

Registered number
05890320

MobileServ UKCo Limited

**Directors' Report and Consolidated Financial Statements
31 December 2010**

Company Information

Directors

GR Schwed (representing Providence Equity Partners)
TJ Whiting
PD Dobson
D Rammal (representing Providence Equity Partners)

Secretary

S Lloyd

Auditors

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Bankers

Lloyds TSB
City Office Branch
PO Box 72
Bailey Drive
Gillingham Business Park
Kent
ME8 0LS

Solicitors

Eversheds
70 Great Bridgewater Street
Manchester
M1 5ES

Registered office

Osprey House
Ore Close
Lymedale Business Park
Newcastle-under-Lyme
ST5 9QD

Registered number

05890320

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2010.

Principal Activity

The principal activity of the Company is as a holding Company for a number of trading organisations in the telecommunication and financial services market places.

The profit and loss account for the year is set out on page 11.

Business Review

The Group was formed in 2006 when Providence Equity Partners acquired the businesses from the Caudwell Group via the Providence Equity V fund. It operates in a number of markets and looks to add value to our business partners and customers by delivering exceptional levels of service. The Group operates from two core divisions - Distribution and Lifestyle Protection.

The Distribution Division operates over 502 retail stores under the Phones 4u brand and sells connections from all of the UK mobile networks. In addition to its mobile telephony offering, the stores also sell fixed/mobile broadband and mobile phone insurance. The Distribution Division also has a strong presence in online and telesales trading under a number of brands including Phones 4u Direct and Dial a Phone.

Our Lifestyle Protection Division is a leading supplier of mobile phone insurance and other niche insurance products and services. These are sold either wholesale via long term deals with blue chip partners or retail direct to the consumer in conjunction with our business partners, including Phones 4u Limited.

Following prior year acquisitions and the continuation of other Group restructuring, the Group has continued to reorganise and has incurred exceptional restructuring costs of £3,109,000 (2009: £3,774,000), which have been charged to the profit and loss account during the year, some of these costs will continue into 2011.

Group Strategy

There are four key elements to the Group strategy all designed to continue to deliver growth and sustainability in our chosen markets.

- To continue to build market share in our Distribution Division by developing our own distribution channels and working with a number of partners to support their mobile categories. In 2010 we signed a partnership agreement with Dixons Stores Group and plan to operate "store in stores" across the Currys and PC World estates. This strategy gives the Group an opportunity to further drive market share to complementary customer segments and gain access to out of town shopping centres.
- Our core strategy is to be complementary to our network partners and our business will continue to build its share in the high value contract market place. We will especially focus the Phones 4u brand on the youth market (16-24 age group) where our brand is targeted and our share is already strong.
- Our Lifestyle Protection Division will continue to grow market share in both of its sectors, telecoms and banking. The business continues to grow by acquiring new customers and expanding its range of products and services.
- In both our Distribution and Lifestyle Protection Divisions maximising the lifetime value of our customers ensures our place in the supply chain and the sustainability of our business.

In all areas of our business, our performance will be supported by operational excellence driven by flat organisational structures, real accountability at all levels and speed of decision making.

Directors' Report *(continued)*

Our Performance

The Directors were pleased with the performance of the Group for the financial year ended 31st December 2010, with profit before tax of £86.8m (2009: £13.7m). Reported EBITDA performance was at £158.6m and operating cashflow was at £156.5m.

EBITDA performance is reconciled to the profit and loss account on page 11 as follows:

	2010 £000
Operating profit before amortisation of intangible assets and exceptional costs	143,919
Depreciation	14,640
EBITDA	158,559

Reconciliation of Underlying EBITDA

As explained in our accounting policies, the Group estimates its revenue earned each period based on available empirical data.

During 2010 the Group received updated information relating to the performance of customers connected to the network operators prior to 2010. This information, which led to a re-assessment of previous estimates, showed that the revenue recognised in prior periods in respect of these connections would have been higher had this information been available in those earlier years. This revenue has been recognised during 2010. Furthermore during 2010 we received payment for connections that had previously been recognised on a prudent basis. This revenue has also been recognised in 2010. The table below reconciles the reported EBITDA to underlying EBITDA. The key differences being to move the revenue recognised in 2010 (see above) to the year that the revenue would have been recognised had we had the information at the time.

	2008 £m audited	2009 £m audited	2010 £m audited
EBITDA	101.1	87.2	158.6
Restatement of actual network revenue receivable (b)	5.3	14.6	(21.6)
Settlement in 2010 relating to prior years (b)	2.0	7.3	(9.3)
Other items	3.4	(2.3)	1.4
Exceptional items relating to current ownership structure (a)	0.8	0.9	0.9
Underlying EBITDA	112.6	107.7	130.0

(a) *Relating to Providence monitoring fees, Board fees and financing related fees*

(b) *These adjustments also impact revenue by the same amounts*

Underlying Performance

In our Distribution business, our strategy of growing market share of high value business drove revenue by 12%. Our total connections were up 16% year on year with growth seen in both contract and prepay connections. Our total store numbers grew from 447 stores to 502 stores predominantly as a result of the 49 store in stores we had opened by the year end.

Our Insurance Division grew revenue by 26% but EBITDA declined as a result of competitive pressure on pricing and increased costs of smart phone claims. The directors are confident repricing in the market place will recover some of the pricing pressure during 2011.

Directors' Report *(continued)*

Our People

During the course of the financial year the business continued to strengthen its management with a number of internal and external appointments. We will constantly review our management structures to ensure they are appropriate for the strategic aims of the business.

Our people have driven the success of the business to date. We work hard to create a culture that gives clear accountability and responsibility and rewards performance. We are passionate in our dislike of bureaucracy and constantly work to remove hierarchy. Speed of decision making is critical to our success.

Our growth continues to create opportunities for existing and potential employees. During the last year our average employee numbers were 4,973. Labour turnover improved by 4% during 2010.

We continuously listen to the views of our people through both informal feedback and more formal confidential employee opinion surveys. We value our ability to listen to and act on this feedback.

Despite the tough economic environment the Group invested a record amount in training its people aligned to its strategy of giving the best customer experience in the marketplace. The return on this investment is clearly demonstrated in the Compliance and Customer Satisfaction KPI's which both improved during the year. During 2010, 3,321 people participated in our NVQ accredited training schemes.

Quality Management

The business is founded on great people delivering well trained robust processes. This produces high customer satisfaction and thus repeat business. We continue to strive to develop leading edge quality management systems across all of our business activities to maximise the opportunity. We operate to ISO9001 and ISO27001 within the group.

Our Lifestyle Protection Division is FSA regulated and we work with our FSA team on constantly improving our business process.

Health and Safety

We are committed to meeting our health and safety requirements. With ever changing regulation, and the growth of our business, we have continued to develop and maintain our health and safety monitoring and reporting systems.

Risk Management

As the Group has grown, we have developed our policies and processes to accommodate business expansion. We actively seek to identify, mitigate and manage risk at all levels of our business. The Board has ultimate responsibility for risk management with support from a Risk Management and Internal Audit team.

The key areas of risk to our business are:

- Attracting, retaining and developing quality people. We are committed to investing in recruitment, retention and development processes to produce quality staff that can maintain our position in the market place.
- Maintenance of strong relationships with key business partners. These relationships are monitored and controlled at the highest level of management in our business.
- Development of our information technology infrastructure. We continue to invest heavily in our IT to maintain its effectiveness, integrity and security.

Directors' Report *(continued)*

KPIs

Our business operates through close management of Key Performance Indicators, with clear accountability of these KPIs being held throughout the management structure. Our 4 Key Performance Indicators measure the key drivers to success in our business.

▪ Compliance

Compliance to process is critical especially in a remote internal organisation. The business has a number of measures across its key processes which are audited by the internal audit team. In 2010 Compliance scores improved to an average of 87% (2009 – 86%).

▪ Customer Satisfaction

The delivery of an excellent customer experience is critical to the sustained growth of the business. The business has traditionally used a balance of measures including mystery shoppers to give a customer excellence score by retail shop. The number of customer complaints to the business fell by 8% during 2010. Our net promoter score improved by 15% during the year.

▪ Productivity

The business measures productivity in all of its distribution channels and the operational environment within its insurance business. This productivity performance is constantly benchmarked against best in class benchmarks and significant investment in systems is ongoing to continue improvement.

• Employee Retention

Our people are fundamental to the current and future success of the business. 2010 saw further improvement in staff turnover and a record level of investment in training. This included the roll out of our 'Skilled for Service' training to employees in our retail estate. A further investment in training was evident in early 2010 with the opening of our new purpose built training academy.

Corporate and Social Responsibility

The group has an excellent record as a responsible employer and continues to be committed to all levels of corporate responsibility. This includes widespread work supporting our nominated charities, employee activities and social and regulatory responsibility.

We donate resources to target issues specific to our industry, such as, the reduction of mobile phone crime and safe driving and take the risks associated with adult content seriously.

The disposal of mobile handsets is an increasing environmental issue for the industry and we are working with our partners to ensure efficient and responsible disposal and recycling for old phones.

Future Outlook

We enter 2011 with continued economic uncertainty. The Directors remain confident the strategy for the group is correct and will continue to be complementary and value adding to our partners whilst offering excellent value and choice to our customers.

Our Distribution Division will continue to look to take share in our core markets and segments and expand our work with partners in complementary segments. Our range of categories will continue to develop as we remain the leading destination for the youth market in mobile solutions.

In our Lifestyle Protection Division, new products and services will be attractive to existing as well as new partners.

We will ensure delivery of all of our opportunities by continuing to develop the skills within the business by training our existing people and recruiting to fill additional requirements.

Dividends

The directors do not recommend the payment of a dividend (2009: £Nil).

Directors' Report *(continued)*

Policy and payment of creditors

The Group's policy is to agree terms of transactions, including payment terms, with suppliers and provided that suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly. At the year end there were 27 days purchases in Group trade creditors and none in the Company's.

Directors

The directors of the Company at 31 December 2010 and at the date of this report, all of whom have been directors for the whole of the year, except where otherwise stated are listed below:

GR Schwed
TJ Whiting
PD Dobson
CM Gurassa (resigned 21st January 2011)
D Rammal

Directors' liabilities

The Company has indemnified one or more of the Company's directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the period and at the date of approving the directors' report.

Employee involvement and participation

The Group's policy is to consult and discuss with employees, matters likely to affect employees' interests. Information on matters of concern to employees is given through team briefings, internal publications and notice boards which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Company's performance.

Employment of disabled persons

The Group is an equal opportunity employer and accordingly has a policy of giving full and fair consideration to applications for employment from Registered Disabled People. In cases where disablement occurs whilst in service, Company policy is, wherever practicable, to continue employment and to arrange for any necessary re-training. Opportunities for training, career development and promotion apply equally across the group to disabled and non-disabled employees alike.

Financial instruments

The Company has purchased an interest rate swap and a basis swap to act as a hedge against the Group's exposure to interest rate risk generated from its floating rate bank debt. The derivatives have been purchased in accordance with the Group's stated risk management policy, see note 26 for more information.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Directors' Report *(continued)*

Auditor

Pursuant to a shareholder's resolution, the Company is not obliged to reappoint its auditors annually and therefore KPMG LLP will continue in office.

This report was approved by the board on 20 April 2011.


S Lloyd
Company Secretary

Osprey House
Ore Close
Lymedale Business Park
Newcastle-under-Lyme
ST5 9QD

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditor's report to the members of MobileServ UKCo Limited

We have audited the financial statements ("the financial statements") of MobileServ UKCo Limited for the year ended 31 December 2010 set out on pages 11 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 directors' responsibilities statement set out on page 8, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

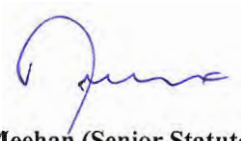
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of MobileServ UKCo 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



PN Meehan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

20 April 2011

**Consolidated Profit and Loss Account
for the year ended 31 December 2010**

	Notes	2010 £000	2009 £000
Turnover	2	911,729	745,582
Cost of sales		(535,421)	(440,693)
Gross profit		376,308	304,889
Net operating expenses	3	(269,410)	(268,254)
<hr/>			
Operating profit before amortisation of intangible assets and exceptional costs		143,919	73,748
Amortisation of intangible assets	10	(33,912)	(33,339)
Exceptional restructuring costs	4	(3,109)	(3,774)
<hr/>			
Operating profit	4	106,898	36,635
Interest receivable and similar income	7	4,243	13,924
Interest payable and similar charges	8	(24,364)	(36,859)
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Profit on ordinary activities before taxation		86,777	13,700
Tax on profit on ordinary activities	9	(19,465)	4,589
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Profit on ordinary activities after taxation		67,312	18,289
Minority interests	19	(44,406)	(7,595)
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Profit on ordinary activities after taxation and profit for the financial year	21	22,906	10,694

The notes on pages 15 to 36 are an integral part of these consolidated financial statements.

All results for the periods shown relate to continuing operations.

The Group has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

Consolidated Balance Sheet
as at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Intangible assets	10	536,263	574,558
Tangible assets	11	42,618	34,155
		578,881	608,713
Current assets			
Stocks	13	50,302	42,474
Debtors	14	130,850	73,574
Due within one year		115,902	67,322
Due after more than one year		14,948	6,252
Cash at bank and in hand		78,403	10,756
		259,555	126,804
Creditors: amounts falling due within one year	15	(223,175)	(136,113)
		36,380	(9,309)
Net current assets / (liabilities)			(9,309)
Total assets less current liabilities		615,261	599,404
Creditors: amounts falling due after more than one year	16	(462,544)	(510,635)
Provisions for liabilities	17	(19,132)	(22,447)
		133,585	66,322
Net assets			66,322
Share capital and reserves			
Called up share capital	20	940	905
Share premium	21	4,091	3,618
Capital redemption reserve	21	58	55
Profit and loss account	21	43,733	20,935
Equity shareholders' funds attributable to members of the Company	22	48,822	25,513
Minority interest	19	84,763	40,809
		133,585	66,322
Total shareholders' funds			66,322


The notes on pages 15 to 36 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board and signed on its behalf on 20 April 2011 by:

TJ Whiting
Director



PD Dobson
Director



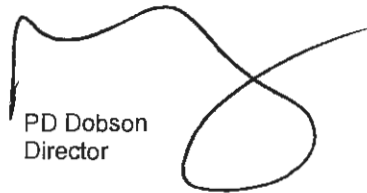
Company Balance Sheet
as at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Investments	12	3,234	3,234
Current assets			
Debtors	14	2,169	1,716
Due within one year		27	325
Due after more than one year		2,142	1,391
Cash at bank and in hand		-	-
		2,169	1,716
Creditors: amounts falling due within one year	15	(11)	(3)
Net current assets		2,158	1,713
Total assets less current liabilities		5,392	4,947
Creditors: amounts falling due after more than one year	16	-	-
Net assets		5,392	4,947
Share capital and reserves			
Called up share capital	20	940	905
Share premium	21	4,091	3,618
Capital redemption reserve	21	58	55
Profit and loss account	21	303	369
Equity shareholders' funds	22	5,392	4,947

The notes on pages 15 to 36 are an integral part of these financial statements.

The financial statements were approved by the Board and signed on its behalf on ^{20 Dec 2011} 20 Dec 2011 by:


TJ Whiting
Director


PD Dobson
Director

Registered number: 05890320

**Consolidated Cash Flow Statement
for the year ended 31 December 2010**

	Notes	2010 £000	2009 £000
Cash flow from operating activities	23	156,537	65,499
Returns on investment and servicing of finance	24	(12,650)	(23,675)
Taxation		(8,451)	(5,655)
Capital expenditure and financial investment	24	(23,322)	(11,151)
Acquisitions	24	(355)	(9,463)
Cash inflow before the management of liquid resources and financing		111,759	15,555
Financing	24	(44,112)	(16,951)
Increase / (decrease) in cash during the year		67,647	(1,396)
Reconciliation of net cash flow to movement in net debt			
Increase / (decrease) in cash in the year		67,647	(1,396)
Cash outflow arising from increase in debt and lease financing	25	44,192	18,882
Change in net debt resulting from cash flows		111,839	17,486
Non-cash movements	25	(9,103)	(4,318)
Movement in net debt in the year		102,736	13,168
Net debt at the beginning of the year		(511,395)	(524,563)
Net debt at the end of the year	25	(408,659)	(511,395)

The notes on pages 15 to 36 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 December 2010

1 Accounting policies

The principal accounting policies, which have been applied consistently, are set out below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 7. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Directors Report and in notes 1 and 26 to the financial statements.

As highlighted in note 16 to the financial statements, the company meets its medium term working capital requirements through bank loan facilities, certain of which are due for renewal in the coming years. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facility which is in place for at least 12 months from the date of these accounts. The company will open renewal negotiations with the bank in due course and has, at this stage, not sought any written commitment that the facility will be renewed, however, there are no reasons to suggest that renewal may not be forthcoming on acceptable terms.

The directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2010. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to accounting balances derived from revisions to accounting estimates are recognised in the period in which the estimate is revised and in all future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the accounting policies for the following areas:

- Turnover including network commissions;
- Stock; and
- Provisions

Stocks

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks. Provisioning rates are based on historic performance for stock of similar value and condition.

Notes to the financial statements (continued)
for the year ended 31 December 2010

1 Accounting policies (continued)

Leases

Lease incentives relate to lease premiums, reverse premiums and rent-free periods for shop operating leases. The lease incentives are expensed over the shorter of the earliest lease break point or market based rent review.

Rentals paid in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Pension scheme

The Group contributes to a group-wide defined contribution pension scheme operated by Phones 4u Limited. The assets of the scheme are held separately from those of the Company in an independently administered fund. Pension costs are accounted for on the basis of contributions payable during the period.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

On the subsequent disposal or termination of a business acquired the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill.

The goodwill has been amended during the year to reflect items relating to the valuation of the group at acquisition which were unknown at the date of acquisition.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for impairment.

Tangible assets

Tangible fixed assets are stated at their purchase cost, together with any incidental expenses of acquisition. Depreciation is provided on all tangible fixed assets so as to write off the cost less expected residual value over the expected useful life of the assets concerned.

The principal annual rates for this purpose are:

Computers	- 36 to 48 months straight line
Fixtures & fittings	- 36 to 60 months straight line

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the financial statements (continued)
for the year ended 31 December 2010

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in full in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or right to pay less tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Investments

Fixed asset investments are stated at cost unless in the opinion of the directors there has been a permanent diminution in value, in which case an appropriate adjustment is made.

Classification of financial instruments issued by the Group

Following the adoption of the disclosure and presentation requirements of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds. Transaction costs are amortised over the period the directors anticipate the funding being in place in accordance with FRS 4.

Notes to the financial statements *(continued)*
for the year ended 31 December 2010

1 Accounting policies *(continued)*

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of services supplied and goods sold. Turnover is recognised as the fair value of consideration given. Goods sold are only recognised once the sale has been completed and ownership has passed.

Turnover generated from services supplied is recognised as it is earned. Revenue in respect of connection commission that is based on the original connection and usage is recognised once connection has been made where there are no ongoing performance obligations. This involves an assessment, based upon comprehensive empirical data, of the revenues receivable over the anticipated customer relationship period. This data is monitored, regularly reviewed and amended where necessary with any impacts reflected immediately in the profit and loss account. The empirical data considers such factors as anticipated average revenue per customer, customer churn and credit risk.

Insurance commission and administration fees are recognised over the life of the policy.

All turnover is generated in one geographical area, the United Kingdom, and in two market segments, distribution and lifestyle protection.

Provisions for liabilities

Provisions are recognised when the Company has a legal or constructive obligation as the result of a past act and it is probable that an outflow of resources will occur. Provisions are only recognised when a reliable estimate of the size of any outflow can be made.

Sales

Sales provisions relate to "ChequeBack" and similar promotions. The anticipated costs of these are measured by analysing past performance trends and other relevant information.

Other

Other provisions relate to property costs and operating lease incentives.

Notes to the financial statements (continued)
for the year ended 31 December 2010

2 Segmental analysis

The table below sets out information for both of the Group's industry segments and a common costs segment. The Group operates in one geographic area, the United Kingdom, so does not present geographical segment information.

	Distribution £000	Lifestyle Protection £000	Common Costs £000	Total £000
2010				
Turnover				
Total sales	757,229	179,044		936,273
Inter-segment sales	(24,544)	-		(24,544)
Sales to third parties	<u>732,685</u>	<u>179,044</u>		<u>911,729</u>
Group operating profit / (loss) before amortisation and exceptional costs	206,683	56,875	(119,639)	143,919
Amortisation of intangible assets	-	-	(33,912)	(33,912)
Exceptional operating costs	(887)	(466)	(1,756)	(3,109)
Net interest	-	-	(20,121)	(20,121)
Segment profit / (loss) before taxation	<u>205,796</u>	<u>56,409</u>	<u>(175,428)</u>	
Group profit before taxation				<u>86,777</u>
Net assets/(liabilities)				
Segment net assets /(liabilities)	<u>186,685</u>	<u>41,313</u>	<u>(94,413)</u>	
Total net assets				<u>133,585</u>
2009				
Turnover				
Total sales	627,120	142,122	-	769,242
Inter-segment sales	(23,660)	-	-	(23,660)
Sales to third parties	<u>603,460</u>	<u>142,122</u>	<u>-</u>	<u>745,582</u>
Group operating profit/(loss) before amortisation	130,482	64,864	(121,598)	73,748
Amortisation of intangible assets	-	-	(33,339)	(33,339)
Exceptional operating costs	(3,774)	-	-	(3,774)
Net interest	-	-	(22,935)	(22,935)
Segment profit/(loss) before taxation	<u>126,708</u>	<u>64,864</u>	<u>(177,872)</u>	<u>13,700</u>
Group profit before taxation				<u>13,700</u>
Net assets/(liabilities)				
Segment net assets /(liabilities)	<u>127,095</u>	<u>52,749</u>	<u>(113,522)</u>	<u>66,322</u>
Total net assets				<u>66,322</u>

Notes to the financial statements (continued)
for the year ended 31 December 2010

6 Staff costs

	2010	2009
	£000	£000
Wages and salaries	107,930	109,708
Social security costs	10,670	10,318
Other pension costs	726	752
	119,326	120,778

	2010	2009
	Number	Number
Average number of employees during the period		
Management and supervision	428	440
Other	4,545	4,577
	4,973	5,017

7 Interest receivable and similar income

	2010	2009
	£000	£000
Bank interest	1,911	6,524
Other Interest	24	16
Gain on debt repurchase	2,308	7,384
	4,243	13,924

During the year the group repurchased a proportion of its own debt at a discount. The consequent gain arising has been reflected as a credit to interest as shown above.

8 Interest payable and similar charges

	2010	2009
	£000	£000
On bank loans and overdrafts	13,796	26,771
Other interest	10,568	10,088
	24,364	36,859

Notes to the financial statements (continued)
for the year ended 31 December 2010

9 Taxation

(a) Analysis of profit and loss account charge / (credit)

	2010	2009
	£000	£000
Current tax:		
UK corporation tax charge / (credit) on profits for the period	24,141	(37)
Adjustments in respect of prior years	(1,052)	965
Total current tax	<u>23,089</u>	<u>928</u>
Deferred tax:		
Origination and reversal of timing differences (see note 18)	(2,287)	(9,373)
Adjustments in respect of prior years	(963)	3,856
Effect of decreased tax rate	(374)	-
	<u>19,465</u>	<u>(4,589)</u>

(b) Reconciliation of the expected tax charge at the standard rate to the actual tax charge at the effective rate

The tax charge for the year is lower than (2009: lower than) the standard rate of corporation tax. The differences are explained below:

	2010	2009
	£000	£000
Profit on ordinary activities before tax	86,777	13,700
Current tax at UK standard rate of corporation tax 28% (2009: 28%)	24,298	3,836
Effect of:		
Disallowed expenses	1,615	1,777
Depreciation for year in excess of capital allowances	335	659
Depreciation on assets not qualifying for capital allowances	71	146
Amortisation of goodwill	9,486	9,332
Short term timing differences	1,802	16,252
Adjustment in respect of prior periods	(1,052)	965
Other permanent differences	(2,252)	(2,464)
Debit in respect of loan notes receivable brought into account in determining the value of a fixed capital asset	(9,668)	(9,765)
Adjustment in respect of overseas tax rates	(1,546)	(19,810)
Current tax charge for the period	<u>23,089</u>	<u>928</u>

(c) Factors that may affect future tax charges

A corporation tax rate change has been substantially enacted at the balance sheet date. The rate applicable to this company is due to change from 28% to 27% from 1 April 2011. The deferred tax liability has been calculated at 27% in accordance with FRS 19. Any timing differences which reverse before 1 April 2011 will be charged at 28%. Any timing differences which exist at 1 April 2011 will reverse at 27% and because of the uncertainty of when the liability will reverse, it is not possible to calculate the full impact of this charge.

Notes to the financial statements (continued)
for the year ended 31 December 2010

10 Intangible assets			
Group	Goodwill £000	Trademarks £000	Total £000
Cost			
At 1 January 2010	681,970	300	682,270
Reduction in investment value	(4,286)	-	(4,286)
Additions	(97)	-	(97)
At 31 December 2010	<u>677,587</u>	<u>300</u>	<u>677,887</u>
Amortisation and Impairment			
At 1 January 2010	(107,429)	(283)	(107,712)
Amortisation charge for the year	(33,902)	(10)	(33,912)
At 31 December 2010	<u>(141,331)</u>	<u>(293)</u>	<u>(141,624)</u>
Net book value			
At 31 December 2010	<u>536,256</u>	<u>7</u>	<u>536,263</u>
At 31 December 2009	<u>574,541</u>	<u>17</u>	<u>574,558</u>

During the year, the value of the deferred consideration payable in respect of the acquisition of Digital Services (UK) Limited by Lifestyle Services Group Limited, a company within the MobileServ UKCO Limited Group, was reassessed. This reassessment has resulted in a reduction in the amount payable of £4,286,000. As a result, the value of the goodwill on the investment in Digital Services (UK) Limited has also been reduced by the same amount.

Also during the year, Lifestyle Services Group Limited, a company within the MobileServ Limited Group, purchased the remaining 5% share capital in Stams Holdings Limited.

Notes to the financial statements (continued)
for the year ended 31 December 2010

11 Tangible assets

Group	IT £000	Fixtures & Fittings £000	Total £000
Cost			
At 1 January 2010	36,098	25,418	61,516
Additions	10,676	12,659	23,335
Disposals	(1,831)	(2,514)	(4,345)
At 31 December 2010	<u>44,943</u>	<u>35,563</u>	<u>80,506</u>
Depreciation			
At 1 January 2010	(13,720)	(13,641)	(27,361)
Charge for the year	(8,130)	(6,510)	(14,640)
Eliminated on disposal	1,792	2,321	4,113
At 31 December 2010	<u>(20,058)</u>	<u>(17,830)</u>	<u>(37,888)</u>
Net book value			
At 31 December 2010	<u>24,885</u>	<u>17,733</u>	<u>42,618</u>
At 31 December 2009	<u>22,378</u>	<u>11,777</u>	<u>34,155</u>

Included in the total net book value is £620,000 (2009: £401,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £176,000 (2009: £nil).

12 Investments

Company	Shares in subsidiary undertakings £000
Cost and net book value At 1 January 2010 and 31 December 2010	<u>3,234</u>

Notes to the financial statements (continued)
for the year ended 31 December 2010

12 Investments (continued)

The companies in which the Company's interest at the period end is more than 20% are as follows:

List of subsidiary companies	Nature of business	Country of incorporation
MobileServ UK HoldCo 1 Limited	Holding company	UK
MobileServ UK HoldCo 2 Limited	Holding company	UK
MobileServ UK HoldCo 3 Limited	Holding company	UK
MobileServ Limited	Holding company	UK
Phones 4u Group Limited	Holding company	UK
Phones 4u Limited	Retail operations	UK
Policy Administration Services Limited	Insurance	UK
PAS Insurance (Isle of Man) Limited	Reinsurance	Isle of Man
4u Business Limited	Non-trading	UK
Mobiles 2 Your Door Limited	Non-trading	UK
4u Group Limited	Non-trading	UK
4u Limited	Non-trading	UK
Phones 4u Direct Limited	Non-trading	UK
Phones For You Limited	Non-trading	UK
Lifestyle Services Group Limited	Insurance	UK
LSG Insurance (Isle of Man) Limited	Reinsurance	Isle of Man
Opres Limited	Holding company	Isle of Man
Pinhaw Limited	Holding company	Isle of Man
Sawel Limited	Holding company	Isle of Man
MobileServ HoldCo 2 Settlement Trust	Holding company	Isle of Man
Must Have It Limited	Non-trading	UK
Caudwell Subsidiary Holdings Limited	Non-trading	UK
Direct Solutions (GB) Limited	Retail operations	UK
LSG Espana Limited	Non-trading	UK
Lifestyle Insurance Solutions SL	Non-trading	UK
Digital Services (UK) Limited	Insurance	UK
MobileServ 4 Limited	Holding company	UK
MobileServ 5 Limited	Non-trading	UK
Stams Limited	Insurance	UK
Stams Holdings Limited	Holding company	UK
Dial-a-Phone Limited	Non-trading	UK
Dial-a-Phone Insurance Services Limited	Non-trading	UK
Dial-a-Phone Data Services Limited	Non-trading	UK
Dial-a-Phone (Direct) Limited	Non-trading	UK
Dial-a-Loan Limited	Non-trading	UK
Mobile Express Limited	Non-trading	UK
E Z Pay Limited	Retail operations	UK
MobileServ 2 Limited	Non-trading	UK
Dial-a-Phone Holdings Limited	Non-trading	UK

Only MobileServ UK HoldCo 1 Limited is directly held by the Company.

The shareholding in Stams Limited and Stams Holdings Limited was 95%, however, on 27 January 2010 Lifestyle Services Group Limited have purchased the remaining shareholding from management.

Following the acquisition of Digital Services (UK) Limited its financial year end was changed to be consistent with the rest of the group. This has resulted in a 14 month accounting period ending 31 December 2010.

The shareholding in EZ Pay Limited is 95%.

Companies that have given their assets as security through a debenture are denoted with a "D" on their line above. Companies that have given a first ranking share charge over the shares in certain of their investments are denoted with an "S". Please see note 16 for more information.

Notes to the financial statements (continued)
for the year ended 31 December 2010

13 Stocks

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Finished goods and goods for resale	50,302	-	42,474	-

14 Debtors

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Trade debtors	16,509	-	8,663	-
Amounts owed by group undertakings	-	2,142	-	1,391
Other debtors	38	-	38	-
Corporation taxation	-	-	3,758	305
Other taxes and social security	-	27	-	-
Prepayments and accrued income	114,303	-	61,115	20
	<u>130,850</u>	<u>2,169</u>	<u>73,574</u>	<u>1,716</u>

Trade debtors are shown net of a specific bad debt provision of £25,000 (2009: £nil).

Group debtors include prepayments and accrued income of £14,948,000 (2009: £6,252,000) that are due after more than one year.

Company debtors include amounts owed by group undertakings of £2,142,000 (2009: £1,391,000) that are due after more than one year.

15 Creditors: amounts falling due within one year

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Bank loans and overdrafts	25,666	-	13,678	-
Obligations under finance leases	177	-	201	-
Trade creditors	46,767	-	17,172	-
Contingent purchase consideration	-	-	4,286	-
Corporation tax	10,698	9	-	-
Other taxes and social security	27,538	-	17,488	-
Accruals and deferred income	112,329	2	83,288	3
	<u>223,175</u>	<u>11</u>	<u>136,113</u>	<u>3</u>

Certain subsidiaries are party to a cross-guarantee in respect of the Group's banking arrangements (see note 29).

Contingent purchase consideration in 2009 relates to the acquisition of Digital Services (UK) Limited.

Notes to the financial statements (continued)
for the year ended 31 December 2010

16 Creditors: amounts falling due after more than one year

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Bank loan	244,604	-	302,802	-
Obligations under finance leases	532	-	-	-
Accruals and deferred income	1,325	-	2,163	-
Other loans	216,083	-	205,670	-
	<u>462,544</u>	<u>-</u>	<u>510,635</u>	<u>-</u>

The bank loan is made up of three principal tranches with each tranche having a different coupon and maturity. The table below provides information regarding the three tranches:

	Balance at year end	Coupon	Maturity
Tranche A	£60,575,000	3 Month LIBOR plus 1.0% and MCR	Staggered to September 2013
Tranche B	£128,517,000	3 Month LIBOR plus 2.0% and MCR	September 2014
Tranche C	£56,930,000	3 Month LIBOR plus 3.0% and MCR	September 2015
AC Facility	£24,248,000	3 Month LIBOR plus 1.0% and MCR	Staggered to September 2013

The Mandatory Cost Return ("MCR") is an additional element of interest to cover the lenders' cost of capital requirements.

The bank loan is secured by debentures and share charges in the companies identified in note 12.

The other loans consist of:

	Nominal at draw down	Coupon	Maturity
Vendor loan notes	£175,000,000	5%	September 2016

Analysis of total debt:	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
In one year or less, or on demand	25,843	-	13,678	-
Between one and two years	27,797	-	22,106	-
Between two and five years	217,339	-	52,029	-
In five years or more	216,083	-	434,337	-
	<u>487,062</u>	<u>-</u>	<u>522,150</u>	<u>-</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
In one year or less, or on demand	177	-	201	-
Between one and two years	177	-	-	-
Between two and five years	355	-	-	-
	<u>709</u>	<u>-</u>	<u>201</u>	<u>-</u>

Notes to the financial statements *(continued)*
for the year ended 31 December 2010

17 Provisions for liabilities Group	Deferred taxation £000	Lease provisions £000	Lease incentives £000	Chequeback provisions £000	Total £000
At 1 January 2010	13,737	1,772	1,182	5,756	22,447
Charge in period	-	-	3,608	2,495	6,103
Utilised in period	(3,624)	(308)	(936)	(4,550)	(9,418)
At 31 December 2010	10,113	1,464	3,854	3,701	19,132

Chequeback provisions are expected to be principally used within 12 months.

Lease incentives relate to lease premiums, reverse premiums and rent-free periods for shop operating leases. The lease incentives are expensed over the shorter of the earliest lease break point or market based rent review.

18 Deferred taxation	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Accelerated capital allowances	3,234	-	3,794	-
Short term timing differences	(13,347)	-	(17,531)	-
Undiscounted deferred tax liability	(10,113)	-	(13,737)	-
At 1 January	(13,737)	-	(19,254)	-
Credited to the profit and loss account	3,624	-	5,517	-
At 31 December	(10,113)	-	(13,737)	-

19 Minority interests	2009 £000
At 1 January 2010	40,809
Purchase of remaining shareholding in subsidiary undertaking	(452)
Profit for the year	44,406
At 31 December 2010	84,763

The Company holds a participating interest in the voting shares in MobileServ UK HoldCo 1 Limited, it also holds all the issued non-voting shares. MobileServ UK HoldCo 1 Limited holds 100% of the issued, and voting, share capital of its subsidiaries either directly or indirectly. The directors believe the Company to be the parent undertaking to the MobileServ UK HoldCo 1 Limited group, through the Company exerting a dominant influence over the operational and financial policies of the MobileServ UK HoldCo 1 Limited group of companies. All the Company's directors hold directorships in other Group subsidiaries that allow the Company to direct the operational policies and procedures of these Group companies.

On 27 January 2010 the Group purchased the remaining shareholding in STAMS Holdings Limited from management.

Notes to the financial statements (continued)
for the year ended 31 December 2010

20 Called up share capital

	2010 Number	2010 £	2009 Number	2009 £
Authorised				
A1 Ordinary shares of £1 each	1,137,720	1,137,720	1,137,720	1,137,720
A2 Ordinary shares of £1 each	831,084	831,084	831,084	831,084
B Ordinary shares of £1 each	88,516	88,516	88,516	88,516
C Ordinary shares of £1 each	96,475	96,475	96,475	96,475
D Ordinary shares of £1 each	105,150	105,150	105,150	105,150
	<u>2,258,945</u>	<u>2,258,945</u>	<u>2,258,945</u>	<u>2,258,945</u>
	2010 Number	2010 £	2009 Number	2009 £
Allotted, called up and fully paid				
A1 Ordinary shares of £1 each	379,240	379,240	379,240	379,240
A2 Ordinary shares of £1 each	284,766	284,766	275,438	275,438
B Ordinary shares of £1 each	84,740	84,740	76,342	76,342
C Ordinary shares of £1 each	92,326	92,326	83,229	83,229
D Ordinary shares of £1 each	89,709	89,709	90,689	90,689
D Ordinary shares of £1 each	10,928	9,617	-	-
	<u>941,709</u>	<u>940,397</u>	<u>904,938</u>	<u>904,938</u>

During the year, the Company issued (fully called up and paid and partly paid) or redeemed shares as set out in the table below. The redeemed shares have been cancelled by the Company.

	Number Issued/ (Redeemed)	Avg Issue/ (Redemption) Price £	Proceeds £
Issued			
A2 Ordinary shares of £1 each	9,508	34.70	329,928
B Ordinary shares of £1 each	9,218	16.53	152,374
C Ordinary shares of £1 each	9,997	1.88	18,794
D Ordinary shares of £1 each	10,928	0.88	9,617
			<u>510,713</u>
Redeemed			
A2 Ordinary shares of £1 each	(180)	(97.33)	(17,519)
B Ordinary shares of £1 each	(820)	(96.10)	(78,800)
C Ordinary shares of £1 each	(900)	(12.69)	(11,421)
D Ordinary shares of £1 each	(980)	-	-
			<u>107,740</u>

The share classes rank differently for distributions and voting. Only holders of the A1 Ordinary shares are able to vote in general meetings, with each share carrying one vote. Distributions are payable in ranking order from A1 Ordinary shares down to D Ordinary shares. Once the return threshold for a class of share has been met, distributions then become payable to the next class of share.

Notes to the financial statements (continued)
for the year ended 31 December 2010

20 Called up share capital (continued)

Since the year end, the Company redeemed shares as set out in the table below. The redeemed shares have been cancelled by the Company.

	Number (Redeemed)	Avg Redemption Price £	Proceeds £
Redeemed			
A2 Ordinary shares of £1 each	763	76.799	58,598
B Ordinary shares of £1 each	1,020	38.883	39,661
C Ordinary shares of £1 each	1,109	13.417	14,879
D Ordinary shares of £1 each	1,205	0.864	1,041
			<u>114,179</u>

The share classes rank differently for distributions and voting. Only holders of the A1 Ordinary shares are able to vote in general meetings, with each share carrying one vote. Distributions are payable in ranking order from A1 Ordinary shares down to D Ordinary shares. Once the return threshold for a class of share has been met, distributions then become payable to the next class of share.

21 Share Premium, Capital Redemption and Profit and Loss Reserve

Group	Capital redemption reserve £000	Share Premium £000	Profit and loss account £000
At 1 January 2010	55	3,618	20,935
Issue of shares	-	473	-
Redemption of shares	3	-	(108)
Profit for the year	-	-	22,906
At 31 December 2010	<u>58</u>	<u>4,091</u>	<u>43,733</u>
Company	Capital redemption reserve £000	Share Premium £000	Profit and loss account £000
At 1 January 2010	55	3,618	369
Issue of shares	-	473	-
Redemption of shares	3	-	(108)
Profit for the year	-	-	42
At 31 December 2010	<u>58</u>	<u>4,091</u>	<u>303</u>

Notes to the financial statements (continued)
for the year ended 31 December 2010

22 Reconciliation of movement in equity shareholders funds

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Profit for the year	22,906	42	10,694	493
Share capital redeemed	(108)	(108)	(133)	(133)
New share capital subscribed	511	511	149	149
Net addition to shareholders' funds	23,309	445	10,710	509
Opening shareholders' funds	25,513	4,947	14,803	4,438
Closing shareholders' funds	48,822	5,392	25,513	4,947

23 Reconciliation of operating profit to operating cash flows

	Group 2010 £000	Group 2009 £000
Operating profit	106,898	36,635
Depreciation, amortisation and impairment charges	48,552	46,317
Increase in stocks	(7,788)	(7,942)
(Increase) / decrease in debtors	(60,798)	12,758
Increase / (decrease) in creditors	69,552	(22,274)
Profit on disposal of intangible assets	-	(8)
Loss on disposal of fixed assets	121	13
Net cash inflow from operating activities	156,537	65,499

The net cash inflow from operating activities of £156,536,000 (2009: £65,499,000) includes a cash out flow of £2,401,000 (2009: £9,058,000) in respect of operating exceptional items (see note 4), of which £1,491,000 relates to the exceptional charges in previous periods.

Notes to the financial statements (continued)
for the year ended 31 December 2010

24 Analysis of cash flows

	Group 2010 £000	Group 2009 £000
Returns on investment and servicing of finance		
Interest received	1,696	6,678
Interest paid	(14,346)	(30,353)
	<u>(12,650)</u>	<u>(23,675)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(23,322)	(11,151)
	<u>(23,322)</u>	<u>(11,151)</u>
Acquisitions		
Purchase of subsidiary undertakings	(355)	(12,249)
Net cash acquired with subsidiaries	-	2,786
	<u>(355)</u>	<u>(9,463)</u>
Financing		
Issue of ordinary share capital	188	272
Share redemption	(108)	(133)
Receipt of bank funding	16,439	1,792
Repayment of bank funding	(13,678)	(10,747)
Repurchase of bank funding	(46,664)	(8,135)
Capital element of finance lease rental payments	(289)	-
	<u>(44,112)</u>	<u>(16,951)</u>

25 Analysis of net debt

	At beginning of year £000	Cash flow £000	Non- cash changes £000	At end of year £000
Cash in hand and at bank	10,756	67,647	-	78,403
Debt due within one year	(13,678)	13,967	(26,132)	(25,843)
Debt due after more than one year	(508,473)	30,225	17,029	(461,219)
	<u>(522,151)</u>	44,192	(9,103)	(487,062)
Total	<u>(511,395)</u>	<u>111,839</u>	<u>(9,103)</u>	<u>(408,659)</u>

Notes to the financial statements (continued)
for the year ended 31 December 2010

26 Financial instruments

Other than interest rate risk described below the directors do not believe that the Group is exposed to significant levels of other financial risks such as counterparty risk and credit risk since the majority of the Group's revenue and trade debtors are with large multinational companies with strong trading histories. The Group is not significantly exposed to credit agreements with the general public.

Interest Rate Risk

The Group has purchased an interest rate swap and a basis swap to manage the Group's exposure to interest rate risk generated by the floating rate bank loan described in note 16. The purchase of the instruments fits into the Group's strategy in managing financial risks the Group is exposed to.

Interest rate swap

The Group has also entered into a hedging arrangement which fixes its baseline interest payments for the period from 29 April 2010 to 29 April 2012 at 1.55% on £250,000,000 of the bank debt. Interest will be paid and received monthly.

Currency Risk

The Group has forward purchased currency at the year end to manage the Group's exposure to currency risk. The purchase of the currency fits into the Group's strategy in managing financial risks the Group is exposed to.

Financial Instruments 2010	Group		Company	
	Book Value	Fair Value	Book Value	Fair Value
	£000	£000	£000	£000
Currency forward purchases	-	48	-	-
Derivative instruments	-	(2,415)	-	-
	-	(2,367)	-	-

The carrying value is considered to be equivalent to fair value for all other categories of assets and liabilities.

Financial Instruments 2009	Group		Company	
	Book Value	Fair Value	Book Value	Fair Value
	£000	£000	£000	£000
Derivative instrument	-	(2,372)	-	-

27 Pension costs

The Company participates in a group-wide defined contribution pension scheme operated by Phones 4u Limited. The pensions cost for the year represents contributions payable by the group to the scheme and amounted to £726,000 (2009: £752,000).

There were no outstanding contributions or prepaid contributions at the end of the financial year.

Notes to the financial statements (continued)
for the year ended 31 December 2010

28 Other financial commitments

At the year end there were £2,636,000 (2009: £1,931,000) capital commitments.

At the year end the Group had annual commitments under non-cancellable operating leases as set out below:

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Land and buildings				
Operating leases which expire:				
within one year	1,273	-	2,187	-
within two to five years	11,745	-	8,965	-
in more than five years	26,524	-	27,803	-
	<u>39,542</u>	<u>-</u>	<u>38,955</u>	<u>-</u>
Other				
Operating leases which expire:				
within one year	335	-	1,059	-
within two to five years	120	-	401	-
	<u>455</u>	<u>-</u>	<u>1,460</u>	<u>-</u>

29 Contingent liabilities

The Company is party to unlimited multilateral guarantees in respect of the group overdraft facility and bank loans. The aggregate amount of group borrowing subject to this cross guarantee is £259,114,000 (2009: £303,874,000).

The Group is party to guarantees arising from assigned property leases amounting to £5,269,000 (2009: £4,354,000).

Notes to the financial statements (continued)
for the year ended 31 December 2010

30 Related Party Transactions

As at the balance sheet date the following related party transactions had occurred:

Counterparty	Transaction	Opening balance £000	Closing balance £000
Vendor to the acquisition of the Phones 4u trading group	£175,000,000 5% loan notes due in 2016	(205,670)	(216,083)
Subsidiary companies' directors' loan	March 2010, loan advance of £28,000 at 6%, loan interest rolled up into loan amount each month, repayable in January 2013	-	29
Subsidiary companies' loan to Opres Limited	Loan at 3.5%	611	631
Subsidiary companies' loan to EZ Pay Limited	Loan at 3.5%	(301)	(78)
Subsidiary companies' loan to STAMS Limited	Loan at 3.5%	(7,546)	(7,508)

During the year, a Subsidiary company advanced £15,000 on which interest was charged at a rate of 6% to a director. This was fully repaid within the year.

During the year, EZ Pay Limited made sales of £2,573,000 to group companies and purchases of £1,224,000 from group companies.

Notes to the financial statements *(continued)*
 for the year ended 31 December 2010

30 Related Party Transactions *(continued)*
 2009

Counterparty	Transaction	Opening balance £000	Closing balance £000
Vendor to the acquisition of the Phones 4u trading group	£175,000,000 5% loan notes due in 2016	(195,760)	(205,670)
Subsidiary companies' loan to Opres Limited	Loan at 5.5%	-	611
Subsidiary companies' loan to EZ Pay Limited	Loan at 5.5%	-	(301)
Subsidiary companies' loan to STAMS Limited	Loan at 5.5%	(6,447)	(7,546)

MobileServ

MobileServ Limited, registered in England no. 05863265
Osprey House, Ore Close, Lymedale Business Park, Newcastle-under-Lyme,
Staffordshire, ST5 9QD

Supplementary Information

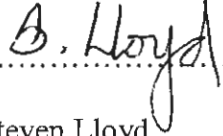
In addition to the information set out in the Accounts for MobileServ Limited (the “Company”) for the period ending 31 December 2010, the Company wishes to set out the following additional information:

1. Financial KPI’s

The Company has a number of key financial KPIs which the business monitors closely. These are turnover, EBITDA and Cash generation and the performance of these KPIs are set out in the performance section of the Directors’ report and the financial statements

2. Contractual Arrangements

The Company’s relationship with its key partners, the mobile network operators and the handset manufacturers are of paramount importance. The Company has robust contracts in place with these partners and monitors them closely to ensure they are fully performed in line with each party’s expectations.

Signed..........

Name: Steven Lloyd

Position: Company Secretary