
<b>Non-current trade and other receivables</b>	<b>139,524</b>	<b>130,824</b>
Trade receivables	42,549	54,664
Amounts owed by Tesco group companies	9,936	19,266
Other debtors	-	3,284
Prepayments and accrued income	6,244	7,457
Transfer of trade receivables (note 14)	165,248	133,426
Contract assets	20,369	16,886
<b>Current trade and other receivables</b>	<b>244,345</b>	<b>234,983</b>

Amounts owed by Tesco group companies of £9,936,000 (2018: £19,266,000) are unsecured, interest free and are repayable on demand. For further details on the transferred trade receivables see note 14.

**Trade receivables ageing**

	Carrying amount £'000	Neither impaired nor overdue at the reporting date £'000	Not impaired but overdue at the reporting date		
			Less than 60 days £'000	61 – 90 days £'000	90+ days £'000
Trade receivables as at 31 December 2019	42,549	37,360	959	431	3,799
Trade receivables as at 31 December 2018	54,664	36,319	986	3,118	14,241

The fair value of trade receivables was equal to the carrying value at year end. Trade receivables consist of a large number of small customers, none of which account for more than 1% of the trade receivable balance.

**Bad debt provision**

	£'000
At 1 January 2018	65,448
Increase in provision	21,594
At 31 December 2018	87,042
Increase in provision	27,054
Receivables written off during the year as uncollectable	(70,812)
At 31 December 2019	43,284

Additions and reductions in the provision are recognised in administrative expenses within the Statement of Comprehensive Income. As at 31 December 2019 a provision against bad debt of £17,044,000 (2018: £17,700,000) is recorded against the total of transferred trade receivable and a provision of £722,000 has been made against future customer receivables sold to Greensill Capital (UK) Limited but not due to be collected by 31 December 2019 (see Note 14).

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****12. Trade and other receivables (Continued)**

During the year uncollectable receivables of £75.5m (of which £70.8m were provided for) were sold to a third party for a consideration of £3.2m, resulting in a loss included in comprehensive income of £1.5m.

**Ageing of bad debt provision**

	Carrying amount £'000	0 – 30 days £'000	31 – 60 days £'000	61 – 90 days £'000	90+ days £'000
<b>Bad debt provision as at 31 December 2019</b>	43,284	2,877	2,835	2,745	34,826
Bad debt provision as at 31 December 2018	87,042	2,929	3,004	2,831	78,277

**Contract assets**

	£'000
<b>At 1 January 2018</b>	-
IFRS 15 adoption adjustment	32,218
Increase of contract assets due to new contracts during the year	20,550
Disposal of contract assets	(24,756)
Impairment of contract asset	(2,373)
<b>At 31 December 2018</b>	25,639
Increase of contract assets due to new contracts during the year	35,177
Disposal of contract assets	(26,119)
Impairment of contract asset	(2,255)
<b>At 31 December 2019</b>	32,442

	2019 £m	2018 £m
Current	20,369	16,886
Non-current	12,073	8,753
<b>Total contract assets</b>	<b>32,442</b>	<b>25,639</b>

New contracts typically result in an initial contract asset (or less commonly a contract liability – see note 17) reflecting the upfront recognition of the handset delivery performance obligation, which is amortised (disposed) over the period of service performance obligations within the contract.

**13. Cash and cash equivalents**

	2019 £m	2018 £m
Short term deposits	48,173	89,642
<b>Cash and cash equivalents</b>	<b>48,173</b>	<b>89,642</b>

The carrying value of cash and cash equivalents approximates to the fair value. Cash and cash equivalents are denominated in Pounds Sterling.



**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****14. Borrowings**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Borrowings related to the transfer of trade receivables	104,735	79,352
Sale of future customer receivables	29,517	30,750
<b>Current borrowings</b>	<b>134,252</b>	<b>110,102</b>
Borrowings related to the transfer of trade receivables	82,844	74,579
Sale of future customer receivables	7,693	6,081
<b>Non-current borrowings</b>	<b>90,537</b>	<b>80,660</b>

All borrowings are denominated in Pounds Sterling and held at amortised cost, which is deemed equivalent to their fair value. Relevant risk disclosures associated with this financial instrument are included within the Directors' Report on page 5.

***Borrowings related to the transfer of trade receivables***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Non-current carrying amount of transferred trade receivables	127,451	122,071
Current carrying amount of transferred trade receivables	165,248	133,426
<b>Total net carrying amount of transferred trade receivables</b>	<b>292,699</b>	<b>255,497</b>
Current carrying amount of related liabilities	104,735	79,352
Non-current carrying amount of related liabilities	82,844	74,579
<b>Total net carrying amount of related liabilities</b>	<b>187,579</b>	<b>153,931</b>

On 25 December 2018 the Company extended an asset backed securitisation agreement for handset receivables with the bank comprising an increased maximum total facility size of £280 million for an additional 2 year term to December 2020. Receivables used in the securitisation transaction are not de-recognised because the Company retains substantially all risks and economic benefits of ownership of the transferred trade receivables. Associated risks of ownership primarily relate to the risk of not collecting in full outstanding receivables.

As at the year ended 31 December 2019, the Company had received £209 million (2018: £174.0 million) against the facility and had made repayments of £21.4 million (2018: £20.1 million); as a result £187.6 million (2018: £153.9 million) of the facility has been utilised as at the balance sheet date. The facility currently bears an effective interest rate of 1 month LIBOR plus 0.95%.

As at 31 December 2019, the ageing analysis of the transferred trade receivables by due date is as follows, none of these amounts are overdue at the reporting date:

	<b>Carrying amount</b>	<b>0 – 30 days</b>	<b>31 – 60 days</b>	<b>61 – 90 days</b>	<b>90+ days</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Transferred trade receivables as at 31 December 2019</b>	<b>293,066</b>	<b>9,442</b>	<b>9,719</b>	<b>9,709</b>	<b>264,197</b>
Transferred trade receivables as at 31 December 2018	255,497	16,003	15,110	14,552	209,832

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****14. Borrowings (continued)*****Sale of future customer receivables***

On 13 December 2018 the Company agreed to sell certain future customer contractual cashflows to Greensill Capital (UK) Limited. At 31 December 2019, the Company had received £72.7 million (2018: £36.8 million) and had made repayments of £35.5 million (2018: nil).

At 31 December 2019 the carrying amount of related transferred trade receivables was £1.8 million (2018: £1.9 million), all of which are current and due within 30 days. Further associated contractual cashflows of £31.9 million (2018: £33.1 million) are expected to be invoiced in future periods; these had not been recognised as receivables as at 31 December 2019 as they relate to delivery of future service commitments.

The facility currently bears in effective interest rate of LIBOR plus 2.3%.

A bad debt provision of £0.7 million has been made against future customer receivables sold but not due to be collected by 31 December 2019.

***Summary of cashflow from borrowings***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Borrowings related to the transfer of trade receivables	35,000	59,000
Sale of future customer receivables	35,914	36,832
<b>Proceeds from borrowings</b>	<b>70,914</b>	<b>95,832</b>
Borrowings related to the transfer of trade receivables	1,352	3,475
Sale of future customer receivables	35,536	-
<b>Repayments of borrowings</b>	<b>36,888</b>	<b>3,475</b>
<b>Net cash flow generated from financing activities</b>	<b>34,026</b>	<b>92,357</b>

**15. Provisions for liabilities**

	<b>£'000</b>
<b>At 1 January 2018</b>	<b>149</b>
Charge for the year	1,589
<b>At 31 December 2018</b>	<b>1,738</b>
Release for the year	(1,493)
<b>At 31 December 2019</b>	<b>245</b>

Provisions of £245,000 relate to the estimated future restoration costs of the leased office building from which the Company currently operates (the lease expires during February 2023).

**Tesco Mobile Limited**

Registered Number: 04780736

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

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Contract liability	591	908
Lease liability	512	-
<b>Non-current trade and other payables</b>	<b>1,103</b>	<b>908</b>

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	12,895	8,981
Contract liabilities	997	1,751
Lease liability	134	-
Amounts owed to related parties	47,355	124,645
Other taxation and social security	11,307	19,252
Accrued expenses	139,108	120,727
Deferred income	43,259	49,727
<b>Total current trade and other payables</b>	<b>255,055</b>	<b>325,083</b>

Amounts owed to Tesco group companies of £21,052,000 (2018: £104,459,000) and Telefónica group companies of £26,303,000 (2018: £20,186,000) are unsecured, interest free and are repayable on demand. The carrying value of the trade and other payables approximates to fair value. All trade payables are due to be paid within twelve months of the balance sheet date.

**Contract liabilities**

	<b>£'000</b>
<b>At 1 January 2018</b>	-
IFRS 15 adoption adjustment	2,476
Increase of contract liabilities due to new contracts during the year	1,929
Disposal of contract liabilities	(1,746)
<b>At 31 December 2018</b>	<b>2,659</b>
Increase of contract liabilities due to new contracts during the year	1,638
Disposal of contract liabilities	(2,709)
<b>At 31 December 2019</b>	<b>1,588</b>

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Current	997	1,751
Non-current	591	908
<b>Total contract liabilities</b>	<b>1,588</b>	<b>2,659</b>

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****17. Ordinary share capital**

	Number of shares	2019 £	Number of shares	2018 £
<b>Share capital</b>				
<b>Authorised, allotted and fully paid</b>				
Ordinary A shares of £0.10 each				
<b>At end of year</b>	<b>180,000</b>	<b>18,000</b>	180,000	18,000
Ordinary B shares of £0.90 each				
<b>At end of year</b>	<b>20,000</b>	<b>18,000</b>	20,000	18,000
Ordinary C shares of £0.02 each				
<b>At end of year</b>	<b>200,000</b>	<b>4,000</b>	200,000	4,000
<b>Total shares</b>	<b>400,000</b>	<b>40,000</b>	400,000	40,000

The A, B and C ordinary shares have equal rights on wind up; save for the preferential voting rights of A and C shares to appoint and remove directors and the Chairman, as set out in the Company's Article of Association.

**18. Reserves**

	Ordinary shares £'000	Retained earnings £'000
<b>At 1 January 2019</b>	<b>40</b>	<b>13,962</b>
Impact of implementation of new accounting standards	-	8
Profit for the financial year	-	1,289
<b>At 31 December 2019</b>	<b>40</b>	<b>15,259</b>

**19. Leases**

The company has a lease for office space which commenced on 5 February 2018 for term of five years with no option to purchase or extend. The carrying value of the of the right of use asset at 31 December 2019 was £659,000, included in Property, Plant and Equipment (see note 9).

The related lease liabilities are included in the statement of financial position following the adoption of IFRS 16 as follows:

	2019 £'000	2018 £'000
Current	134	-
Non-current	512	-
<b>Total lease liability</b>	<b>646</b>	<b>-</b>

Lease payments made during the year were:

	2019 £'000	2018 £'000
Lease payments	277	261
<b>Total</b>	<b>277</b>	<b>261</b>

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****19. Leases (continued)**

As at 31 December 2019, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating property leases, which fall due as follows:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	140	277
In the second to fifth years inclusive	580	720
Beyond 5 years	-	-
<b>Total</b>	<b>720</b>	<b>997</b>

**20. Parent undertakings and related party disclosures*****Parent undertakings***

The Company is a joint venture owned and jointly controlled by companies within Tesco and Telefónica. Tesco Mobile Communications Limited and Tesco Mobile Services Limited own 5% and 45% of the Company respectively and both are wholly owned subsidiaries within the Tesco group. O2 Communications Limited owns 50% of the Company and is a wholly owned subsidiary within the Telefónica group.

Copies of financial statements for Tesco Plc and companies within the Tesco group may be obtained from The Company Secretary, Tesco Plc, Tesco House, Shire Park, Welwyn Garden City, AL7 1GA.

Copies of financial statements for Telefónica, S.A. and companies within the Telefónica group may be obtained from The Company Secretary, Telefónica, S.A., Gran Vía, 28013, Madrid, Spain.

***Related party disclosures***

During the year the Company entered into material related party transactions with the following companies:

- *Tesco Stores Limited*; a wholly owned subsidiary within the Tesco group.
- *Telefónica UK Limited* and *O2 Communications Limited*; wholly owned subsidiaries within the Telefónica group.
- *Tesco Mobile Communications Limited* and *Tesco Mobile Services Limited*; wholly owned subsidiaries within the Tesco group.

***Related party transactions and balances with Tesco Stores Limited***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Revenue generated through related party sales channels	70,347	73,953
Purchases of cost of sales and operating costs	401,222	457,457
Amounts due from related party	9,936	19,266
Amounts due to related party	21,052	104,459

Revenue generated relates to handset and prepay top-up sales to customers, by Tesco Stores Limited, on behalf of Tesco Mobile Limited. Purchases relate to devices, sales commission, marketing, staff costs and other associated overheads.

**Tesco Mobile Limited**

Registered Number: 04780736

**Notes to the financial statements****20. Parent undertakings and related party disclosures (continued)*****Related party transactions and balances with Telefónica UK Limited***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Purchases of cost of sales and operating costs	301,892	309,152
Sales / operating revenue	65,243	70,556
Amounts due to related party	26,303	20,186

Purchases relate to wholesale airtime, interconnect charges, marketing, staff costs and other associated overheads. Sales relate to incoming Interconnect revenue collected by Telefónica UK Limited, on behalf of Tesco Mobile Limited.

***Related party transactions and balances with O2 Communications Limited***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Loan notes interest receivable	-	52

***Related party transactions and balances with Tesco Mobile Services Limited***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Loan notes interest receivable	-	48

***Related party transactions and balances with Tesco Mobile Communications Limited***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Loan notes interest receivable	-	5

The rate of interest on the outstanding balance of each of the related party loan notes is 0.5% per annum plus the 3 month LIBOR rate.

***Related party transactions and balances with Dunhumby Limited***

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Purchases of operating costs	632	187
Amounts due to related party	468	16

Purchases from Dunhumby Limited relate to marketing services.

**Notes to the financial statements****20. Parent undertakings and related party disclosures (continued)*****Related party transactions and balances with Dunnhumby Germany GmbH***

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Purchases of operating costs	907	762
Amounts due to related party	203	253

Purchases from Dunnhumby Germany GmbH relate to marketing services.

**21. Post balance sheet events**

The coronavirus disease, officially named COVID-19, was declared a global pandemic by the World Health Organization (WHO) in March 2020. In response to both the WHO and UK government advice, and for the protection of both employees and business, the Company prepared and communicated a number of guidelines. The Company has, within the framework of the guidelines, continued to operate as close to normal as is possible. These guidelines are being reviewed and updated on a regular basis in the light of current developments.

Throughout this period the Company's priority has remained the ongoing safety of all employees - its own operational teams as well as those of customers and business partners. The Company continues to achieve this through the adoption of and strict adherence to all Government guidance on social distancing, good hand hygiene disciplines and other protective measures. All ongoing operations have been adapted to take this guidance into consideration for the safety of all parties.

In considering the financial effects of ongoing COVID-19 pandemic, management has analysed, assessed and scrutinised the resulting projections in its response to the pandemic. In this respect the directors are confident that the overall going concern position is fully supported, and that they have not been able to identify any material uncertainties in relation to going concern.