

**Company Registration No. 3597184**

**Jazztel PLC**

**Report and Financial Statements**

**December 31, 2010**

# **Jazztel PLC**

## **Report and financial statements 2010**

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# **Jazztel PLC**

## **Officers and professional advisers**

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# Jazztel PLC

## Directors' report

The Directors present their annual report on the affairs of the Group, together with the consolidated and individual financial statements and auditors' report for the year ended December, 31 2010.

### Reporting currency

The reporting currency of the Company and the Group is the Euro. The Directors consider it appropriate because this is the single currency on which the Company and the Group are most dependent in their operations and financing structure.

### Activity and listing

The Company is the holding Company of a Group that provides telecommunications services. The parent Company is incorporated in the United Kingdom and is subject to UK company law. The shares of the Company are listed on Spain's "Mercado Continuo". The Company is subject to the control and supervision of the Spanish National Securities Market Commission ("Comisión Nacional del Mercado de Valores" or CNMV), the regulator for the stock exchange in Spain.

The Group is a broadband telecommunications service provider which deploys a fibre optic telecommunications network in high-density business districts employing synchronous digital hierarchy ("SDH") as well as a Digital Subscriber Line ("DSL") network based on the unbundling of the incumbent local exchanges carriers' ("ILEC") transmission technology (the "Network"). The Group offers internet, voice, data and mobile services to residential and businesses customers in these high-density areas, predominantly through a local loop unbundling ("LLU") approach. The Group also provides wholesale telecommunications services to other carriers operating in Spain. At present the Group's operations are mainly in Spain.

### Business review

The Company is required by the Companies Act 2006 to set out in this report a fair review of the Group's business during the financial year ended December 31, 2010 and of the Group's position at year end, including a description of the key risks and uncertainties affecting the Group (the "business review").

During the 2010 financial year, the Group recorded a net profit of €7.2 million, compared to the €24.5 million of losses in the 2009 financial year. In past years losses were a result of:

- high levels of infrastructure investment to deploy the Group's unbundled local loop ("ULL") model, which has impacted the reported results through depreciation; and
- efforts in the market to grow the customer base accompanied by an increase in customer acquisition costs, which directly impacts the reported results through network, customer service, marketing and advertising costs.

As a fixed line telecommunications service provider operating its own network, JAZZTEL is dependent on achieving a minimum number of customers in order to achieve enough scale to become profitable and obtain a return on its investments. JAZZTEL has spent several years deploying its network and improving the quality of its operations. As these targets have been achieved in 2010, the company obtained the first profit since its incorporation. Customer base growth targets for 2010 announced in the Company's 2010-2012 business plan were fully met at year end. In future years the Company will focus on the further growth of the customer base that should allow the Company to further increase its profitability according to the above mentioned business plan.

In 2010, JAZZTEL has continued consolidating its competitive position within the Spanish telecommunications market. To do so, the Company has focused its activities on the following areas:

- a) consolidation, improvement and growth of its customer base;
- b) new services launch;
- c) developing commercial initiatives;
- d) customer care development;
- e) network deployment;

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## Directors' report (continued)

- f) publication of the 2010-2012 Business Plan; and
- g) financing.

### a) Consolidation, improvement and growth of its customer base

During 2010, the Group's active ADSL customer base grew from 581,967 active customers at the end of 2009 to 847,813 at the end of 2010, representing 46% year on year growth and 265,846 new customers.

This significant growth has been due to:

- **the on-going improvement of the ADSL provisioning process**, a process that is perceived by customers as one of the main parameters defining quality of service. Currently, the average length of this process is approximately 11 days, and this has allowed JAZZTEL to be perceived as a high quality ADSL provider.
- **increasing customer care capacity and quality**. The Company has continued with the implementation of its second proprietary call centre in Chile, in order to complement that existing in Argentina and support the level of growth expected in the customer base. Additionally, the Company has continued during 2010 to improve the processes and quality of its existing customer care operations. These developments in customer care services are bearing fruit, as can be appreciated in the Q3 2010 report on Operators Level of Service Quality, which is published by the Secretary of State for Telecommunications and Information Society.
- **the launch of new services and the improvement of commercial offers**, broadening the range of services and offers available to customers. As part of this effort, during 2010 the Company launched the new ADSL 30 Mb service based in the VDSL2 technology and reorganised its mobile product offering. Additionally, the Company has reoriented its audiovisual business, not offering services directly and commercialising offers of other audiovisual operators.
- **the further development of its commercial initiatives**, with the launch of a new campaign in which the Company is further strengthening its "member get member" (customer referral incentive) programme with its new "1,000,000 Euros plan" and is actively communicating its seven competitive advantages (freedom, guarantee, simplicity, personalization, speed, reliability and service).
- **a value proposition and appropriate positioning**. The Company has found the appropriate balance between product price and high quality delivery to its clients. This combination has proved to be an important driver of growth, especially in the 2010 market environment where consumers were attracted by "the saving" but were unwilling to sacrifice "the quality".
- **the current economic situation**, which allows broadband suppliers whose products are offered at competitive prices, such as JAZZTEL, to gain market share at the expense of higher priced offers.

### b) New services launch

During 2010, the Company launched new products and services and reorganised some of its commercial offers in order to further increase the range of products and services available to customers and to keep JAZZTEL as a leading innovator in the market. The highlights of some of the actions taken in this area were:

- **VDSL2 of up to 30Mb**: In April 2010, JAZZTEL launched a VDSL2 product of up to 30 Mb including calls. This product is based on the VDSL2 technology, a version of the DSL technology that allows high transmission rates in short sections of the local loop, technology which JAZZTEL started to implement in its network at the end of 2009. The product, which allows up to 30 Mb of download speed and 3.5 Mb of upload speed, includes free national calls and has a cost of 31.95 Euros per month, to which a 13.95 Euros monthly line fee has to be added.

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## Directors' report (continued)

- Combined television/ADSL offer with Digital+: Last May 2010, JAZZTEL announced the launching of an offer to commercialise jointly Digital+'s premium television and JAZZTEL's ADSL with telephone calls. The offer includes JAZZTEL's maximum speed ADSL with telephone calls and the Canal+ Liga package, which includes Spanish football league matches as well as other international competitions. Additionally, the offer includes the Canal+ package until the end of 2011, which includes the best film releases, series, documentaries and sport events. The price of the product is 32.85 Euros per month until the end of 2011 and the set-up, JAZZTEL's WiFi router and Digital+'s installation fees are for free. Once the promotional period concludes, customers of the combined offer will enjoy a 10% discount on their fees forever.
- Mobile services: JAZZTEL continued in 2010 launching several new mobile tariffs, both for voice and data services, which increases the range of mobile services available for JAZZTEL's customers, improving its competitive position in this area. The main tariffs launched are the following:
  - In November 2010, JAZZTEL launched the "Llama y Navega" tariff. This product costs 26.95 Euros per month and consists of a mobile voice flat fee to make calls to every national operator for 24 hours a day with a limit of 300 minutes and unlimited use of mobile Internet. The Internet connection will be of maximum speed until reaching 500 Mb of downloads. Afterwards, downloading speed will be reduced to 128 kbps.
  - In July 2010, JAZZTEL launched the 1GB mobile Internet tariff for 49.00 Euros. This offer includes an Internet download tariff limited to 1GB download to be used in two months plus an USB modem for a total of 49.00 Euros. Once the download limit has been reached, the customer has the option to choose a 100 Mb tariff for 1.18 Euros per day or buy another 1GB download tariff for 23.54 Euros.
  - In June 2010, JAZZTEL launched a 24-hour mini flat fee. This product consists of a mobile voice flat fee to make calls to every national operator for 24 hours a day with a limit of 300 minutes. This product costs 19.95 Euros for the first 3 months and 24.95 Euros after the promotional period has finished.

### e) Developing commercial initiatives

During 2010 the Company has continued to develop its commercial initiatives that enable it to maintain the customer growth it has experienced recently while further communicating to the market JAZZTEL's products competitiveness and advantages. The initiatives implemented include:

- "Member get member" program: JAZZTEL has significantly improved its "member get member" program with a prize program. This prize program consists of a series of draws which reward those customers which have brought family members or friends as customers to JAZZTEL. As a result, 25,000 Euros are drawn between such customers every month, being favourable to those customers which have brought more family members or friends to JAZZTEL.
- JAZZTEL's Customer Benefits: JAZZTEL is actively communicating what it believes are its 7 main customer benefits:
  - Freedom: no minimum commitment period for ADSL customers.
  - Guarantee: allowing customers to claim back fees paid within the first 75 days of its contract if the service does not fully meet their expectations.
  - Simplicity: With provisioning times reduced to 11 days as mentioned above, and with other services including "ZeroTouch", which allows new customers to choose a "Plug&Play" option that significantly simplifies the configuration of the ADSL.
  - Personalised: The "Autogestión" portal allows customers to configure certain parameters of their ADSL service according to their needs. JAZZTEL also offers a wide range of ADSL offers (including 1, 3, 6, 7, 20 and 30 Mbps ADSL services) that permit customers to adapt the product to their specific needs.
  - Speed: ADSL products with download speeds of up to 30 Mbps and upload speeds of up to 3.5 Mbps.

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## Directors' report (continued)

- Reliability: 73% of local exchanges connected with the Company's own fiber which allows the Company to have greater performance and control of its network. Additionally, JAZZTEL offers its voice services to residential customers through a traditional ATM voice solution that avoids the problems experienced by IP voice connections like low voice quality and incompatibility with other services (faxes, alarms, etc.).
- Service: JAZZTEL's customer care is highly rated by a number of quality studies as mentioned above. JAZZTEL's strengths include two in-house call centres which provide "free" of charge customer care service to its customers.

### d) Customer care development

During 2010, the Company has continued to improve its customer care operations, with the further development of its customer care operations in its call centre in Argentina and its new operation in Chile. The benefits of a 100% in-house customer care service are being actively communicated by the Company to its customers as a competitive advantage, and has been recognised by customers.

In this sense, the company has made an important effort in 2010 develop its new call centre in Chile, Jazzplat Chile, which was opened in October 2009. This call centre begun to its commercial operations in early 2010 and is a key asset for the Company in order to accommodate the Company's future customer growth. This customer care platform provides similar services to those offered in the call centre in Argentina and serves as a back-up platform to that of Argentina. This platform already has approximately 500 employees, which add to the more than 1,400 employees in Argentina.

### e) Network deployment

The Company has carried out an important network deployment effort during 2010 with three main objectives:

- To increase its network capacity in order to accommodate the Company's future customer growth.
- To implement the latest DSL technology in its network.
- To increase the coverage of its network in order to offer its premium ADSL over its own network services to an enlarged national footprint.

As a result, in November 2009 JAZZTEL signed an agreement with its network technology supplier Huawei in order to fulfil the above mentioned objectives. The agreement includes the deployment of the new VDSL and ADSL2+ bonding technologies in the Company's ULL local exchanges, with the objective of deploying more than 350,000 VDSL and ADSL2+ bonding ports in 437 ULL local exchanges during 2010. Additionally, the agreement included the increase of capacity and/or the upgrade of parts of the voice, data and transmission networks, which includes the deployment of 54 new province data nodes, as well as a second class 5 softswitch to accommodate customer growth and a new class 4 softswitch to manage interconnections with other national operators as well as international and companies interconnections.

Network deployment highlights during 2010 were:

- Metropolitan Area Network: Metropolitan Area Network kilometres increased to 4,486 at the end of 2010 (4,398 kilometres in 2009). This increase in Metropolitan Area Network kilometres is the result of the continuing effort of the Company in order to connect its ULL local exchanges directly to its fiber network. At the end of 2010, 473 of the Company's ULL local exchanges were connected with fiber, 73% of the total, compared to 466 at the end of 2009. Connecting ULL local exchanges with fiber is important as it reduces network costs in the profit and loss account derived from leasing lines from other operators, therefore improving returns-on-investment on such exchanges, as well as allowing the company to offer premium features on its ADSL product as guaranteeing high upload and download speeds.
- Backbone network: Backbone kilometres remained stable at 21,569 (21,569 kilometres in 2009).
- DSL Local Access Network: Total local exchanges amounted to 650, a significant increase from 533 local exchanges at the end of 2009. This increase in the number of unbundled local exchanges is the

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## Directors' report (continued)

result of an effort by the Company in order to increase the coverage of its DSL network so it increases the number of customers to which it can offer its premium ADSL services over its own network. This increase in coverage through the increase in the number of unbundled exchanges has been made possible due to a set of regulation improvements approved by the telecommunications market regulator (Comisión del Mercado de las Telecomunicaciones) throughout the year, which has reduced the regulated recurring costs associated to local exchanges. Such cost reductions have increased the returns-on-investment in a number of exchanges that before could not be unbundled due to profitability reasons.

### f) Publication of the 2010-2012 business plan

In March 2010, the company presented to the financial markets its 2010-2012 business plan.

The main targets of this business plan are to reach net profit and positive cash flow generation targets driven mainly by the strong broadband customer growth that the Company is experiencing. This growth will allow the Company to leverage on key network assets in order to reach its targets.

The main projections of this business plan are detailed in the "Future prospects" section.

### g) Financing

The Company continued during 2010 to raise funds in order to finance its business plan. Nonetheless, the Company cash needs have been significantly reduced during the year, as increased investments in the network have been compensated by higher operating profit (EBITDA) growth as well as by the fact that parts of those investments have been financed, as discussed below. Additionally, financial costs have decreased after the debt restructuring that took place in 2009. The Group has € 43.7 million cash and cash equivalents in its statement of financial position as of the end of 2010.

Last May, the Company signed a finance agreement which will be executed through several finance leasing agreements up to a total of €60 million, reducing the year's cash consumption, and allowing the Company to focus its financial resources in customer base growth. These lease agreements will be of a minimum of €10 million each and will be available for a two-year period. Each leasing will have a 3 year repayment period from its withdrawal. This financing will be utilised to fund the network deployment discussed in point e) above, and consequently will be accounted as Property, Plant and Equipment through the statement of financial position, since all the conditions to be considered as finance lease are met.

On 25 January 2011, the Company signed an additional financing agreement similar to the one mentioned above, consisting of several leasing agreements up to a total of €60 million. This financing agreement has similar conditions to the one discussed above and will also be used to fund further network deployment and capacity.

Additionally, during 2010 the Company extended its factoring financing agreement by an additional €19.6 million, to a total of €35 million. This additional funding will be used to improve the Company's working capital and to finance additional customer growth.

### Financial highlights

Revenues from continuing operations have increased by 36%, from €454 million in 2009 to €615 million in 2010. This growth was mainly caused by an increase in revenues in the following business divisions:

- Retail: The retail telecommunications division revenues have increased by 45%, from €324 million in 2009 to €470 million in 2010. This revenue growth is mainly explained by the growth in the ADSL customer base, which has grown from 581,967 active customers at the end of 2009 to 847,813 at the end of 2010, a 46 % growth.
- Wholesale: Wholesale division revenues increased by 11%, from €128 million in 2009 to €143 million in 2010. This revenue increase was primarily driven by the international carrier activity, as well as to the important growth in the sales of the Internet Service Providers activity.

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## Directors' report (continued)

EBITDA\* has grown from €40 million in 2009 to €94 million in 2010, a significant growth that was caused by the revenue growth mentioned above and by the following factors:

- higher revenue growth in the retail telecommunications division than in the wholesale division. The retail telecommunications division has higher margins than the wholesale division; therefore the company's overall blended margin has increased as a result.
- the slower growth of G&A\*\* costs as compared to margin growth, that reflects the operating leverage of the Company's business model based on its own network.
- the containment in the subscriber acquisition costs (SAC), the costs related to the acquisition of new customers, even with the significant customer growth experienced during the year.
- The decrease in the charges to provision for doubtful debt levels, from €14.3 million or 3.2% of revenues in 2009, to €16.1 million or 2.6% revenues in 2010, due to the application of further measures and risk control procedures in order to control and limit the number of doubtful debt customers.

Net profit for the year amounted to €7.2 million, compared to €24,5 million net losses in 2009. This improvement in the net profitability of the Company reflects the strong growth in its business as mentioned above and is in line with the positive evolution of its EBITDA. Additionally, this improvement in profitability is explained by the reduction in financial costs as a result of the restructuring of the debt of the Company which was done in 2009. The comparison with last year does not fully reflect the Company's profitability increase, as in 2009 €33 million of gains were accounted as a result of the abovementioned debt restructuring. Not taking into account this one-off item, the improvement in net profitability would have been much greater.

### Network investments

Investments during the year 2010 were €92.3 million, a 60% growth as compared to the €57.7 million invested in the year 2009. This growth in investments reflects the effort carried out during 2010 in order to expand and upgrade the Company's network. These efforts include the investments carried out in order to increase capacity in ULL local exchanges and investments customer's premises equipment (CPEs) to accommodate the strong growth experimented by the ADSL customer base, the implementation of the new VDSL and ADSL2+ bonding technologies, the upgrade and expansion of the voice, data and transmission networks and the opening of new ULL local exchanges in order to increase the coverage of the Company's DSL network. These investments have been detailed in point e) of the "Business Review" section above.

### Liquidity position

The Group's liquidity position as of 31 December 2010 was of €43.7 million, which included "cash and cash equivalents" of €24.6 million and "short term investments", with a term of 3 to 12 months, of €19.1 million.

### Financial risks and uncertainties

#### *Liquidity*

The Group's liquidity position and its ability to meet future payments is dependent on its future financial and operating performance, which, in turn, is subject to general economic and competitive conditions and to financial, business and other factors, many of which are beyond the Group's control, including operating difficulties, such as reliance on the network and relationships with other telecommunications operators, increases in operating costs, actions of some competitors and regulatory developments.

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\* EBITDA corresponds to operating profit less depreciation and amortisation

\*\* G&A: general and administrative costs which include part of network costs, staff and other operating expenses costs

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## Directors' report (continued)

The Directors believe that the Group will have sufficient cash flow from the Group's operations to meet its liabilities as they fall due for a period of 12 months from the date of the financial statements. If the Group were unable to generate sufficient cash flow from operations to meet its obligations in respect to its indebtedness, the Group believes it could take certain actions, including delaying or reducing capital expenditure, attempting to restructure or refinance its indebtedness, selling material assets or operations or seeking additional equity.

The Directors of the Group consider that the reasons mentioned above justify the application of the going concern basis in preparing the annual report and accounts. See Note 1 to the Financial Statements.

### *Finance and interest rate risk*

The Group's current exposure to cash flow risk due to fluctuations of interest rate is limited to €35 million in loans secured by debtors which have a cost referenced to Euribor to maturity. In managing its exposure to interest rate fluctuations, the Group's objectives are to obtain debt with fixed rates of interest and to match the payment of interests of non-bond debt with fixed rate deposits in the same currency as the debt. Changes of about 1% in interest rates do not have a significant impact in the results of the Group.

It is the Group's policy to obtain debt taking advantage of the best rates it can achieve using a mixture of fixed and variable rates depending on what the Group believes to be most cost effective in the long term and manageable in the short term.

### *Currency risk*

Although the Group is incorporated in the United Kingdom, its operations are mainly in Spain carried out by its subsidiary Jazz Telecom S.A.U. and are financed in Euros. Almost all the Group's cash is in Euros; therefore currency rate fluctuations have a limited impact on the Group.

## **Business Risks and uncertainties**

### *Maintenance of operating assets and capital expenditure*

The continued efficient operation of the Group's operating assets is critical to the Group's future performance. The Group believes that its historic and proposed capital expenditure program will be sufficient to meet this objective. The Group is able to amend the amount and/or timing of its capital expenditures to manage working capital and liquidity. This is monitored on a regular basis.

### *The Group's business model is based on continued rapid growth in the demand for broadband and Internet services*

The Group's success depends, in part, on continued growth in the use of the Internet and high-speed Internet access services in Spain. Internet usage has grown rapidly in Spain, and management believes this growth will continue. Some issues concerning the increased use of the Internet, including security, reliability, cost, ease of access and quality of service, may affect the development of the market for the Group's services. The Group cannot be certain that demand for its broadband Internet services will develop at the volume or prices anticipated.

### *Regulatory changes*

The Group's ability to deploy its network and provide its services depends upon the success of the implementation of Spain's liberalized telecommunications regulatory regimes. However, many aspects of the laws and regulations applicable to the telecommunications industry in the EU are new and developing. As a result, it is difficult to predict how regulators will interpret regulations or assess compliance and what enforcement action, if any, they may take.

On 3 November 2003, the Telecommunications Act (Ley 32/2003, General de Telecomunicaciones, "Telecommunications Act") was approved in Spain, implementing in Spain the core of the "EU New Regulatory Package". The Telecommunications Act contemplates a development of the specific concepts already adopted by prior Spanish legislation in order to improve the competition in the Spanish telecommunications market. Nowadays this Law is being revised in order to adapt the Spanish legislation to the new EU regulatory framework. The new law draft has recently started the approval process so it should be approved and come into force during 2011.

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### **Directors' report (continued)**

Since the last EU regulatory package was adopted in 2002, new developments in the telecoms sector have left the current regulatory framework in need of updating. To take into account changes in the market landscape, the European Commission launched a review of the current regulatory rules in November 2007. Some of these Commission's proposals for reform have already been implemented, whereas the rest of the proposals have yet to be discussed and approved by the EU. The Commission proposes strengthening consumer rights; giving consumers more choice by reinforcing competition between telecom operators; promoting investments into new communication infrastructures, in particular by freeing up radio spectrum for wireless broadband services; de-regulation from 18 markets to 7 markets due to the existing efficient competition allowing markets to become self-regulating; and making communication networks more reliable and more secure. A new European Telecoms Market Authority will support the Commission and national telecoms regulators in ensuring that market rules and consumer regulation are applied consistently.

On 23 January 2009 the Comisión del Mercado de las Telecomunicaciones (the Spanish telecommunications market regulator; from now onward "CMT") approved the measures that will be applied to broadband and next generation networks (NGN) regulation during the next years. The new regulation, confirms, that the obligation of Telefónica, the Spanish incumbent operator, is to supply full and partial unbundling local loop access services and indirect access in which Telefónica resells JAZZTEL the service in the areas in which it does not have coverage. Among those measures adopted by the CMT is the obligation that Telefónica supplies an indirect access broadband wholesale service of up to 30 Mb in the whole Spanish territory at a price which is oriented to costs. In order to promote competition in the new infrastructures, the CMT has established an obligation to Telefónica to supply access to ducts and passive infrastructure at a price which is oriented to costs.

On 28 August 2009 a new Law was approved to establish a new tax to be applied on all telecommunications operators with the intention to finance RTVE (the Spanish public television broadcaster), allowing the elimination of advertising as a financing source for the public broadcaster. This Law establishes a 0.9% tax on gross revenues obtained by telecommunications operators excluding wholesale revenues. This tax would be accrued annually starting on 1 January 2011. There is a formal procedure opened before the EU regarding this tax. The European Commission has doubts about the alignment of this law to the EU Treaty. All the operators involved have been invited to send their comments about this Law, the law has been suspended on the mean time. The European Commission has established that this new tax can be considered as against the EU regulatory framework.

On 19 December 2009 a new EU regulation came into force. This new regulation modifies the former package approved in the year 2002 and needs to be incorporated as legislation in each EC member state before June 2011.

With regards to Universal Service Obligations (USO) in Spain, the CMT approved in December 2010 the cost of this service to be €74.8 million for the 2008 calendar year. The regulator has not yet decided the operators that will have to contribute to this cost. Nonetheless, it would be reasonable to think that, as in previous years, it will be Telefónica de España, Telefónica Moviles, Vodafone and Orange.

The Spanish Government, following EU indications, has started a spectrum refarming process trying to have a more efficient spectrum use in Spain. The Government is in the process of approving a new Royal Decree to establish the basis for the refarming process. Once the Royal Decree has been approved, it will launch public tenders offering new frequencies. The exact schedule and the conditions for this public tenders are not yet known.

The Company's network costs depend largely on prices that are regulated. The Company's assumption is that these costs will remain constant in future years. Management cannot be sure that this hypothesis is correct and the regulator might decide to increase some of these regulated prices in the future. Nonetheless, the trend in regulated prices has been to be reduced in recent years, as has been the case of unbundling local loop prices and more recently costs associated to local exchanges, as the regulator tries to increase competition in the Spanish broadband market.

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## Directors' report (continued)

### *Changes in telecommunications technology*

The telecommunications industry is subject to rapid and significant changes in technology. Such changes may occur at any time and could affect the Group's operating results. As new technologies develop, the Group may be placed at a competitive disadvantage and competitive pressures may force it to implement new technologies at substantial cost to retain its competitive position. In addition, competitors may implement new technologies before the Company is able to, allowing them to provide lower prices, enhanced services and better quality technologies, resulting in quicker penetration of new markets. In recent years, management has made an effort to implement the latest technology in its network, as the VDSL2 technology that is actually being implemented, therefore maintaining the Company's assets at the forefront of technological innovation, even ahead of some of its competitors.

### **Internal control and risk management systems**

The Company's Audit Committee has a permanent process for supervising the effectiveness of the internal control and risk management systems. The Committee supervises the process of preparing, and the integrity of, the financial reporting relating to the Group, reviewing compliance with regulations and the application of accounting standards. Additionally, the Committee supervises the internal control and risk management systems, so that the main risks are adequately identified, managed and disclosed. During the year it considered reports from the head of internal audit summarizing work planned and undertaken, recommending improvements and describing actions by management. The head of internal audit also presented his risk assessment and annual internal audit plan for the approval by the Committee.

### **Future prospects**

On March 2010, the Company presented its 2010-2012 Business Plan. The main focus of this business plan is to achieve and increase profitability and cash flow generation in the following three years. The main driver of this profit and cash flow generation is the growth in the Company's broadband customer base. As a result, the Company focuses in offerings of voice, data, and mobile voice and data services integrated in a single bill leveraging on its wide reaching DSL and fiber proprietary network. Additionally, the Company has established high quality and service commitments offered through its in-house customer service as a central part of its strategy.

During 2010, the Company continued experiencing strong customer growth, resulting in its first year of net profitability and in its first quarter of operating cash flow generation. Based on these results, on 23 February 2011, the Company's Board of Directors decided to modify 2011 projections, which resulted in the following:

- customers: achieve an ADSL base above 1,000,000 customers;
- revenues: between €730 and €750 million;
- operating profit (EBITDA): between €120 and €130 million;
- net profit: between €25 and €35 million; and
- investments: between €70 and €80 million.

As in any future projections, certain assumptions in the Business Plan are subject to risks and uncertainties such as competitive developments, development of the market, and regulatory issues. Management is conscious that faster customer growth than expected could significantly increase the Company's total acquisition costs and could cause these forecasts not to be met. Nonetheless, customer growth can be controlled by the Company's management through the control of its advertising and commercial activities.

The Directors consider that with the available cash and cash equivalents and non restricted short-term investments as of 31 December 2010 which amount to €43.7 million the Group will not face any liquidity problems, even if the 2011 forecasts are not met, as many operating expenses and investments foreseen are not committed and are dependent on customer growth, which is controllable by the management. The Directors are aware that if it achieves faster growth than expected, the Company will have to raise additional financing. This additional financing would include leases of equipment purchased from Huawei (as discussed in the Business Review above), and future potential working capital finance or the issue of new capital markets instruments (for example loans, bonds, convertible bonds or equity capital).

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## **Directors' report (continued)**

### **Results and dividends**

The Group profit from continuing operations for the financial year ended 31 December 2010 after taxation was €7.2 million, compared to a €24.5 million loss in 2009. Management indicates that, according to United Kingdom legislation, a P.L.C. with accumulated losses cannot distribute dividends before it has recovered its historic losses.

### **Supplier payment policy**

The Company's policy, which also applies to the Group, is to settle terms of payments with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of these terms and abide by them. Trade creditors of the Company at 31 December 2010 were equivalent to approximately 60 days purchases (2009: 60), based on the average daily amount invoiced by suppliers during the year.

### **Acquisition of the Company's own shares**

On May 14, 2010, the Company repurchased and cancelled 5,000,000 non-voting shares denominated in pound sterling and with a nominal value of 0.01 pounds sterling each. In accordance with the stipulations of the Company's bylaws, these shares were repurchased for a total price of one penny.

The company did not acquire any of its own shares during 2010.

### **Significant shareholders**

On 24 September 2004, Leopoldo Fernández Pujals entered the shareholder structure of Jazztel PLC through Prepsa Traders, S.A, and as 31 December 2010 is the sole significant shareholder.

On 31 December 2010 the participation of the main shareholder, Leopoldo Fernández Pujals, through the Company Prepsa Traders, S.A., was 15.178% of ordinary shares with voting rights (37,134,829 shares).

### **Capital structure**

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 20 and 21. The Company only has a class of shares, and such class of shares carries no right to fixed income. The Company has 244,667,173 issued ordinary shares as at 31 December 2010 that carry the right to one vote at general meetings of the Company. No person has any special rights of control over the Company's share capital, save that arising from the rights of shares held, and all issued shares are fully paid. Under its Articles of Association the Company has authority to issue up to 327,500,000 ordinary shares.

On 18 January 2010, JAZZTEL consolidated its authorized share capital, formed by 3,275,000,000 ordinary shares with right to vote of 0.08 Euros of nominal value each, into 327,500,000 ordinary shares with right to vote of 0.80 Euros of nominal value each, representing a consolidation of 10 to 1. This consolidation was done according to a resolution approved by the General Shareholders Meeting on 5 June 2009 and by the Board of Directors on 21 December 2009.

Additionally, on 14 May 2010, the Company proceeded to redeem and consequently reduce its share capital by 5,000,000 Non-voting ordinary shares denominated in English Pounds Sterling, with a nominal value of GBP0.01 each. These shares, which were issued when the Company was incorporated and were listed on the Spanish stock exchanges of Madrid, Barcelona, Bilbao and Valencia, were due to a legal requirement under English company law, which has since been removed under the United Kingdom Companies Act 2006. Consequently, the Non-voting Shares were repurchased at a total cost of one penny in accordance with the provisions of the Company's Articles of Association.

There are no specific restrictions on the size of a holding or transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation.

Details of employee share schemes are set out in note 23.

# Jazztel PLC

## Directors' report (continued)

### Directors

The Directors who served during the last two years were as follows:

Leopoldo Fernández Pujals  
José Ortiz Martínez  
José Miguel García Fernández  
Joaquim Molins i Amat (\*)  
Javier Ibáñez de la Cruz (\*\*)  
José Luís Navarro Marqués (\*\*)  
Luis Chaves Muñoz (\*\*)  
José Luís Díez García  
Pedro Ángel Navarro Martínez  
Elena Gil García (\*\*\*)  
María Luisa Jordá Castro (\*\*\*)  
Mireia Pérez Sales (\*\*\*)  
María Antonia Otero Quintás (\*\*\*)

(\*) Redundancy approved by Board of Directors on November 12, 2009.

(\*\*) Resignation approved by Board of Directors on November 12, 2009.

(\*\*\*) Appointment approved by Board of Directors after proposal of Appointment and Remuneration Committee on November 12, 2009.

### Directors' interests

The Directors who held office at 31 December 2010 have the following interests in the ordinary shares of the Company:

	<b>December 31, 2010</b>	<b>December 31, 2009 (*)</b>
Leopoldo Fernández Pujals	37,134,829	46,904,829
José Miguel García Fernández	77,028	77,028
José Ortiz Martínez	35,185	39,685
José Luís Díez García	7,058	7,058
Pedro Ángel Navarro Martínez	37,603	37,603
Elena Gil García	20,000	-
María Luisa Jordá Castro	500	100
María Antonia Otero Quintás	9,720	-
Mireia Pérez Sales	6,389	-
<b>Total</b>	<b>37,328,312</b>	<b>47,066,303</b>

No other Directors have any interests in the Company or Group other than in respect of share options as detailed in the Directors' Remuneration Report.

(\*) As mentioned above, on 18 January 2010, the Company grouped and divided its authorized share capital, representing a group in a proportion of 10 to 1. In the table above, shares as of 31 December 2009 as well as shares as of 31 December 2010 are represented in shares of 0.80 Euros of nominal value each.

# **Jazztel PLC**

## **Directors' report (continued)**

### **Subsequent events**

Details of significant events subsequent to the statement of financial position date are detailed in note 25 to the financial statements.

### **Going concern**

The Directors have assessed and agree to consider the company as a going concern, as it is described in more detail in note 1 to the financial statements.

### **Auditors**

Ernst & Young were appointed during the year and have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

### **Disclosure of information to auditors**

Each of the persons who are a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors

and signed on behalf of the Board of Directors

José Miguel García Fernández

Chief Executive Officer

February 23, 2011

# Jazztel PLC

## Directors' remuneration report

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

### Unaudited information

#### *Appointment and remuneration committee*

The Company has an Appointment and Remuneration Committee. The Company modified, in the Board of Directors meeting held on October 26, 2010, the composition of this Committee, to give input only to independent external Board Members to follow up the recommendations contained in the Unified Code of Corporate Governance. To this effect, Mr. José Ortiz Martínez, Executive Director and Secretary of the Company, leaves the Appointment and Remuneration Committee. In place of Mr. José Ortiz Martínez, Ms. María Antonia Otero Quintás joins the Appointment and Remuneration Committee. Thus, at the date of presentation of the Directors' remuneration report, the Committee is composed of Mr. Pedro Ángel Navarro as chairman, Ms Elena Gil García, and Ms. María Antonia Otero Quintás.

None of the members of the Committee have any personal financial interest (other than as shareholders), or conflicts of interest arising from cross Directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No Director plays a part in any discussion about their own remuneration.

The Appointment and Remuneration Committee analyzes public domain reports from human resources consultancy practices such as Hay Group, Towers Watson, and Mercer HR Consulting, and also from executive recruitment agencies. The policy of the Company is to determine on a case-by-case basis if external advice is needed. In 2010 no external advice was taken to determine Directors' compensation.

#### *Remuneration policy*

Executive remuneration packages are prudently designed to attract, motivate, and retain Directors of the high profile needed to maintain the Group's position as a market leader and to reward them for enhancing value for shareholders. The performance measurement of the executive Directors and key members of senior management and the determination of their remuneration package are undertaken by the Appointment and Remuneration Committee.

The remuneration of the non-executive Directors is determined by the Board of Directors within the limits set out in the Articles of Association.

Employee compensation policy is focused on attraction, development and loyalty of required talent in order to achieve major results. The compensation scheme is established according market trends, where the company aims to have a competitive mix, based on a middle positioning among competitors in fixed salary and benefits and an upper position in variable salary to enforce achievement, as well as long term plans and incentives to assure low turnover levels in critical talent

There are three main elements of the remuneration package for executive Directors and senior management:

1. gross annual salary (including Directors' fees) and social benefits;
2. annual bonus payments which cannot exceed 50% of gross salary; and
3. share option incentives and others.

# Jazztel PLC

## Directors' remuneration report (continued)

The Company's policy is that a substantial part of the remuneration of the executive Directors should be performance-related. As described below, executive Directors may earn annual incentive payments of up to 50% of their gross salary together with the benefits of participation in share option schemes and other schemes.

In 2010 the variable remuneration policy for the Directors, as was approved on February 7, 2007 by Board of Directors, was linked to the results of the Company in terms of revenue and profitability as outlined in the Business Plan 2010-2012.

On November 5, 2009, the Board of Directors approved a special variable remuneration plan linked to JAZZTEL's share price appreciation in the period from 2009 to 2014.

The remuneration policy for 2010 was applied to those executive Directors who served during 2010, plus José Miguel García Fernández (on labour contracts), and José Ortiz Martínez (on a service agreement).

The share option plans currently in place are not performance-related.

### *Gross salary*

An executive Director's gross salary is determined by the Appointment and Remuneration Committee. Also, when the is an individual changes position or responsibility the new gross salary will be determined by mentioned Committee. In deciding appropriate levels, the Appointment and Remuneration Committee considers the Group as a whole and relies on objective research.

In addition to a gross salary, the executive Directors receive certain benefits-in-kind, principally a car, private medical insurance, and life insurance.

### *Annual bonus*

The Appointment and Remuneration Committee establishes the objectives that must be met each financial year for a cash bonus to be paid. In setting appropriate bonus parameters the Committee refers to the objective research as noted above. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is total shareholder return. Account is also taken of the relative success of the different areas of the business for which the executive Directors are responsible and the extent to which the strategic objectives set by the Committee are being met.

In 2010, total bonus remuneration for executive Directors amounted to €166,250 in respect of the 2010 bonus, (€157,500 in 2009) based on the fulfilment of the objectives set by the Committee for the financial year ended December 31, 2010, which totalled 47,5% (45% in 2009) of the annual gross income of the executive Directors.

### *Share options*

The policy of the Company is to grant options to employees and executive and non-executive Directors of the Group with the objective to attract, motivate, and retain them, enabling them to participate in the long-term growth and the financial success of the Company.

The new 2008-2012 stock option plan was approved by the Board of Directors on February 27, 2008. This plan consists of options granted to the Directors, Other Key Management Personnel and staff of the Company and its subsidiaries. The amount of options granted cannot exceed 2% of the total share capital issued as at January 31, 2008. A fifth of the options granted will be vested each year commencing on January 1, 2009, and will expire on March 31, 2013. The exercise price of options granted was €0.29, which corresponds to Jazztel PLC's average share price during January 2008. Following a proposal from the Appointment and Remuneration Committee, the exercise price was modified to €0.18 per option by a resolution of the Board of Directors of July 27, 2009. Following the share capital consolidation and reverse stock split that took place on January 18, 2010 the exercise price was modified to €1.80.

The granting of options to the Directors was approved by the Annual General Meeting on April 25, 2008.

The exercise of options granted under the schemes is not dependent upon any performance criteria.

The Company does not expect to operate any other long-term incentive schemes (save those described in this Report) other than new share option schemes.

## Jazztel PLC

### Directors' remuneration report (continued)

#### *Extraordinary variable compensation plan\**

On November 5, 2009 the Board of Directors approved an extraordinary variable compensation plan, tied to the appreciation of the Company's share price in the period from 2009 until 2014.

The Plan has the dual purpose of both acknowledging and compensating the positive contribution made by the Chief Executive Officer and other members of the Executive Committee, and also of retaining and rewarding those executives whose tenure and motivation is key to confronting future challenges.

The Plan consists of awarding the Beneficiaries the right to receive the potential appreciation of a certain number of the Company's shares assigned by the Board of Directors to each plan participant. The appreciation will be determined by initial and final values of the shares taken as a reference. The Board of Directors may grant compensation rights under the plan on a maximum number of 3,463,000 Company shares, equivalent to 1.43% of the issued capital. The Chief Executive Officer (Mr. José Miguel García Fernández) has been allotted 1,400,000 notional shares, which will be partially consolidated in five equal tranches as established in the last paragraph of this section. For calculation of the variable compensation, €1.80 shall be taken as the starting reference value, and the weighted average of the Company's market share price in the twenty trading sessions preceding the settlement date shall be taken as the final reference value.

The Beneficiaries' right to receive the extraordinary variable compensation shall be partially consolidated in five tranches on December 31, 2009, 2010, 2011, 2012, and 2013 respectively, at a rate of 20% of the total variable compensation for each tranche. The starting date for the settlement request is July 1, 2010, and the last date for the settlement request is May 31, 2014. A total of 692,600 notional shares have been consolidated this year (692,600 in 2009). The starting date for settlement request will be July 1, 2010, whilst the last date for settlement request will be May 31, 2014.

#### *Pension arrangements*

The Company does not have any pension arrangements.

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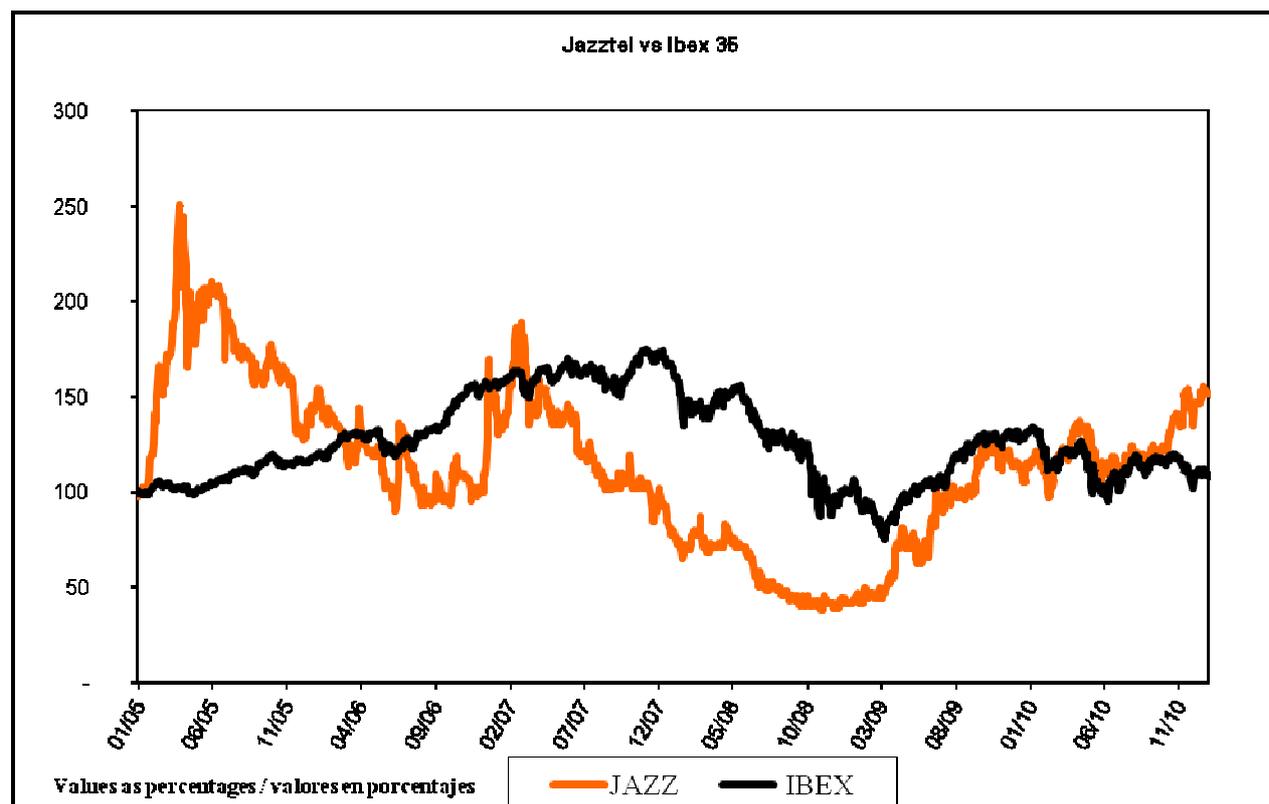
\* Number of shares and exercise price after share capital consolidation

# Jazztel PLC

## Directors' remuneration report (continued)

### Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the Spanish stock exchange index, IBEX 35 (that is the index of the 35 largest companies in Spain and therefore an appropriate comparison), also measured by total shareholder return. The index will not be used in any way by the Company to determine payments under the annual incentive scheme for executive Directors.



### Executive Directors' contracts

Currently the only executive Director with a service agreement (available for review at the Annual General Meeting) is Mr José Ortiz Martínez. His contract establishes gross annual remuneration at €150,000. The Company also pays the annual social security fee payable by self-employed workers on Mr Martínez's behalf, and provides a car for his use. His contract stipulates a three-month notice period for termination. Apart from the remuneration received for performance of his executive duties and of his role as the Secretary of the Board of Directors, Mr. Ortiz receives the €42,000 annual remuneration established for Directors.

Mr José Miguel García Fernández has been associated with the Company since May 3, 2006, initially as Managing Director under a common labour contract with an annual gross salary of €200,898. On November 2, 2006, the Board of Directors appointed Mr José Miguel García Fernández as CEO of the Company, cancelling the original general labour agreement on November 30, 2006. From this date the same labour relations in respect of special characters applied (Top Management regime), with the same gross remuneration. By virtue of this relationship, in case of involuntary termination, he would receive the equivalent of one year's salary plus another year's salary as compensation for the one-year post-employment non-competition agreement that can be waived by the Company. Apart from his salary, Mr José Miguel García Fernández receives certain benefits-in-kind, such as a Company car, private medical insurance, and life insurance. In 2010 Mr. José Miguel García Fernández received, in addition to his executive remuneration, the €42,000 annual remuneration established for Directors.

# Jazztel PLC

## Directors' remuneration report (continued)

### Non-executive Directors

All non-executive Directors (those who do not have an executive role) have specific terms of engagement and their remuneration is determined by the Appointment and Remuneration Committee, subject to approval by the Board of Directors, within the limits set by the Articles of Association, and based on independent surveys of fees paid to non-executive Directors of similar companies.

Non-executive Directors do not receive further fees for additional work performed for the Company in respect of membership of the Appointment and Remuneration and Audit Committees. Non-executive Directors are allowed to accept appointments and retain payments from outside the Company to the extent that this does not interfere with their performance as Directors of the Company, and providing there is no conflict of interest.

In 2010, non-executive Directors received a fixed annual amount of €42,000 regardless of whether they were members of any committee or not, and provided that they attended the board meetings, committee meetings, and any other meetings foreseen within their area of responsibility.

The chairman of the Company has not received any remuneration.

### Audited information

#### Aggregate Directors' remuneration:

Directors' remuneration amounted to € 869,827 (2009: €858,608). An analysis of total remuneration in 2010 is shown below (all amounts are in Euros):

#### Executive Directors

	<b>Salary</b>	<b>Bonus 2010</b>	<b>Taxable benefits</b>	<b>Board attendance</b>	<b>Total 2010</b>	<b>Total 2009</b>
José Miguel García Fernández	200,898	95,000	10,325	42,000	348,223	340,508
José Ortiz Martínez	150,000	71,250	6,354	42,000	269,604	265,504
	<b>350,898</b>	<b>166,250</b>	<b>16,679</b>	<b>84,000</b>	<b>617,827</b>	<b>606,012</b>

#### Non-executive Directors

	<b>Board Attendance</b>	
	<b>2010</b>	<b>2009</b>
Leopoldo Fernández Pujals	-	-
Joaquim Molins i Amat (*)	-	36,432
Javier Ibáñez de la Cruz (**)	-	36,432
José Luís Navarro Marqués (**)	-	36,432
Luis Chaves Muñoz (**)	-	36,432
José Luís Díez García	42,000	42,000
Pedro Ángel Navarro Martínez	42,000	42,000
Elena Gil García (***)	42,000	5,717
María Luisa Jordá Castro (***)	42,000	5,717
Mireia Pérez Sales (***)	42,000	5,717
María Antonia Otero Quintás (***)	42,000	5,717
<b>Total</b>	<b>252,000</b>	<b>252,596</b>

(\*) Redundancy approved by Board of Directors on November 12, 2009.

(\*\*) Resigned on 12 November 2009 by Board of Directors after proposal of Appointment and Remuneration Committee.

(\*\*\*) Appointed on 12 November 2009 by Board of Directors after proposal of Appointment and Remuneration Committee.

# Jazztel PLC

## Directors' remuneration report (continued)

### *Meetings in attendance*

The table below indicates the number of board and committee meetings held during the year and the attendance record of individual directors.

	Board Meetings	Audit Committee	Appointment and Remuneration Committee	Technology Committee
<b>No. of meetings in year</b>	<b>9</b>	<b>6</b>	<b>6</b>	<b>4</b>
Leopoldo Fernández Pujals	9	-	-	-
José Ortiz Martínez	9	5	5	-
José Miguel García Fernández	9	-	-	4
José Luis Díez García	9	6	-	-
Pedro Ángel Navarro Martínez	9	-	6	-
María Antonia Otero Quintás	9	-	1	4
Elena Gil García	9	-	6	-
Mireia Pérez Sales	9	1	-	4
María Luisa Jordá Castro	9	6	-	-

### *Directors' share options\**

Total remuneration disclosed above does not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Each Director (excluding the Chairman) has been granted 60,000 options under the 2008-2012 scheme, 12,000 of which vest annually commencing on January 1, 2009. Mr Jose Miguel García Fernández receives an additional 120,000 options for his responsibilities as Chief Executive Officer and Mr José Ortiz Martínez receives an additional 90,000 options for his responsibilities as Secretary of the Board and Chief Legal Officer. A fifth of options granted may be vested each year commencing on January 1, 2009. Options will expire on March 31, 2013.

In July 2009, 185,000 additional options under the 2008-2012 scheme were granted to Mr. Jose Miguel Garcia Fernandez. In November 2009 Mr. Jose Miguel Garcia Fernandez forfeited these options.

In February 2010, 37,578 share options under the 2008-2012 scheme were granted to each of four Directors appointed on November 12, 2009.

In October 2010, 300,000 additional options under the 2008-2012 scheme were granted to Mr. José Ortiz Martínez, due to its non-inclusion in Extraordinary Variable Compensation Plan.

The Chairman of the Company holds no options.

New Scheme 2005 and Scheme 2009 vested during 2009.

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\* Number of shares and exercise price after share capital consolidation

# Jazztel PLC

## Directors' remuneration report (continued)

Detailed information on the options exercised by Directors during 2010 follows:

	January 1, 2010(1)	Options granted	December 31, 2010 (2)	Exercise price €	Gain on exercise 2010 €	Gain on exercise 2009 €
Leopoldo Fernández Pujals	-	-	-	-	-	-
José Miguel García Fernández (3)	180,000	-	180,000	1.80	-	13,625
José Ortiz Martínez	150,000	300,000	450,000	1.80	-	11,625
José Luis Díez García	60,000	-	60,000	1.80	-	7,425
Pedro Angel Navarro Martínez	60,000	-	60,000	1.80	-	7,650
Elena Gil García	-	37,578	37,578	1.80	-	-
María Luisa Jordá Castro	-	37,578	37,578	1.80	-	-
Mireia Pérez Sales	-	37,578	37,578	1.80	-	-
María Antonia Otero Quintás	-	37,578	37,578	1.80	-	-
<b>Total</b>	<b>450,000</b>	<b>450,312</b>	<b>900,312</b>	<b>-</b>	<b>-</b>	<b>40,325</b>

(1) Or date of appointment if later;

(2) Or date of resignation if earlier;

(3) José Miguel also is a beneficiary of Extraordinary Variable Compensation Plan, which is detailed below, that gives him the right to receive the potential appreciation of 1,400,000 notional shares.

Options will vest as follows:

Directors	2009(1)	2010(1)	2011	2012	2013	Exercise price €
Leopoldo Fernández Pujals	-	-	-	-	-	-
José Miguel García Fernández (2)	36,000	36,000	36,000	36,000	36,000	1.80
José Ortiz Martínez	30,000	30,000	210,000	90,000	90,000	1.80
José Luis Díez García	12,000	12,000	12,000	12,000	12,000	1.80
Pedro Angel Navarro Martínez	12,000	12,000	12,000	12,000	12,000	1.80
Elena Gil García	-	1,578	12,000	12,000	12,000	1.80
María Luisa Jordá Castro	-	1,578	12,000	12,000	12,000	1.80
Mireia Pérez Sales	-	1,578	12,000	12,000	12,000	1.80
María Antonia Otero Quintás	-	1,578	12,000	12,000	12,000	1.80
<b>Total</b>	<b>90,000</b>	<b>96,312</b>	<b>318,000</b>	<b>198,000</b>	<b>198,000</b>	

(1) These options vested in 2009 and 2010 and can be exercised till March , 2013

(2) José Miguel also is a beneficiary of Extraordinary Variable Compensation Plan that gives him the right to receive the potential appreciation of 1,400,000 notional shares till 31 May 2014.

There have been no modifications to the terms and conditions or performance criteria for share options during the financial year (except as referred to herein). Options granted under the Share Option Scheme are not subject to performance criteria.

No options were granted to former Directors who no longer held office when options were granted to others in 2010.

The market price as of December 31, 2010 (last trading day in 2010) was €3.55 and the price range during the year was €2.281 to €3.638.

No stock options were exercised by Directors during 2010 (gain on the exercise of stock options as at 31 December 2009: €40,325).

Share options lapse if they are not exercised before the expiry date, unless a “closing period” has been established in the Internal Code of Conduct. In this case, options are exercised when the “closing period” ends, even if the exercise period has ended.

# Jazztel PLC

## Directors' remuneration report (continued)

### *Total remuneration for Other Key Management personnel*

The Company considers as its Other Key Management personnel to be those top managers excluding Directors which report directly to Board of Directors or to Chief Executive Officer of the Company.

An analysis of total remuneration in 2010 is shown below (all amounts in Euros):

	<u>Salary</u>	<u>Bonus</u>	<u>Taxable benefits</u>	<u>Total 2010 (2)</u>	<u>Total 2009</u>
Other Key Management Personnel (1)	937,599	370,256	74,562	1,382,417	1,488,186

- (1) Following the CNMV's recommendation on Corporate Governance Report, top managers which report directly to Chief Executive Officer have been considered as Other Key Management Personnel, being 8 key managers and head of internal audit. For comparative purposes the data of 2009 has been restated. In previous years only 5 key managers have been considered as Other Key Management Personnel;
- (2) The decrease in total remuneration received in 2010, is driven by resignation of one of top managers in 2009 and the abolition of his position.

### *Share options of Other Key Management personnel\**

Total remuneration discussed above does not include the value of options to acquire ordinary shares of the Company that have been granted to or held by Other Key Management personnel. Detailed information on the options exercised during 2010 is given below:

<u>January 2010</u> <sup>(1)</sup>	<u>Granted</u>	<u>Exercised</u>	<u>December 31 2010</u> <sup>(2) (3)</sup>	<u>Exercise price</u> €	<u>Weighted average price exercised</u> €	<u>Gain on exercise 2010</u> €	<u>Gain on exercise 2009</u> €
559,000	120,000	(20,000)	659,000	1.80	3.24	28,800	84,685

<sup>(1)</sup> Or the appointment date, if it is later.

<sup>(2)</sup> Or the resignation date, if it is earlier.

<sup>(3)</sup> Eight of other Key Management Personnel, members of the executive committee, are beneficiaries of Extraordinary Variable Compensation Plan, which gives them a right to receive the potential appreciation of 2,063,000 notional shares assigned to them.

### *Extraordinary Variable Compensation Plan*

On November 5, 2009 the Board of Directors approved an Extraordinary Variable Compensation Plan, tied to appreciation in the Company's share price in the period from 2009 until 2014.

The plan has the dual purpose of both acknowledging and compensating the positive contribution made by the Chief Executive Officer and other members of the Executive Committee, and also of retaining and rewarding those executives whose tenure and motivation is key to confronting future challenges.

The Plan consists of awarding the Beneficiaries the right to receive the potential appreciation in price of a certain number of Company shares assigned by the board of Directors to each plan participant. The appreciation will be determined by initial and final values of the shares taken as a reference. The maximum number of Company shares on which the board of Directors may grant compensation rights under the plan is 3,463,000 shares, equivalent to 1.43% of the issued capital. The Chief Executive Officer (Mr. José Miguel García Fernández) has been allotted 1,400,000 shares, which will be partially consolidated in five equal tranches as established in the last paragraph of this section.

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\* Number of shares and exercise price after share capital consolidation

## **Jazztel PLC**

### **Directors' remuneration report (continued)**

For calculation of the variable compensation, €1.80 shall be taken as the starting reference value and the weighted average of the Company's market share price in the twenty trading sessions preceding the settlement date shall be taken as the final reference value.

The Beneficiaries' right to receive the extraordinary variable compensation shall be partially consolidated in five tranches on December 31, 2009, 2010, 2011, 2012, and 2013 respectively, at a rate of 20% of the total variable compensation for each tranche. The starting date for settlement request is July 1, 2010 and the last date for settlement request is May 31, 2014.

#### **Directors' pension entitlements**

The Directors do not have any rights to pension entitlements and will not participate in any similar compensation instruments.

#### **Corporate Governance Report**

The company Corporate Governance Report is published on its website at the following address  
[http://www.jazztel.com/english/inversores/informe\\_eng.php](http://www.jazztel.com/english/inversores/informe_eng.php)

#### **Other**

No amounts were paid to third parties in respect of Directors' remuneration.

Approved by the Board of Directors  
and signed on behalf of the Board of Directors

José Miguel García Fernández  
Chief Executive Officer

February 23, 2011

# Jazztel PLC

## Statement of Directors' responsibilities

### Directors' responsibilities statement

The directors are responsible for preparing the Annual Report (including the Director's Report) and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year. Under this law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRS's as adopted by the EU. Under company law the directors must not approve the accounts 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 the profit or loss of the group and parent company for that period. In preparing these financial statements, directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and parent company's financial position and financial performance;
- state that the Group and Parent Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make an assessment of the group and parent 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 group and parent 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 and, in respect of the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and parent 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 group and parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **Jazztel PLC**

## **Statement of Directors' responsibilities**

### **Responsibility statement**

We confirm that to the best of our knowledge:

1. the group and parent company's financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and parent company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the group and parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Chief Executive Officer  
José Miguel García Fernández  
February 23, 2011

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAZZTEL PLC

We have audited the financial statements of Jazztel plc for the year ended 31 December 2010 which comprise the group and parent company statements of financial position, the group and parent company statements of comprehensive income, the group and parent company cash flow statements, the group and parent company statements of changes in equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's and the parent company's profit for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 35-40 in the Annual Corporate Governance Report at [http://www.jazztel.com/english/inversores/informe\\_eng.php](http://www.jazztel.com/english/inversores/informe_eng.php) with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

**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 and the part of the Directors' Remuneration Report to be audited 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.
- A Corporate Governance Statement has not been prepared by the company.

*Ernst & Young LLP*

*Nick Powell (Senior statutory auditor)*

*for and on behalf of Ernst & Young LLP, Statutory Auditor*

*London*

*25 February 2011*

# Jazztel PLC

## Annual Consolidated statements of comprehensive income (in thousands of Euros)

	Notes	2010	2009
<b>Continuing operations</b>			
Revenue	3	612,789	451,859
Other revenue	3	2,228	1,698
<b>Total revenue</b>		<u>615,017</u>	<u>453,557</u>
Network and interconnection costs		(376,517)	(287,756)
Staff costs	6	(46,402)	(39,830)
Depreciation and amortisation expense	11 and 12	(67,291)	(63,903)
Other operating expenses	7	(98,457)	(85,602)
<b>Operating gain/ (loss)</b>		<u>26,350</u>	<u>(23,534)</u>
Financial gains restructuring of debt	4	-	32,608
Other financial gains	4	575	577
Finance costs	4	(20,761)	(33,409)
Foreign exchange gains/(losses)	4	1,079	(696)
<b>Gain/ (Loss) before taxes</b>		<u>7,243</u>	<u>(24,454)</u>
Tax	8	-	-
<b>Gain/ (Loss) for the year</b>		<u>7,243</u>	<u>(24,454)</u>
<i>Other comprehensive loss:</i>			
Exchange differences on translating foreign operations	3	(31)	(232)
<b>Total comprehensive income/ (loss) for the year</b>		<u>7,212</u>	<u>(24,686)</u>
Gain/ (loss) attributable to: Equity holders of the parent		7,243	(24,454)
Total comprehensive income/ (loss) attributable to: Equity holders of the parent		7,212	(24,686)
<b>Profit/ (Loss) per share (Euro per share)</b>			
Basic	10	0.03	(0.13)
Diluted	10	0.03	(0.13)

# Jazztel PLC

## Consolidated statements of financial position (in thousands of Euros)

	Notes	December 31, 2010	December 31, 2009
<b>Non-current assets</b>			
Intangible assets	11	20,723	21,604
Property, plant and equipment	12	450,751	428,143
Long-term investments	13	951	1,133
		<u>472,425</u>	<u>450,880</u>
<b>Current assets</b>			
Trade and other receivables	15	100,798	74,128
Other current financial investments	14	19,121	20,368
Cash and cash equivalents	14	24,627	38,144
		<u>144,546</u>	<u>132,640</u>
<b>Total assets</b>		<u>616,971</u>	<u>583,520</u>
<b>Current liabilities</b>			
Trade and other payables	16	141,895	155,756
Bonds and marketable securities	17	33,399	18,867
Other loan notes and other short-term loans	17	35,921	18,911
Obligations under finance leases	17	19,252	3,389
		<u>230,467</u>	<u>196,923</u>
<b>Net current liabilities</b>		<u>(85,921)</u>	<u>(64,283)</u>
<b>Non-current liabilities</b>			
Loan notes 9.75%	18	66,798	100,197
Provisions		66	858
Other loan notes	18	-	856
Obligations under finance leases	18	114,195	94,365
		<u>181,059</u>	<u>196,276</u>
<b>Total liabilities</b>		<u>411,526</u>	<u>393,199</u>
<b>Net assets</b>		<u>205,445</u>	<u>190,321</u>
<b>Shareholders' equity</b>			
Share capital	20	195,734	195,262
Share premium account		1,307,023	1,302,354
Retained losses		(1,312,753)	(1,339,504)
Equity reserve	20	15,641	32,378
Translation reserves		(200)	(169)
<b>Total shareholders' equity</b>		<u>205,445</u>	<u>190,321</u>

The consolidated financial statements of JAZZTEL PLC, registered company number 3597184, were approved by the Board of Directors and authorized for issue on February 23, 2011.

José Miguel García Fernández  
Chief Executive Officer

## Jazztel PLC

### Annual Company statements of comprehensive income (in thousands of Euros)

	Notes	2010	2009
Staff costs	9	(2,013)	(995)
Other operating expenses	9	(3,012)	(6,414)
Reversal of impairment of investment in subsidiaries	13	253,814	231,566
<b>Operating income</b>		<b>248,789</b>	<b>224,157</b>
Financial gains restructuring of debt	9	-	32,608
Other financial gains	9	31,804	34,218
Finance costs	9	(12,063)	(27,521)
Exchange (loss)/ gain	9	(128)	31
<b>Profit before tax</b>		<b>268,402</b>	<b>263,493</b>
Tax	8	-	-
<b>Profit for the year</b>		<b>268,402</b>	<b>263,493</b>
<i>Other comprehensive profit/(loss)</i>		-	-
<b>Total comprehensive profit/ for the year</b>		<b>268,402</b>	<b>263,493</b>

# Jazztel PLC

## Company statements of financial position (in thousands of Euros)

	Notes	December 31, 2010	December 31, 2009
<b>Non-current assets</b>			
Investments	13	1,094,825	721,638
		<u>1,094,825</u>	<u>721,638</u>
<b>Current assets</b>			
Trade and other receivables	15	1,950	2,024
Other current financial investments	14	129	1,747
Loans and Interest due from other Group companies	14	40,000	135,613
Cash and cash equivalents	14	3,873	21,668
		<u>45,952</u>	<u>161,052</u>
<b>Total assets</b>		<u>1,140,777</u>	<u>882,690</u>
<b>Current liabilities</b>			
Trade and other payables	16	4,275	4,520
Convertible loan notes 9.75%	17	33,399	18,867
		<u>37,674</u>	<u>23,387</u>
<b>Net current assets</b>		<u>8,278</u>	<u>137,665</u>
<b>Non-current liabilities</b>			
Convertible loan notes 9.75%	18	66,798	100,197
Provision	19	777	-
		<u>67,575</u>	<u>100,197</u>
<b>Total liabilities</b>		<u>105,249</u>	<u>123,584</u>
		<u>1,035,528</u>	<u>759,106</u>
<b>Shareholders' equity</b>			
Share capital	20	195,734	195,262
Share premium account		1,307,023	1,302,354
Retained losses		(482,870)	(770,888)
Equity reserve	20	15,641	32,378
<b>Total shareholders' equity</b>		<u>1,035,528</u>	<u>759,106</u>

The individual financial statements of JAZZTEL PLC, registered Company number 3597184, were approved by the Board of Directors and authorized for issue on February 23, 2011.

José Miguel García Fernández  
Chief Executive Officer

# Jazztel PLC

## Annual Consolidated statements of changes in equity (in thousands of Euros)

	Share capital	Share premium account	Retained losses	Translation reserves	Equity reserves	Total
<b>Balance at January 1, 2009</b>	<b>119,412</b>	<b>1,234,011</b>	<b>(1,406,609)</b>	<b>63</b>	<b>115,186</b>	<b>62,063</b>
Grant of share options (Note 20)	-	-	-	-	1,755	1,755
Extraordinary variable compensation plan (Note 20)	-	-	-	-	1,788	1,788
Cancellation long term incentive plan (Note 20)	-	-	-	-	(2,764)	(2,764)
Expiration of share schemes (Note 20)	-	-	15,317	-	(15,317)	-
Exercise of share options (Note 20)	466	592	-	-	-	1,058
Cancellation equity portion on bond (Note 20)	-	-	76,242	-	(76,332)	(90)
Issue of shares through conversion of debt (convertible bond interest)	4,028	10,351	-	-	-	14,379
Rights issue of Shares (Note 20)	60,000	26,862	-	-	-	86,862
Issue of warrants (Note 20)	-	-	-	-	24,410	24,410
Exercise of warrants (Note 20)	11,356	30,538	-	-	(16,348)	25,546
Total comprehensive loss for the year	-	-	(24,454)	(232)	-	(24,686)
<b>Balance at December 31, 2009</b>	<b>195,262</b>	<b>1,302,354</b>	<b>(1,339,504)</b>	<b>(169)</b>	<b>32,378</b>	<b>190,321</b>
Grant of share options (Note 20)	-	-	-	-	1,371	1,371
Extraordinary variable compensation plan (Note 20)	-	-	-	-	2,554	2,554
Exercise of share options (Note 20)	137	172	-	-	-	309
Exercise of warrants (Note 20)	480	1,438	-	-	(839)	1,079
Warrants lapsed (Note 20)	-	-	19,823	-	(19,823)	-
Other equity (Note 20)	(145)	3,059	(315)	-	-	2,599
Total comprehensive gain for the year	-	-	7,243	(31)	-	7,212
<b>Balance at December 31, 2010</b>	<b>195,734</b>	<b>1,307,023</b>	<b>(1,312,753)</b>	<b>(200)</b>	<b>15,641</b>	<b>205,445</b>

# Jazztel PLC

## Annual Consolidated cash flow statements (in thousands of Euros)

	December 31, 2010	December 31, 2009
<b>Cash flows from operating activities</b>		
Profit / (loss) for the financial year	7,243	(24,454)
Adjustments for:		
Depreciation and amortization (Notes 11 and 12)	67,291	63,903
Decrease in provisions	(793)	(35)
Share options payment expense (Note 6, 20)	3,925	779
Investment revenue and finance costs (Note 4)	20,186	224
Other non-monetary gains and losses	(1,142)	(134)
	<u>89,467</u>	<u>64,737</u>
Changes in working capital:		
Increase in receivables	(26,649)	(3,100)
Increase in payables	5,017	2,345
	<u>(21,632)</u>	<u>(755)</u>
<b>Net cash inflow from operating activities</b>	<u>75,078</u>	<u>39,528</u>
<b>Investing activities</b>		
Interest received	575	562
Decrease in long term and short term investments	1,428	1,748
Purchase of intangible assets	(9,669)	(9,372)
Purchase of property, plant and equipment (excluded financing leases)	(46,191)	(42,542)
Proceeds from sale of other assets	19	1
<b>Net cash outflow from investing activities</b>	<u>(53,838)</u>	<u>(49,603)</u>
<b>Financing activities</b>		
Interest paid	(28,565)	(10,087)
Exercise of share options	309	1,058
Issue of ordinary shares through share capital	-	86,861
Exercise of Warrants	1,079	25,546
Stamp Duty repayment booked through Equity (Note 20)	3,061	-
Payments of non-convertible debt	(1,617)	(998)
Proceeds from non-convertible debt	17,838	-
Repurchase of convertible bond (Note 18)	-	(70,000)
Repayments of Bond	(11,133)	-
Repayments of obligations under finance leases	(14,650)	(7,377)
<b>Net cash (outflow)/ inflow from financing activities</b>	<u>(33,678)</u>	<u>25,003</u>
<b>(Decrease)/increase in cash and cash equivalents in the year</b>	<u>(12,438)</u>	<u>14,928</u>
Effect of foreign exchanges rate changes (Note 4)	(1,079)	696
<b>Cash and cash equivalents at the beginning of the year</b>	<u>38,144</u>	<u>22,520</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>24,627</u>	<u>38,144</u>

## Jazztel PLC

### Annual Company statements of changes in equity (in thousands of Euros)

	Share capital	Share premium account	Retained losses	Equity reserves	Total
<b>Balance at January 1, 2009</b>	<b>119,412</b>	<b>1,234,011</b>	<b>(1,125,940)</b>	<b>115,188</b>	<b>342,671</b>
Grant of share options (Note 20)	-	-	-	1,755	1,755
Extraordinary variable compensation plan	-	-	-	1,788	1,788
Cancellation of long term incentive plan (Note 20)	-	-	-	(2,764)	(2,764)
Exercise of share options (Note 20)	466	592	-	-	1,058
Expiration of share option schemes	-	-	15,317	(15,317)	-
Cancellation equity portion on bond (Note 20)	-	-	76,242	(76,334)	(92)
Issue of shares through conversion of debt (convertible bond interest)	4,028	10,351	-	-	14,379
Rights issue of Shares (Note 20)	60,000	26,862	-	-	86,862
Issue of warrants (Note 20)	-	-	-	24,410	24,410
Exercise of warrants (Note 20)	11,356	30,538	-	(16,348)	25,546
Total comprehensive profit for the year	-	-	263,493	-	263,493
<b>Balance at December 31, 2009</b>	<b>195,262</b>	<b>1,302,354</b>	<b>(770,888)</b>	<b>32,378</b>	<b>759,106</b>
Grant of share options (Note 20)	-	-	-	1,371	1,371
Extraordinary variable compensation plan (Note 20)	-	-	-	2,554	2,554
Exercise of share options (Note 20)	137	172	-	-	309
Exercise of warrants (Note 20)	480	1,438	-	(839)	1,079
Warrants lapsed (Note 20)	-	-	19,823	(19,823)	-
Other equity (Note 20)	(145)	3,059	(207)	-	2,707
Total comprehensive profit for the year	-	-	268,402	-	268,402
<b>Balance at December 31, 2010</b>	<b>195,734</b>	<b>1,307,023</b>	<b>(482,870)</b>	<b>15,641</b>	<b>1,035,528</b>

# Jazztel PLC

## Annual Company cash flow statements (in thousands of Euros)

	December 31, 2010	December 31, 2009
<b>Cash flows from operating activities</b>		
Profit/(loss) for the financial year	268,402	263,493
Adjustments for:		
(Decrease)/increase in provisions for affiliates (Note 13)	(253,814)	(231,566)
Share options payment expense (Note 20)	1,641	631
Investment revenue and finance costs (Note 9)	11,735	(7,017)
Interest due from other Group companies (Note 9)	(31,476)	(32,288)
Increase in non current provisions (Note 19)	777	-
	(271,137)	(270,240)
Changes in working capital:		
(Decrease)/increase in receivables	(278)	16
Increase/(decrease) in payables	(375)	3,171
	(653)	3,187
<b>Net cash outflow from operating activities</b>	(3,388)	(3,560)
<b>Investing activities</b>		
Interest received	328	87
Investment in subsidiaries	-	(18,500)
Profit participative loans repayments	10,000	-
Financial investment	1,618	794
<b>Net cash inflow/ (outflow) from investing activities</b>	11,946	(17,619)
<b>Financing activities</b>		
Interest paid	(19,797)	(3,373)
Bond amortization (Note 18)	(11,133)	-
Exercise of share options	309	1,058
Exercise of warrants (Note 20)	1,079	25,546
Stamp Duty claim repayment (Note 20)	3,061	-
Repurchase of convertible bond (Note 18)	-	(70,000)
Issue of ordinary shares with pre-emption rights	-	86,861
<b>Net cash (outflow)/ inflow from financing activities</b>	(26,481)	40,092
<b>(Outflow)/ inflow in cash and cash equivalents in the year</b>	(17,923)	18,913
Effect of foreign exchanges rate changes (Note 9)	128	(31)
<b>Cash and cash equivalents at the beginning of the year</b>	21,668	2,786
<b>Cash and cash equivalents at the end of the year</b>	3,873	21,668

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 1. General information

Jazztel P.L.C (“the Company”) was incorporated on July 8, 1998 in the United Kingdom under the 1985 Companies Act. Its main business activity is that of a holding company of a Group that provides telecommunications services and includes Jazz Telecom S.A., Banda 26 S.A., Jazzplat S.A. and Jazzplat Chile LTDA, (the “Group”). The Company is based in the United Kingdom and is therefore subject to UK Company Law. The Company’s shares are listed on the Spanish Continuous Market (“Mercado Continuo”) and the Company is subject to the control and supervision of the Spanish National Securities Market Commission (“Comisión Nacional del Mercado de Valores” in Spanish, from now onward CNMV), the body regulating the Spanish stock market.

Since its formation, the activity of the Company has primarily focused on obtaining funds to finance the commercial activities of its subsidiaries, particularly Jazz Telecom S.A., which provides telecommunications services in Spain.

The euro is used as the reporting currency of the Company and the Group. The euro is the currency on which the Company and Group are most dependent in their operations and financing structure. The financial statements are presented in thousands of Euros.

The main activity of the Group is the provision of telecommunications services and the operation of telephone networks in Spain.

From its incorporation to December 31, 2009 the Group has incurred losses 2010 was the first year with a profit since the Company’s incorporation, which amounted to €7.2 million. There has been significant investment effort to launch the telecommunications service, a process which typically generates losses until a sufficiently large customer base is attained. For this reason, once this minimum customer base was reached during 2010, a profit was generated. Future profit increases will depend on the extent to which assumptions established by management in the business plan are met, as the maintenance of the customer base and the maintenance of the evolution of average revenues per user (ARPU) and costs.

The main achievements in 2010 include the following:

- Active ADSL customer base of 847,813 services at year end, exceeding the Group’s target of between 820,000 and 840,000 services;
- Consolidated revenues have increased to €615.0 million during 2010, a 36% increase compared to the €453.6 million of the same period last year;
- Significant increase of EBITDA\* to €93.6 million;
- Consolidated net profit for the year of €7.2 million, for the first time since the incorporation of the Company, compared to losses of €24.5 million in 2009;
- Investments have increased to €92.3 million, an increase of 60% compared to the €57.7 million invested in 2009, as a result of the significant investments that the Company has completed to increase the capacity and coverage of its network as well as upgrading it to the latest technology;
- Achievement of target in terms of yearly revenue, EBITDA, net income, and investments (CAPEX);

In March 2010, the Company presented its 2010-2012 Business Plan. The main objectives of this plan are to continue the Company’s customer base growth in order to increase its profitability and to achieve cash flow generation.

The Group’s directors consider that the main objectives of the approved business plan are being met for the year ended December 31, 2010 and to date in the 2011 financial year.

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\* : EBITDA corresponds to operating profit less depreciation and amortisation

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

The main business developments aimed at for 2011 are the following (as in any forecast, some assumptions are subject to risks and uncertainties, such as performance of competitors, market developments, regulatory issues, etc.):

- Approximately 20% growth in revenues in 2011 as compared to the same period of 2010. This growth will be achieved mainly by new ADSL customers that were acquired during 2010 and those to be acquired in 2011, bringing the customer base to above 1,000,000 active ADSL customers at the end of 2011.
- Containment of network and interconnection costs, staff costs, and other operating expenses arising from an optimised operating structure, which will enable the Group to increase EBITDA in 2011 compared to 2010; and
- Investments related to the increase of coverage and capacity of the network in order to accommodate the above mentioned customer growth and deploy new technology in the access network, as it was detailed in the Director's Report in the "Business Review" section, and to the acquisition of new customers. The volume of the total investments in 2011 will be of between €70 and €80 million.

As a result of implementing the measures described above, the Group's objective is to obtain positive EBITDA ranging between €120 and €130 million for the 2011 financial year. Management is aware that faster than expected customer growth could significantly increase the Company's total customer acquisition costs and prevent the Business Plan from being met. Nonetheless, customer growth can be controlled by management through the control of its advertising and commercial activities. Additionally, due to this significant EBITDA growth and to the containment of investments, management does foresee obtaining full year positive operating cash flow generation during 2011, the first such full year cash flow generation since the Company's incorporation.

The Group has net current liabilities as December 31, 2010 of €85.9 million. Notwithstanding this, all current liabilities at December 31, 2010 have been settled on time or are expected to be settled on time in 2011.

### *Going Concern*

The Directors consider that negative working capital is mitigated by the following factors:

- current liabilities relate mainly to the outstanding bonds (amounting to €33.4 million), short-term obligations under finance leases (amounting to €19.3 million), the loan bearing 8% interest (amounting to €0.9 million), and the credit facility secured by debtors (amounting to €35 million). The remaining current liabilities mainly relate to liabilities with trade suppliers, whose average payment period is 60 days from the invoice issue date, compared to the average collection period from customers of approximately 17 days from the invoice issue date, which enables the Group to settle payments to suppliers with the cash arising from the trade receivables collected;
- the Group is generating positive operating cash flow, and in the third quarter of 2010 the Group generated €6.2 million of operating cash flow;
- main Business Plan objectives are being met;
- the Group has the option to finance equipment purchased from Huawei under an agreement signed in May 2010, of which €18.1 million remain available, and an agreement signed in January 2011, of up to €60 million, that has not been utilised yet.
- in case of the exercise of the remaining warrants issued as a result of the debt restructuring, the Company could generate an additional €9.2 million in cash funding, and
- the Group has cash and financing facilities available to cover any payments arising in the normal course of its business.

Taking into account the abovementioned factors, management considers that with the unrestricted cash and cash equivalents and short term investments as at December 31, 2010, which amount to €40.8 million, the Group will not face liquidity problems for the next 12 months and has sufficient resources to carry out its

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

Business Plan, even if the 2011 forecast is not met, as many of the operating expenses and investments foreseen are not committed and depend on customer growth, controllable by management.

Management is aware that if it achieves faster than expected growth, the Company will have to raise additional financing, which could come from various sources such as working capital financing or the issuance of new capital market instruments.

The Group's forecasts, taking into account implications of faster than expected growth as described above, show that the Group can operate within the level of its currently available financial resources over the twelve month period from the date of this report. This is based on both the availability of financial resources to carry out the Business Plan over the next twelve months as well as the ability to manage the nature of the business risks described in this Note without a present or foreseeable need to adopt any additional measures in the coming twelve months other than those detailed in this Note.

Accordingly, the Directors have prepared these consolidated and separate financial statements based on the principle of going concern.

### 2. Significant accounting policies

In accordance with the Regulation (EC) no. 1606/2002 of the European Parliament and the European Council of July 19, 2002, for each financial year starting on or after January 1, 2005, companies governed by the law of a Member State with securities admitted to trading on a regulated market of any State Member shall prepare their consolidated financial statements in accordance with the international accounting standards adopted by the European Union. The Company is subject to the UK Companies Act 2006, and under this legislation accepted the option to present separate financial statements as of January 1, 2005 in accordance with International Financial Reporting Standards adopted by the European Union.

The Group's consolidated and separate financial statements for the year ended December 31, 2010 were prepared by management in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, applying the principles of consolidation, accounting policies, and measurement criteria described in this Note, in a manner that presents fairly the individual and consolidated equity, the individual and consolidated financial position at December 31, 2010, the individual and consolidated comprehensive income, the individual and consolidated operating results, the individual and consolidated changes in equity, and the individual and consolidated cash flows corresponding to the period in question.

The financial statements for the year ended December 31, 2009 were approved by the Annual General Meeting on June 10, 2010.

In the current financial year, the Group has adopted:

- IFRS 2 Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010);
- IFRS 3 (revised 2008) "Business Combinations" (effective for accounting periods beginning on or after July 1, 2009) and IAS 27 (amended 2008) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after July 1, 2009);
- IFRS 5 (revised 2008) "Assets held for sale and discontinued operations"
- Improvements to IFRS (April 2009). Effective for annual periods beginning on or after January 1, 2010;
- IAS 39 "Financial Instruments: Recognition and Measurement": Eligible Hedged Items.

The adoption of these standards had no impact on the Group's financial position or results.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

*New IFRS and IFIC not effective at December 31, 2010*

At the date of these financial statements, the following Standards and Interpretations, which had been published by the IASB have not been applied in these individual and consolidated financial statements, since were in issue but not yet effective:

<b>International standards and Amended standards</b>		<b>Effective from annual periods beginning on or after:</b>
IFRS 9 (**)	<i>Financial instruments</i>	January 1, 2013
IAS 24 revised	<i>Related parties disclosures</i>	January 1, 2011
IAS 32 amended	<i>Classification of Rights Issues</i>	February 1, 2010
<i>Improvements to IFRS's (May 2010) (**)</i>		January 1, 2011 (*)
IFRS 7 amended (**)	<i>Disclosures – Transfer of financial assets</i>	July 1, 2011
IAS 12 amended (**)	<i>Deferred taxes</i>	January 1, 2012
(*) IFRS 3 amended (2008) related to the valuation of non controlling interests and SOP as well as IAS 27 (2008) and IFRS 3 (2008) amendments, related to contingent payments arisen in business combinations with acquisition date prior to the effective date of reviewed standards, will be effective from annual periods beginning from July 1, 2010 or after.		
<b>IFRIC</b>		<b>Effective from annual periods beginning on or after:</b>
19	<i>Extinguishing Financial Liabilities with Equity</i>	July 1, 2010
14 amended	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	January 1, 2011

(\*\*) In process of being adopted by E.U.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company or Group.

*Glossary*

*IFRS – International Financial Reporting Standard*

*IFRIC – International Financial Reporting Interpretations Committee*

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Basis of presentation

The individual and consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and the Council.

As permitted by IAS 1, the Company and the Group chose to present an analysis of expenses based on their nature in the Company and Group statements of comprehensive income.

The financial statements have been prepared on a historical cost basis, except for equity instruments that have been measured at fair value. The main accounting policies and measurement criteria applied are summarized below.

### Comparative information

As required by IAS 1, the information regarding 2010 contained in the consolidated financial statements is presented for comparative purposes with the information for 2009.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control over a subsidiary is achieved when the Company has the power to govern the financial and operating policies of an investee entity in order to obtain benefits from its activities.

Upon acquisition of a subsidiary, the assets, liabilities, and contingent liabilities are booked at their fair values on the date of acquisition. Any excess of acquisition cost over the fair values of the identifiable net assets acquired is considered as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The non controlling interest is stated as the minority's proportion of the fair values of the assets and liabilities recognized.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries in order to adjust the accounting policies to those applied by the Group.

Intra-Group transactions, balances, income and expenses have been eliminated for all consolidated entities.

The Parent Company has investments in the following subsidiaries:

<b>Included in the consolidation scope</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Ordinary share capital held by Group</b>
Jazz Telecom, S.A. *	Spain	Telecommunications services	100.00%
Banda 26, S.A.	Spain	In voluntary liquidation	91.00%
Jazzplat, S.A.	Argentina	Telemarketing and call centre services	100.00%
Jazzplat Chile Call Center, S.L.	Chile	Telemarketing and call centre services	100.00%
Jazzcom Limited*	Great Britain	Telecommunications services	100.00%
Jazztel Jazznet Internet Services, S.L.	Spain	Dormant	100.00%
Movilweb 21, S.A.	Spain	Dormant	100.00%

\* Directly owned by Jazztel PLC.

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## Notes to the financial statements For the year ended 31 December 2010

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT, and other sales related taxes.

Most of the Group's revenue corresponds to the rendering of services, mainly including calls, broadband internet access (ADSL), and interconnection services provided to other operators.

- ADSL revenue and line rental revenue represent the amounts receivable in respect of services provided to customers, and are recognized as revenue on a straight line basis over the service period.
- Revenue from calls and other services is recognized as the services are provided, and either corresponds to effective consumption by the customer or to the rate (fixed or variable) agreed upon for the product.
- Installation revenue is recognized when the services are provided.
- Amounts payable by and to other telecommunications operators are recognized as the services are provided, on a very similar basis to revenue recognition from calls, as described above;

Sales of goods are recognized when the risks and rewards associated with ownership are substantially transferred.

Interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the income statement.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at the lower of either fair value or present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they would be capitalized in accordance with the Group's general policy on borrowing costs.

Depreciation and impairment on these assets follow the same criteria as those applied to property, plant, and equipment for own use and of the same kind.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

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## Notes to the financial statements For the year ended 31 December 2010

### Foreign currencies

The functional and presentational currency of the Company and its subsidiaries is the euro. Thus, transactions involving other currencies are recorded at the rates of exchange prevailing on the transaction dates.

At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Gain and losses are registered to the statement of comprehensive income.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the statement of comprehensive income in the period in which the operation is disposed of.

### Taxation

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognized deferred tax assets and liabilities.

The corresponding tax expense is recognized in the individual or consolidated statement of comprehensive income, except when it relates to transactions recognized directly in equity, in which case the corresponding tax expense is likewise recognized in equity.

Deferred income tax is recognized using the liability method on all temporary differences at the Company and Consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" on the Company or Group statement of financial position, as applicable.

Deferred tax liabilities are recognized for all temporary differences, except where disallowed by prevailing tax legislation.

The Group recognizes deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carry forwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilized, except where disallowed by prevailing tax legislation.

At each financial year end, the Group assesses the deferred tax assets recognized and those that have not yet been recognized. Based on this analysis, the Group derecognizes the asset recognized previously if it is no longer probable that it will be recovered, or it recognizes any deferred tax asset that had not been recognized previously, provided that it is probable that future taxable profit will be available against which these assets may be utilized.

Deferred tax assets and liabilities are measured at the tax rate expected to apply to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover the asset's carrying value or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities, respectively.

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## Notes to the financial statements For the year ended 31 December 2010

### Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and any recognized impairment loss. Cost includes expenses incurred to bring the asset into operation, except for accumulated depreciation and any provision for impairment. The costs of expansion, modernization, or improvements leading to increased productivity, capacity or efficiency, or to a lengthening of the useful lives of the assets are capitalized as well as the borrowing costs for long-term construction projects if the recognition criteria are met.

Property, plant, and equipment are valued as follows:

- Technical installations are valued at the cost incurred up to the date of entry into service of the assets composing the fiber optic network that the Group is constructing in Spain.
- Repair and maintenance expenses, which do not increase capacity or productivity or lengthen the useful lives of the assets, are expensed.

Depreciation is charged so as to write off the cost, less the estimated residual value, of each asset on a straight line basis over its estimated useful life, on the following basis:

	<b>Years of estimated useful life</b>
Buildings	50
Leasehold improvements	3 - 5
Technical installation:	
- Civil engineering projects	25
- Telephone installation ("Par vacante" - Note 12)	2
Technical Equipment:	
- IRU's under finance leasing	15-20
- Network Equipment	3-8
Other fixtures, tools and furniture	3 - 10
Other property, plant, and equipment	5

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or over the term of the relevant lease.

### Intangible assets

Intangible assets are carried at acquisition cost or development cost, which includes the amount of any additional investments made up to the date the related assets come into service, less accumulated amortization and any provision for impairment.

Intangible assets and rights are valued as follows:

- Computer software is valued at cost when it is expected to be used for several years. Computer software maintenance costs are expensed as incurred. Cost includes various user licences, software, and the expenses incurred in analyzing, programming, integrating, and implementing the information systems.
- Administrative concessions are recorded at the cost incurred in obtaining the related licenses.
- Patents and trademarks are valued at the amounts paid for the registration of the Group's trademarks and brand names.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### *Amortisation*

Amortization is charged so as to write off the cost, less its estimated residual value, of each asset on a straight line basis over its estimated useful life, on the following basis:

	<b>Years of estimated useful life</b>
Concessions, patents, and licenses	5-25
Computer software	4

### **Impairment of property, plant, and equipment and intangible assets**

At each statement of financial position date, the Group reviews the carrying amounts of its property, plant, and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. However, the increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income.

### **Financial instruments**

Financial assets and financial liabilities are recognized on the Group's and Company's statements of financial position when the Group or the Company become a party to the contractual provisions of the instrument.

Financial instruments maturing in 12 months or less from year end are classified in the consolidated statement of financial position as current and those maturing at over 12 months as non-current.

### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would not be material.

### *Investments*

Investments are recognized in the Group's statement of financial position when they are acquired. They are initially recognized at their fair value, including transaction costs.

Investments are classified as held-to-maturity and are measured at amortized cost.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits in current accounts, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### *Bank borrowings*

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### *Convertible bonds*

Convertible bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

After initial recognition financial liabilities are recognized at amortized cost using the effective interest method. The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt. The difference between this amount and the interest paid is added to the carrying amount of the convertible bond.

### *Trade payables*

Trade payables are not interest bearing and are stated at their nominal value.

### *Equity instruments*

An equity instrument is a contract representing a residual proportion in Group's equity after all liabilities have been deducted.

Equity instruments, including warrants issued by the Company, are recorded at the proceeds received, net of direct issue costs.

### **Share-based compensation**

The Group operates an equity-settled, share-based compensation plan. The Group applies IFRS 2. The fair value of the employee services received in exchange for the grant of the options is recognized as personnel expenses in the statement of comprehensive income. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The total amount to be expensed over the vesting period is determined as follows:

a) Fair value of the option

Fair value is determined by reference to the market value of options with similar characteristics to the options granted. When market value is not available, fair value is determined using generally accepted option valuation models (Note 20).

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

- b) Estimate of shares that will eventually vest

Service and non-market performance conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity. On a cumulative basis, no amount is recognized for services received if the equity instrument granted does not vest because of failure to satisfy service or non-market performance conditions.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation but its amount and/or cancellation date is undefined. The Directors quantify provisions taking into consideration the best available evidence on the implications of obligating events. The provisions are re-estimated at each statement of financial position date and partially or fully reversed when said obligations decrease or cease to exist.

Financial commitments, guarantees, and liability contingencies which do not comply with the above mentioned recognition criteria are disclosed when deemed material. Details are shown in Note 22.

### Company only significant accounting policies

The principal accounting policies adopted are the same as those applied by the Group and set out in this Note except by the ones explained below:

#### *Investment in subsidiaries:*

Investments in subsidiaries are recorded at cost less any impairment provision where applicable, and including the value of share options granted to the employees of subsidiaries.

The Directors have taken into consideration the requirements of IAS 36 for the calculation of impairment provisions. Paragraph 18 of IAS 36 defines recoverable amount as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Paragraph 21 of IAS 36 further establishes that "if there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount.

### Critical accounting judgements and key sources of estimation uncertainty for the Group and Company

In application of Group's and Company's accounting policies, the Directors have prepared the individual and consolidated financial statements using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying amount of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates.

#### *Significant estimations*

The key assumptions regarding the future, in addition to other relevant information regarding uncertainty estimation at the reporting date, which represent a considerable risk that the carrying amounts of assets and liabilities may require adjustments in the following financial year, are as follows:

#### *Impairment of non-current assets*

When measuring non-current assets other than financial assets estimates must be made to determine their fair value to assess if they are impaired. To determine fair value, the directors estimate the expected cash flows from assets and the cash-generating units to which they belong, applying an appropriate discount rate to calculate the present value of these cash flows. Cash flows from assets used for impairment test calculations

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

depends on the Company's success in achieving targeted results for the next five years whereas the discount rate used depends on free-risk interest rates and on the premium risk associated to each cash-generating unit.

### *Impairment of investments*

Determining the carrying value of the Company's investments in Jazz Telecom SA requires an evaluation of the recoverable amount of the investment in accordance with the criteria of IAS 36. This requires the evaluation of Jazz Telecom S.A.'s fair value less costs to sell or its value in use.

The fair value less costs to sell requires the identification of observable market prices and rates while the value in use calculation requires the Directors to estimate future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Details of the impairment loss calculation are provided in Note 13. The carrying amount of the investment in Jazz Telecom, S.A at the statement of financial position date was 1,094,824 thousand of euros after the reversal of 253,814 thousand of euros previously recognised impairment in 2010 (721,638 thousand of euros after the reversal in 2009 of 231,566 thousand of euros of previously recognized impairment)

### *Financial instruments*

The Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The carrying amount of the financial instruments and details of the assumptions used and of the results of sensitivity analysis regarding these assumptions are provided in Notes 14, 18 and 20.

### *Useful life of intangible assets, property, plant and equipment and of investment properties*

The Group estimates the useful life of its intangible assets, of its items of property, plant and equipment and of its investment properties upon initial recognition. These estimates are reviewed annually and adjusted prospectively where warranted. Based on updated data available at the end of 2010, on average length of time that customers with no prior technical installation remains in the Company, the useful life of Customer premises installations assets has been re-estimated in 24 months (12 months in 2009), to be applied prospectively from July 1st onwards. (Note 12).

### *Deferred tax assets*

The Group recognizes deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carry forwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilized. To determine the amount of deferred tax assets that can be recognized, the Parent Company's directors estimate the amounts and dates on which future taxable profits will be obtained and the reversion period of taxable temporary differences. At December 31, 2010 and 2009 the Group has not recognized deferred tax assets relating to unused tax credits or temporary differences.

### *Changes in estimations*

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, according to IAS 8. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

During 2010 there have not been changes in estimations to be disclosed in these financial statements other than the reversal of the impairment provision related to the investment in Jazz Telecom, S.A. explained in Note 13 and the review of the useful life of certain installations (par vacante) as stated in Note 12.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 3. Revenue and operating segments

The information used by the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance is more specifically focussed on the types of customers and telecommunications products and services. The principal customer categories that have been defined are direct sales to retail customers and wholesale customers. The principal product categories reviewed by the Group's Chief Executive are voice sales and provision of telecommunications data services. Other revenue mainly consists of revenue generated from the rental of the Group's fiber optic cables.

In addition, there is only one geographic segment as the Group only provides services within the domestic Spanish telecommunications market.

The Group's reportable segments are therefore as follows:

	Thousand of Euros					
	2010			2009		
	Retail	Wholesale	Total	Retail	Wholesale	Total
<b>Continuing operations</b>						
<b>Revenue</b>						
Voice	109,695		<b>109,695</b>	77,966	-	<b>77,966</b>
Data	360,423		<b>360,423</b>	246,045	-	<b>246,045</b>
Carrier	-	142,671	<b>142,671</b>	-	127,848	<b>127,848</b>
<b>Other revenue</b>	-	<b>2,228</b>	<b>2,228</b>	-	<b>1,698</b>	<b>1,698</b>
<b>Total revenue</b>	<b>470,118</b>	<b>144,899</b>	<b>615,017</b>	<b>324,011</b>	<b>129,546</b>	<b>453,557</b>
<b>Segmental result (gross margin by segment)</b>	<b>323,779</b>	<b>14,187</b>	<b>337,966</b>	<b>220,811</b>	<b>17,621</b>	<b>238,432</b>
Unallocated operating costs	-	-	<u>(311,616)</u>	-	-	<u>(261,966)</u>
<b>Statutory operating gain/ (loss)</b>	-	-	<b>26,350</b>	-	-	<b>(23,534)</b>
Unallocated finance income	-	-	575	-	-	33,185
Unallocated finance cost	-	-	<u>(19,682)</u>	-	-	<u>(34,105)</u>
<b>Statutory gain/ (loss) before tax</b>			<b>7,243</b>			<b>(24,454)</b>
Tax			-			-
Unallocated other comprehensive loss			<u>(31)</u>			<u>(232)</u>
<b>Statutory gain /(loss) for the year</b>			<u><b>7,212</b></u>			<u><b>(24,686)</b></u>

Gross margin is deemed to be the most appropriate measure of the segmental result as this is considered by the Chief Executive Officer to be the most meaningful measure to determine resource allocation and to assess performance. The Group's management structure and internal organisation reflects the Group's focus as an integrated supplier of telecommunications services to the Spanish market. Consequently, network depreciation (€67.3 million in 2010 and €63.9 million in 2009), certain other operating costs (€244.3 million in 2010 and €198.1 million in 2009) and finance gains and costs are not allocated to the retail and wholesale customer segments. Similarly, the Group does not allocate statement of financial position amounts to customer segments and consequently net assets by customer segment are not disclosed.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 4. Finance charges (net) and exchange difference

	<b>Thousand of Euros</b>	
	<b>2010</b>	<b>2009</b>
<b>Finance income</b>		
Income and gains from current asset investments	100	495
Gains from debt restructuring (Note 9)	-	32,608
Other investment income	475	82
	<u>575</u>	<u>33,185</u>
<b>Finance costs</b>		
Interest on finance leases and hire purchase contracts	(8,063)	(7,960)
Interest on other loans	-	(444)
Interest on 5% convertible bond	-	(16,513)
Interest on 9.75% bond (Note 9)	(10,770)	(4,523)
Other finances costs	(1,928)	(3,969)
	<u>(20,761)</u>	<u>(33,409)</u>
Exchange (loss)/gains	1,079	(696)

The debt restructuring agreement in 2009 allowed the Company to reduce the nominal amount of debt from the €251.3 million of the 5% Convertible Bond to €111.3 million of the 9.75% Bond, generating a finance gain of €32,6 million (Note 18). No finance costs were capitalized in either period.

### 5. Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	<b>Thousand of Euros</b>	
	<b>2010</b>	<b>2009</b>
Audit of Parent company's individual accounts and consolidated accounts (Note 9)	153	184
Audit of the subsidiaries accounts	165	202
Other audit services	4	-
<b>Total audit fees</b>	<u>322</u>	<u>386</u>
Transaction support in respect of restructuring Bond	-	22
Tax advice	-	17
Other services	4	19
<b>Total non-audit fees</b>	<u>4</u>	<u>58</u>
<b>Total auditors' remuneration</b>	<u>326</u>	<u>444</u>

The 2009 fees were paid to the previous auditor Deloitte.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 6. Staff costs

The breakdown for employee expenses (including executive Directors) is as shown below:

	<b>Thousand of Euros</b>	
	<b>2010</b>	<b>2009</b>
Wages and salaries	(35,138)	(31,835)
Social security costs	(7,339)	(7,216)
Share option expense (net)	(3,925)	(779)
	<u>(46,402)</u>	<u>(39,830)</u>

The average number of persons employed during 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009</b>
	<b>No.</b>	<b>No.</b>
Other Key Management personnel	9	9
Executives	12	12
Managers and supervisors	138	147
Technicians and intermediate managers	414	440
Administrative personnel	1,751	1,499
	<u>2,324</u>	<u>2,107</u>

The breakdown of employees in terms of gender and category at December 31, 2010 and 2009 is as follows:

<b>2010</b>	<b>Male</b>	<b>%</b>	<b>Female</b>	<b>%</b>	<b>Total</b>
Other Key management personnel	8	1%	1	-	9
Executives	8	1%	4	-	12
Managers and supervisors	91	7%	52	5%	143
Technicians and intermediate managers	242	17%	170	15%	412
Administrative personnel	977	74%	891	80%	1,868
	<u>1,326</u>	<u>100%</u>	<u>1,118</u>	<u>100%</u>	<u>2,444</u>
<b>2009</b>	<b>Male</b>	<b>%</b>	<b>Female</b>	<b>%</b>	<b>Total</b>
Other Key management personnel	8	1%	1	-	9
Executives	7	1%	4	1%	11
Managers and supervisors	85	7%	52	5%	137
Technicians and intermediate managers	238	20%	158	16%	396
Administrative personnel	841	71%	759	78%	1,600
	<u>1,179</u>	<u>100%</u>	<u>974</u>	<u>100%</u>	<u>2,153</u>

The Board of Directors is comprised of 5 men and 4 women.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 7. Other operating expenses

The breakdown for "Other operating expenses" is as follows:

	Thousand of Euros	
	December 31, 2010	December 31, 2009
Maintenance and installation	(13,570)	(12,304)
Marketing and advertising	(18,458)	(14,324)
Rent and operating leases	(11,124)	(9,157)
Utilities	(16,300)	(16,298)
Provisions for doubtful debts (Note 15)	(16,070)	(14,288)
Customer service	(8,148)	(7,312)
Consulting services	(7,340)	(5,921)
Other	(7,447)	(5,998)
<b>Total</b>	<b>(98,457)</b>	<b>(85,602)</b>

### 8. Taxes

	Thousand of Euros	
	December 31, 2010	December 31, 2009
<b>Group</b>		
The Tax expense is broken down as follows:		
Total tax (expense)/income	-	-
The total charge for the year can be reconciled to the loss as per the statement of comprehensive income as follows:		
Gain/ (Loss) from operations	7,243	(24,454)
Income tax (expense)/ credit calculated at 28% (2009: 28%)	(2,028)	6,847
Effect of unused tax losses not recognized as deferred tax assets	(156)	(8,390)
Effect of temporary differences not recognized as deferred tax assets	2,510	950
Effect of expenses that are not tax deductible*	(654)	(571)
Effect of different tax rates of subsidiaries operating in other jurisdictions	328	1,164
Income tax charge recognized in the statement of comprehensive income	-	-

The Group has incurred tax losses during this exercise and expects these losses will be available to offset income in future periods should taxable income arise.

The tax rate used is the standard 28% rate for UK corporate income tax, which is also the applicable rate for the Parent Company.

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\* The permanent differences of the Group mainly include expenses on penalties and the difference which arises from share option expenses

## Jazztel PLC

### Notes to the financial statements For the year ended 31 December 2010

On January 1, 2008 the Spanish corporate tax rate changed to 30%. A deferred tax asset of approximately €388 million (2009: €383 million) in respect of tax losses within Spanish jurisdiction (based on a Spanish income tax rate of 30% for the periods in which these losses may be utilized) has not been recognized by the Group. The tax loss carry forwards related to this deferred tax asset amount to approximately € 1,292 million (2009: €1,275 million). The expiry date for utilisation of these tax losses is 15 years from the period in which the losses are first utilised.

The Group's net operating losses ("NOL'S) and their associated maturity is as follows:

<b>NOL'S</b> <b>€'000</b>	<b>NOL'S</b> <b>Generation</b>
70	1997
4,670	1998
76,170	1999
105,340	2000
164,960	2001
98,260	2002
76,180	2003
80,310	2004
155,930	2005
236,280	2006
120,250	2007
97,590	2008
59,380	2009
16,480	2010
<u>1,291,870</u>	

#### Company

The Chancellor, in the Budget on 22 June 2010, announced reductions in the main rate of UK corporation tax.

The standard rate of UK Corporation Tax will be reduced from 28% to 27% from 1 April 2011, and there will be progressive annual reductions of a further 1% until a rate of 24% is reached with effect from 1 April 2014. The Finance Act (No 2.) 2010 received Royal Assent on 27 July 2010, with the first of the rate reductions being substantively enacted from 21 July 2010. The unrecognised deferred tax assets at the balance sheet date are therefore calculated at the substantively enacted rate of 27%.

A deferred tax asset of approximately €6.75 million (2009: €11 million) with respect to tax losses of the Company (based on a UK income tax rate of 27% for the periods in which these losses may be utilized) has not been recognized. The tax loss carry forwards related to this deferred tax asset amount to approximately €25 million (2009: €41 million). These tax losses have no expiry date.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

	<b>Thousand of Euros</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Company</b>		
<b>Current tax</b>		
Total tax charge	-	-
<b>The total charge for the year can be reconciled to the loss per the income statement as follows:</b>		
Gain / (loss) from operations	268,402	263,493
Income tax income / (expense) calculated at 28% (2009: 28%)	(75,153)	(73,778)
Effect of unused tax losses not recognized as deferred tax assets	4,762	9,067
Effect of revenue that is exempt from taxation*	70,850	64,839
Effect of expenses that are not tax deductible*	(459)	(128)
<b>Income tax charge recognised in the statement of comprehensive income</b>	<b>-</b>	<b>-</b>

The Company's net taxable profit for the year ended December 31, 2010 amounts to €16.2 million.

### 9. Results of the Company

The breakdown of significant balances in the Company's statement of comprehensive income is as follows:

	<b>Thousand of Euros</b>	
	<b>2010</b>	<b>2009</b>
<b>Employee benefits expenses</b>		
Wages and salaries	(336)	(309)
Social security costs	(36)	(55)
Share option expense	(1,641)	(631)
	<b>(2,013)</b>	<b>(995)</b>
<b>Other operating expenses</b>		
Professional advice (financial and legal) expenses	(1,772)	(5,784)
Audit services for the audit of the financial statements	(153)	(184)
Increase other non current provisions (Note 19)	(777)	-
Others	(310)	(446)
	<b>(3,012)</b>	<b>(6,414)</b>

The Company has no employees (2009: nil). "Employee benefits expenses" includes Board attendance fees paid to executive and non-executive Directors and the Share Option Plan expenses granted to executive and non-executive Directors.

\* The permanent differences of the Company mainly include the impairment reversal in respect of Jazz Telecom S.A. and the difference which arises from share option expenses.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

Finance	Thousand of Euros	
	2010	2009
<b>Finance income</b>		
Interest from loans to subsidiaries	31,476	32,288
Interest from fixed income securities	77	1,862
Gain on debt restructuring (Note 4)	-	32,608
Other interest and financial income	251	68
	<u>31,804</u>	<u>66,826</u>
<b>Finance costs</b>		
Convertible bond interest	-	(19,409)
9.75% bond interest (Note 4)	(10,770)	(4,523)
Interest expenses on debt restructuring	-	(2,513)
Other finance costs	(1,293)	(1,076)
	<u>(12,063)</u>	<u>(27,521)</u>
<b>Exchange gains/(losses)</b>	<u>(128)</u>	<u>31</u>

The financial gains recognized in the financial statements of December 31, 2009 resulted from the difference between the carrying amount of the convertible bonds before their cancellation and the fair value of the consideration paid and the new debt. Specifically, the carrying amount of the convertible bonds prior to cancellation amounted to €238.3 million, while the consideration paid was comprised of €70 million which were liquidated in cash, and 200 million warrants issued at a fair value of €24.4 million and a new non-convertible debt of €111.3 million.

### 10. Earnings per share

	December 31, 2010	December 31, 2009
	<b>Thousand of euros</b>	
Profit/ (Loss) attributable to equity holders of the parent	7,243	(24,454)
Adjustments	-	-
Diluted profit/ (Loss) attributable to equity holders of the parent	<u>7,243</u>	<u>(24,454)</u>
	<b>Number of shares</b>	
Basic weighted average number of shares	244,171,964	187,243,293
Dilutive potential ordinary shares:		
Employee share options	604,901	362,000
Warrants	5,178,659	5,913,265
Diluted weighted average number of shares	<u>249,955,524</u>	<u>193,518,558</u>
	<b>Euros per share</b>	
Basic gain / (loss) per share	0.03	(0.13)
Diluted profit/ (loss) per share	0.03	(0.13)

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

Basic earnings/(losses) per ordinary share are calculated by dividing net profit (losses) for the year attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year. Diluted earnings/(losses) per ordinary share are calculated in a similar manner except that the weighted average of ordinary shares outstanding is increased to include the number of additional ordinary shares that would have been outstanding if the potentially dilutive ordinary shares had been issued.

The Company has revised the calculations for 2010 and 2009 taking into account the share consolidation made in January 2010 as required by IAS 33.

### 11. Intangible assets

#### Company

The Company held no intangible assets as at December 31, 2010 or at December 31, 2009.

#### Group

The comparative figures of movements occurred during 2009 and 2010 under this heading are as follows:

2009	Computer	Licence costs	Total
	software cost	patents and trademarks	
Thousand of euros			
<b>Cost</b>			
As at January 1, 2009	102,880	496	103,376
Additions	9,359	13	9,372
Transfers	1,089	-	1,089
As at December 31, 2009	113,328	509	113,837
<b>Amortization</b>			
As at January 1, 2009	(81,521)	(201)	(81,722)
Charge for the year	(10,495)	(16)	(10,511)
As at December 31, 2009	(92,016)	(217)	(92,233)
<b>Net book value</b>			
As at December 31, 2009	21,312	292	21,604
As at January 1, 2009	21,359	295	21,654
2010	Computer	Licence costs	Total
	software cost	patents and trademarks	
Thousand of euros			
<b>Cost</b>			
As at January 1, 2010	113,328	509	113,837
Additions	9,602	62	9,664
Disposals	(115)	-	(115)
As at December 31, 2010	122,815	571	123,386
<b>Amortisation</b>			
As at January 1, 2010	(92,016)	(217)	(92,233)
Charge for the year	(10,241)	(194)	(10,435)
Currency translation differences	-	5	5
As at 31 December 2010	(102,257)	(406)	(102,663)
<b>Net book value</b>			
As at 31 December 2010	20,558	165	20,723
As at 1 January 2010	21,312	292	21,604

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

The main additions in computer software costs correspond to the Group's investment in software for the provision of telecommunications services and products to customers.

The gross carrying amount of intangible assets fully amortised as at 31 December 2010 that is still in use is €80.78 million (€70.2 million as at 31 December 2009).

There are no purchases of intangible assets from group companies.

As at 31 December 2010 the amount of intangible assets situated out of Spain corresponds to Jazzplat S.A., being gross carrying amount of €0.231 million and accumulated amortization of €0.177 million, and to Jazzplat Chile Call Center, S.L., being gross carrying amount of €0.098 million and accumulated amortization of €0.035 million.

The amount of contractual commitments for the acquisition of intangible assets is €0.1 million.

### 12. Property, plant, and equipment

#### Company

The Company held no property, plant, and equipment at December 31, 2010 (2009: €nil).

#### Group

The comparative figures of movements occurred during 2009 and 2010 under this heading are as follows:

Group	Leasehold	Technical	Other	Other tangible	Construction	Total
	improvements	installations and machinery	fixtures, tools and furniture	fixed asset	in progress	
Thousand of euros						
<b>Cost</b>						
January 1, 2009	15,482	710,321	7,042	52,243	1,328	786,416
Additions	8	58,552	102	913	23	59,598
Disposals	-	(8,344)	-	(9)	-	(8,353)
Transfer	-	362	-	(100)	(1,351)	(1,089)
December 31, 2009	15,490	760,891	7,144	53,047	-	836,572
<b>Depreciation</b>						
January 1, 2009	(14,890)	(309,689)	(4,992)	(33,690)	-	(363,261)
Disposals	-	8,321	-	-	-	8,321
Conversion differences	5	-	-	(102)	-	(97)
Transfers	-	16	-	(16)	-	-
Charge for the year	(295)	(47,884)	(807)	(4,406)	-	(53,392)
December 31, 2009	(15,180)	(349,236)	(5,799)	(38,214)	-	(408,429)
<b>Net book value</b>						
December 31, 2009	310	411,655	1,345	14,833	-	428,143
January 1, 2009	592	400,632	2,050	18,553	1,328	423,155

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

Group	Leasehold	Technical	Other	Other tangible	Construction	Total
	improvements	installations and machinery	fixtures, tools and furniture	fixed asset	in progress	
Thousand of euros						
<b>Cost</b>						
January 1, 2010	15,490	760,891	7,144	53,047	-	836,572
Additions	94	74,341	90	9,340	30	83,895
Disposals	(13)	(9,696)	-	(34)	-	(9,743)
Transfers	-	7,956	-	(7,956)	-	-
December 31, 2010	15,571	833,492	7,234	54,397	30	910,724
<b>Depreciation</b>						
January 1, 2010	(15,180)	(349,236)	(5,799)	(38,214)	-	(408,429)
Disposals	13	5,272	-	31	-	5,316
Conversion differences	-	1	-	(5)	-	(4)
Charge for the year	(221)	(52,003)	(429)	(4,203)	-	(56,856)
December 31, 2010	(15,388)	(395,966)	(6,228)	(42,391)	-	(459,973)
<b>Net book value</b>						
December 31, 2010	183	437,526	1,006	12,006	30	450,751
January 1, 2010	310	411,655	1,345	14,833	-	428,143

### *Technical installations and machinery*

The net book value of technical installations and machinery includes €78,620,489 valued at original cost less accumulated depreciation of assets held under finance leases (2009: €88,580,000). Accumulated depreciation on these assets amounted to €95,421,199 at December 31, 2010 (2009: €85,979,000).

Due to the progressive increase in clients with no prior technical installation (“par vacante”), the Group decided for the first time in 2009 to capitalize under this heading the installation costs necessary to provide these services. The principal items capitalized as “Par vacante” correspond to line connections, interior network installations (cabling), and installation of network termination points (network sockets), all necessary to connect customers to the service.

The total costs capitalized as “Par vacante” at December 31, 2010 amounts to 24.97 million euros (10.4 million euros at December 31, 2009) and the total net book value amounts to 11.3 million euros (8.1 million euros at December 31, 2009).

Given the high growth levels in Jazztel's customer base, combined with the fact that customers are not subject to minimum commitment periods, to estimate the useful life based on the average customer life is complicated. The useful life of these assets at December 31, 2009 was estimated in 12 months. Based on updated data available at the end of 2010, on average length of time that customers with no prior technical installation remains in the Company, the useful life of these assets has been re-estimated in 24 months, to be applied prospectively from July 1st onwards. The total effect of this change during 2010 is a lower depreciation charge and accumulated depreciation by 4.6 million euros in 2010.

The additions of Technical installations and machinery in 2010 correspond to network equipment (DSLAM, Softswitch) required for network expansion as well as necessary for new technology deployed (VDSL).

## **Jazztel PLC**

### **Notes to the financial statements For the year ended 31 December 2010**

#### *Fixed assets impairment*

According to the calculations of recoverable value of assets, as described in Note 13, at year end 2010 and 2009 there is no impairment of fixed assets to be accounted for since recoverable values, calculated as value in use, are higher than net book values.

In addition, sensitivity analysis have been performed including possible changes in all main assumptions considered in the valuation, and all those analysis continue arising recoverable values higher than net book values.

No significant impairment losses of Group's non current assets have occurred during 2009 and 2010.

#### *Other information*

No interest has been capitalised within total cost of tangible fixed assets for the years ended 31 December 2010 and 31 December 2009 since IAS 23 criteria for capitalization are not met.

The gross carrying amount of PPE fully depreciated as at 31 December 2010 that is still in use is €173.02 million (€152.80 million as at 31 December 2009).

There are no purchases of intangible assets from group companies.

As at 31 December 2010 the amount of intangible assets situated outside of Spain corresponds to Jazzplat S.A., being gross carrying amount of €3.1 million and accumulated amortization of €2.5 million, and to Jazzplat Chile Call Center, S.L., being gross carrying amount of €0.030 million and accumulated amortization of €0.006 million.

The amount of contractual commitments for the acquisition of PPE is €18.4 million.

All required disclosures in relation to operating and finance leases have been included within the Note 22 and 18 respectively.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 13. Long term investments

#### Company

Company	Thousand of euros				
	Investment in subsidiaries	Cost of share options granted	Total cost of shares in subsidiaries	Loans to subsidiaries	Total
	Fair value			Amortized cost	
<b>Cost</b>					
January 1, 2009	792,515	14,960	807,475	650,034	1,457,509
Additions	-	147	147	18,500	18,647
<b>December 31, 2009</b>	<b>792,515</b>	<b>15,107</b>	<b>807,622</b>	<b>668,534</b>	<b>1,476,156</b>
Additions	-	2,284	2,284	1,447	3,731
Loans' capitalization	571,676	-	571,676	(406,034)	165,642
Transfer	-	-	-	(40,000)	(40,000)
Disposals	-	-	-	(10,000)	(10,000)
<b>December 31, 2010</b>	<b>1,364,191</b>	<b>17,391</b>	<b>1,381,582</b>	<b>213,947</b>	<b>1,595,529</b>
<b>Impairment corrections</b>					
January 1, 2009	(792,515)	(14,960)	(807,475)	(178,609)	(986,084)
Impairment reversals	37,997	14,960	52,957	178,609	231,566
<b>December 31, 2009</b>	<b>(754,518)</b>	<b>-</b>	<b>(754,518)</b>	<b>-</b>	<b>(754,518)</b>
Impairment reversal	253,814	-	253,814	-	253,814
<b>December 31, 2010</b>	<b>(500,704)</b>	<b>-</b>	<b>(500,704)</b>	<b>-</b>	<b>(500,704)</b>
<b>Net carrying amount</b>					
January 1, 2009	-	-	-	471,425	471,425
<b>As at December 31, 2009</b>	<b>37,997</b>	<b>15,107</b>	<b>53,104</b>	<b>668,534</b>	<b>721,638</b>
<b>As at December 31, 2010</b>	<b>863,487</b>	<b>17,391</b>	<b>880,878</b>	<b>213,947</b>	<b>1,094,825</b>

The amount under "Investment in subsidiaries" corresponds mainly to the investment in Jazz Telecom, S.A.U. The amount under "Loans to subsidiaries" corresponds to Profit Participative loans and Accounts Receivable.

On December 20, 2010 the Parent's directors agreed to a partial capitalization of loans that Jazztel P.L.C. had granted to Jazz Telecom, S.A.U. by €406,034,000 of nominal value together with the total accumulated interests as of December 1, 2010, amounted to €165,642,000. In addition, a profit participative loan amounting to €10,000,000 has been repaid during 2010. Consequently, Jazz Telecom, S.A.U. has granted by Jazztel, P.L.C. €252,500,000 of profit participative loans to finance its operations as at 31 December 2010 (2009: €668,534,000). Of all these loans, €20 million due in March 2011, €20 million due in October 2011 are classified under "Current financial assets" (Note 14), the rest €33.5 million are due in December 2012, €121 million are due in January 2013 and €58 million are due in December 2013. All these loans have a fixed interest rate of 2% and a variable interest of 12% over EBIT that is payable if the subsidiary becomes profitable before interest and taxes. The interest accrued at 2010 year end which have not been paid amounts to €1,447,000 clasified under this heading as according the contracts are not due within the next 12 months.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### *Investments in group companies*

Jazztel, PLC's investment in its subsidiary Jazz Telecom, S.A. is measured at the recoverable amount, taking into account the requirements of IAS 36. The recoverable amount is based on the subsidiary's five-year business plan plus a value in perpetuity with a growth rate of 1.5% are used. The main variables affecting the determination of recoverable amounts include, among others: customer growth, ARPU (Average Revenues Per User), the cost of attracting and retaining clients, investments in non-current assets, and growth and discount rates.

The discount rate applied is 11.24%.

In order to calculate the recoverable amount of the investment, the value in use obtained from the above assumptions were adjusted using Jazz Telecom S.A.U.'s net debt: bank borrowings and finance lease obligations, less current financial investments, and cash and cash equivalents.

As a result, and in accordance with IAS 36, the Company has reversed €254 million of the previously recognised impairment charge in respect of Jazz Telecom S.A. in the year ended 31 December 2010 (2009: €232 million impairment charge).

A sensitivity analysis of reasonably possible variations in the main valuation variables was carried out, and the recoverable amount is still higher than the net carrying amount.

### *Key assumptions used in the value in use calculations*

#### **Projected EBITDA**

Projected EBITDA has been based on past experience adjusted for the following:

- Further ADSL customer base growth will continue driving further revenue growth;
- Average revenues per user (ARPU) are expected to continue under pressure due to increased competition;
- The Company's blended margin will benefit from the increased weight of the retail telecommunications division in total revenues;
- Further operational leverage, as costs grow at a slower rate than revenues and margins, as the company leverages on its significant network proprietary assets;

#### **Projected investments**

Projected investments reflect the continuous effort needed in order to expand and upgrade the Company's network. These efforts include the investments needed in order to increase capacity in ULL local exchanges and investments customer's premises equipment (CPEs) to accommodate the growth to be experimented by the ADSL customer base, the implementation of the new technologies in the network, the upgrade and expansion of the telecommunications platforms and the opening of new ULL local exchanges in order to increase the coverage of the Company's DSL network.

Investment projections have been done taking into account the actual developments and future trends observed in the telecommunications market. Nonetheless, these projections do not take into account future technology changes that may occur in the market and that cannot be foreseen by the management under current business trends, as detailed in the risk section of the Directors' Report. These changes could result in these investment projections to result insufficient and management forced to raise them in future years.

As in any future projections, the Company's projections are subject to risks and uncertainties such as competitive developments, development of the market, and regulatory issues.

#### **Long-term growth rate**

Five year projections have been used in the value in use calculations. A long-term growth rate into perpetuity has been used to calculate terminal value. The long-term growth rate into perpetuity has been determined according to expected long-term nominal GDP growth rates for Spain.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Discount rate

The discount rate applied to the cash flows of the Company is based on the risk free rate for ten year bonds issued by the Spanish government, adjusted for a risk premium to reflect the increased risk of investing in equities. In making this adjustment, inputs required are the equity market risk premium (that is, the increased return required above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, the beta, applied to reflect the risk of the specific Company relative to the market as a whole. Management has used a historical equity market risk premium that takes into consideration the average equity market risk premium over the past thirty years.

### Sensitivity to changes in assumptions

The estimated recoverable amount of the investment in Jazz Telecom, S.A. (Sole Shareholder) equals its respective carrying value and, consequently, any adverse change in a key assumption would, in isolation, cause a further impairment loss (less reversal of impairment provision) to be recognized.

The table below shows the key assumptions used in the value in use calculation:

	%
Long term growth rate	1.5
Discount rate	10.93
Projected investments (*)	8.79

The changes to assumptions used in the impairment review would, in isolation, lead to an (increase)/decrease to the aggregate impairment reversal recognized in the year ended 31 December 2010:

<i>Euro million</i>	<b>Effect on impairment loss</b>		
	<b>Range used</b>	<b>Range -</b>	<b>Range +</b>
Discount rate	(-1%+1%)	-146,264	119,165
Long term growth rate	(-0.5%+0.5%)	43,259	-48,081
Projected investments (*)	(-1%+1%)	-45,395	34,152

(\*) Projected investments is expressed as a percentage of revenue in the final year of the valuation period, which is used to calculate the terminal value.

### Group

Non-current financial assets of the Group are held-to-maturity investments amounting to 951 thousand of Euros at December 31, 2010 (1,133 thousand of Euros in 2009)

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 14. Other current financial assets and cash and cash equivalents

	Thousand of euros			
	Group		Company	
	2010	2009	2010	2009
Short-term deposits	18,558	20,142	129	1,747
Other loans and deposits	563	226	-	-
Other current financial investments	19,121	20,368	129	1,747
Loans and interest due from other Group companies	-	-	40,000	135,613
Financial assets held to maturity	19,121	20,368	40,129	137,360
Cash and cash equivalents	24,627	38,144	3,873	21,668
<b>Total</b>	<b>43,748</b>	<b>58,512</b>	<b>44,002</b>	<b>159,028</b>

#### Company and Group

##### *Other current financial investments*

Current financial investments held by Group to generate financial income from available liquidity at December 31, 2010 and 2009 are investments in government debt or time deposits that mature in more than three months and less than one year. The average interest rate on these investments is Euribor to maturity. All current financial investments are held to maturity but can be drawn on by the Group immediately if required.

##### *Loans and interest due from other Group companies*

As a result of the debt restructuring carried out in December 2010 (Note 13), Company has renegotiated new expiration dates for all Profit Participative Loans held with Jazz Telecom, S.A. The amount classified under this heading, being €40,000,000, refers to loans due within the next twelve months at December 31, 2010.

##### *Cash and Cash equivalents*

Cash and cash equivalents heading at December 31, 2010 and 2009 comprises cash and short-term bank deposits with maturities of less than 3 months, the purpose of which is to meet short term cash commitments. The Parent and the Group earn interest on these amounts, thereby generating revenue from available excess liquidity. The average interest rate on these deposits is linked to Euribor. The Group can draw on these amounts immediately if required.

The Group holds cash at banks of €18,468,000 as at December 31, 2010 (December 31, 2009: €37,596,000).

At December 31, 2010 the amount of restricted cash of the Group, consisting of bank guarantees, is €2,989,000 (December 31, 2009: €3,747,000).

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 15. Trade and other receivables

	Thousand of euros			
	Group		Company	
	2010	2009	2010	2009
<b>Trade receivables</b>	87,936	66,657	-	-
Receivables from Group companies	-	-	1,916	1,636
Public administrations	1,563	1,267	-	354
Other receivables	6,072	5,309	34	34
Prepaid expenses	5,227	895	-	-
<b>Total other receivables</b>	12,862	7,471	1,950	2,024
<b>Total trade and other receivables</b>	100,798	74,128	1,950	2,024

All receivables are due within one year.

The average collection period is 17.1 days (2009: 24.7 days). No interest is charged on receivables paid by their due date. An allowance for impairment of doubtful amounts from the sale of goods of €84.2 million is recognized at December 31, 2010 (December 31, 2009: €68.2 million).

The Directors consider that the carrying amount of trade and other receivables approximates its fair value.

Included in the Group's trade receivable balance are debtors with a carrying amount of €4,037,432 (2009: €5,391,000) which are past due at the reporting date and for which the Group has not booked an impairment, since there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ages of unimpaired past due balances are broken down as follows:

Overdue by:	Thousand of euros	
	2010	2009
Less than 30 days	2,320	4,446
More than 30 days but less than 180 days	1,717	945
<b>Total</b>	4,037	5,391

#### Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of bad debt provisions. An impairment adjustment is made when there is evidence of a reduction in cash flows.

The Group has above 950,000 individual customers, which limits individual credit risk and ensures that the Group does not depend on any one customer or group of customers. Thus, the Directors do not consider risk exposure to be significant.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Ageing of impaired past due balances:

Overdue by:	Thousand of euros					
	2010			2009		
	Gross balance	Impairment adjustment	Net balance	Gross balance	Impairment adjustment	Net balance
Less than 30 days	1,467	954	513	3,160	1,327	1,833
More than 30 days but less than 180 days	8,940	6,662	2,278	9,704	6,325	3,379
More than 180 days but less than one year	8,345	7,689	656	8,302	7,627	675
More than one year	68,924	68,924	-	52,880	52,880	-
<b>Total</b>	<b>87,676</b>	<b>84,229</b>	<b>3,447</b>	<b>74,046</b>	<b>68,159</b>	<b>5,887</b>

Trade receivables with ages greater than one year are fully provided without adding to additional financial risk. However, the Group continues to pursue the recovery of these fully provided trade receivables.

Movement in the allowance for estimated irrecoverable amounts with respect to trade receivables:

	Thousand of euros	
	2010	2009
Balance at start of period	68,159	53,871
Additional allowance for irrecoverable amounts (Note 7)	16,070	14,288
<b>Balance at end of period</b>	<b>84,229</b>	<b>68,159</b>

### 16. Current financial liabilities: Trade and other payables

Financial liabilities at December 31, 2010 and 2009 are disclosed below:

	Thousand of euros			
	Group		Company	
	2010	2009	2010	2009
<b>Trade and other payables</b>	116,066	133,274	425	737
Borrowings from Group companies and associates	-	-	3,837	3,664
Other amounts payable to the Tax Authorities	4,024	1,442	13	75
Social security	1,139	960	-	44
Other borrowings	20,666	20,080	-	-
<b>Total other payables</b>	<b>25,829</b>	<b>22,482</b>	<b>3,850</b>	<b>3,783</b>
<b>Total accounts payable</b>	<b>141,895</b>	<b>155,756</b>	<b>4,275</b>	<b>4,520</b>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days (2009: 60 days). The Directors consider that the carrying amount of trade and other payables approximates their fair value.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 17. Current financial liabilities: Other financial liabilities

Current financial liabilities as at December 31, 2010 and 2009 are disclosed below:

	Thousand of euros			
	Group		Company	
	2010	2009	2010	2009
9.75% bond (Note 18)	33,399	15,243	33,399	15,243
Interest on 5% Convertible bond	-	3,624	-	3,624
<b>Total bonds and other marketable securities</b>	<b>33,399</b>	<b>18,867</b>	<b>33,399</b>	<b>18,867</b>
8% notes payable	873	3,411	-	-
Other loans	35,048	15,500	-	-
<b>Loan notes and other short term loans</b>	<b>35,921</b>	<b>18,911</b>	<b>-</b>	<b>-</b>
<b>Short-term finance lease obligations (Note 18)</b>	<b>19,252</b>	<b>3,389</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>88,572</b>	<b>41,167</b>	<b>33,399</b>	<b>18,867</b>

#### Credit facility secured by debtors

Balances under “Other Loans” include payables to various credit institutions related to credit facilities secured by debtors. As at 31 December 2010 the Group has two credit facilities: one has a maximum limit of €15 million with cost referenced to one month Euribor, which falls due in December 2011, while the other has a maximum limit of €20 million with cost referenced to one month Euribor, falling due in December 2011 (one credit facility at December 31, 2009 with a limit of 15.5 million euros and cost referenced to one month Euribor)

#### 8% Note payable

As a result of a contract signed with RENFE on 31 October 2002, the Group has assumed a loan of €0.87 million at 31 December 2010 (€3.4 million in 2009), bearing interest at 8% annually and maturing in January 2011.

### 18. Non-current financial liabilities

Non-current financial liabilities at December 31, 2010 and 2009 are disclosed below:

	Thousand of euros			
	Group		Company	
	2010	2009	2010	2009
9.75% bond	66,798	100,197	66,798	100,197
<b>Total</b>	<b>66,798</b>	<b>100,197</b>	<b>66,798</b>	<b>100,197</b>
8% notes payable (Note 17)	-	856	-	-
<b>Total</b>	<b>-</b>	<b>856</b>	<b>-</b>	<b>-</b>
<b>Long-term finance lease obligations</b>	<b>114,195</b>	<b>94,365</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>180,993</b>	<b>195,418</b>	<b>66,798</b>	<b>100,197</b>

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 9.75 % bond

On May 5, 2009 Jazztel signed an agreement with the main convertible bondholders for the refinancing of the debt represented by said bonds, amounting to €251.3 million. The main terms of the agreement, which was implemented on July 22, 2009, are as follows: (i) the Company repurchased €140 million of convertible bonds at a 50% discount to their nominal value; (ii) in order to repurchase these bonds, Jazztel carried out a €90 million capital increase; (iii) the maturity of the bonds that were not repurchased, amounting to €111.3 million, was extended by three years, up to April 2013, and convertibility to Company shares was discontinued; and (iv) 200 million warrants were issued, exercisable for 200 million ordinary shares of the Company.

By virtue of this transaction, Jazztel reduced the nominal amount of debt from €251.3 million to €111.3 million, generating €32.61 million of financial gains.

As part of the refinancing agreement, Jazztel issued 200 million warrants in July 2009 (100 million Series A warrants and 100 million Series B warrants) exercisable for 200 million ordinary shares at an exercise price of €0.18 per share. The terms for the Series B warrants include a clause by virtue of which the Company may notify the holders of an early expiry date, if on 20 trading days during any consecutive period of 30 trading days the price of the Company's shares equals or exceeds €0.27 per share.

As a result of the restructuring mentioned above, the 5% convertible bonds outstanding after repurchase became 9.75% bonds, no longer convertible.

The principal amounting to €111.3 million is redeemed as follows: 10% in December 2010, 30% in 2011, 30% in 2012, and the remaining 30% in April 2013. These bonds bear annual interest at 9.75%, payable every six months.

The debt restructuring agreement signed with the bondholders on May 5, 2009, assumes compliance with certain covenants included in the capital increase brochure published by the CNMV on June 18, 2009 (Section 10.3), which states, among others:

- Indebtedness limits: apart from certain situations and exceptions detailed in the restructuring agreement, the indebtedness of the Company and its subsidiaries must never surpass the higher of the following two figures: €180 million or three times the Company's annualized operating gains (EBITDA), to a maximum of €300 million. This indebtedness figure excludes certain items, such as factoring, leasing, and financial network leasing.
- Dividend payment limitations: neither the Company nor its subsidiaries may distribute dividends, except under certain circumstances and exceptions described in the restructuring agreement.
- Limitations placed on transactions with associated companies (transactions with related parties)
- Limitations on company acquisitions
- Limitations on the indebtedness of subsidiaries, which are identical to those of the Parent
- Limitations on the sale of assets and pledges on assets

Furthermore, Jazz Telecom S.A. becomes the guarantor for these bonds.

### Financial instruments

The Group issues financial instruments to finance its operations.

The Group finances its operations through a mixture of bonds, warrants, long-term loans, and finance leases. In some cases Group's debt is raised centrally through the Parent and is then lent to operating subsidiaries via participative loans on commercial terms. The Group borrows at both fixed and variable rates of interest in the major global debt markets in Euros. In addition, it also enters into finance lease agreements at variable rates of interest.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Liquidity risk management

The Group could be exposed to short-term liquidity risks if cash outflow requirements exceed cash inflows and currently available funds. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board and Financial Management of the Group have built an appropriate liquidity risk management framework for short, medium, and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves for working capital purposes, while continuously monitoring forecast and actual cash flows.

### Maturity of financial liabilities

The contractual maturity profile of the Group's non-current financial liabilities at December 31, 2010 and 2009 is as follows:

	2010	2009
	<b>Thousand of euros</b>	
<b>9.75% bond</b>		
In more than one year but less than two years	33,399	33,399
In more than two years but less than five years	33,399	66,798
	<u>66,798</u>	<u>100,197</u>
<b>8% notes payable</b>		
In more than one year but less than two years	-	856
	<u>-</u>	<u>856</u>
<b>Finance leases</b>		
In more than one year but not more than two years	18,432	3,556
In more than two years but not more than five years	29,006	17,777
In more than five years	66,757	73,032
	<u>114,195</u>	<u>94,365</u>
<b>Total borrowings</b>		
In more than one year but not more than two years	51,831	37,811
In more than two years but not more than five years	62,405	84,575
In more than five years	66,757	73,032
<b>Total non-current financial liabilities</b>	<u>180,993</u>	<u>195,418</u>

### Currency risk

Although the Parent Company is incorporated in Great Britain, its operations are mainly made in Spain through its subsidiary Jazz Telecom, S.A. and financed in Euros. Since almost all the cash and cash equivalents handled by the Group is denominated in Euros, currency rate fluctuations have a limited impact.

### Interest rate risk

As at 31 December 2010 the Group's exposure to risk of cash flows due to interest rate risk is limited to €35 million in the Group's credit facility secured by debtors which has a cost referenced to Euribor to maturity (€15.5 million in 2009), since the rest of liabilities are referenced to fixed interest rate.

As managing the exposure to interest rates fluctuations, the Group's objective is to obtain its debt with fixed interest rates and to associate repayments of non convertible debt to fixed interest rate deposits in the same currency. As consequence of that, 1% variations on interest rates has no significant impact to Group's results.

It is the Group's policy to obtain debt taking advantage of the best rates it can achieve, using a mixture of fixed and variable rates depending on what the Group believes to be most cost effective in the long-term and manageable in the short-term.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's financial short-term and long-term liabilities at December 31, 2010 is as follows:

Currency		Total	Fixed rate financial liabilities	Variable rate financial liabilities	Interest rate	Weighted average interest rate	Weighted average period for which rate is fixed
		€ Million	€ Million	€ Million			Years
Euro	9.75% bond	100.2	100.2	-	9.75%	-	1.35
Euro	8% notes payable	0.9	0.9	-	8.00%	-	-
Euro	Finance leases	133.4	133.4	-	6.95%	-	8.41
	<b>Total</b>	<b>234.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8.48%</b>	<b>-</b>
Euro	Credit facility	35.1	-	35.1	3.10%		
	Total	35.1	-	35.1	-		
	<b>Total</b>	<b>269.6</b>	<b>234.5</b>	<b>35.1</b>	<b>-</b>		

The interest rate risk profile of the Group's financial liabilities at December 31, 2009 was as follows:

Currency		Total	Fixed rate financial liabilities	Variable rate financial liabilities	Interest rate	Weighted average interest rate	Weighted average period for which rate is fixed
		€ Million	€ Million	€ Million		%	Years
Euro	5% Convertible Bond	3.6	3.6	-	5.00%	-	0.33
Euro	9.75% bond	115.4	115.4	-	9.75%	-	2.28
Euro	8% notes payable	4.3	4.3	-	8.00%	-	0.59
Euro	Finance leases	97.8	97.8	-	6.94%	-	11.80
	<b>Total</b>	<b>221.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8.40</b>	<b>-</b>
Euro	Factoring agreements	15.5	-	15.5	4,6%		
	Total	15.5	-	15.5	-		
	<b>Total</b>	<b>236.6</b>	<b>221.1</b>	<b>15.5</b>	<b>-</b>		

### Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all the Group's and Company's financial assets and financial liabilities. The Directors consider the fair value of short-term debtors and creditors, such as trade receivables, prepayments, trade payables, and provisions, to be very similar to their carrying amounts as of December 31, 2010 and 2009.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

Primary financial instruments held or issued to finance the Group's operations break down as follows:

	2010		2009	
	Carrying amount € million	Fair value € million	Carrying amount € million	Fair value € million
<b>Liabilities</b>				
Finance lease obligations	133.4	133.4	97.8	97.8
9.75% bond	100.2	102.7	115.4	105.6
5% Convertible bond	-	-	3.6	3.6
8% notes payable	0.9	0.9	4.3	4.3
Factoring agreements	35.1	35.1	15.5	15.5
<b>Assets</b>				
Short-term investments (Note 14)	19.1	19.1	20.4	20.4
Cash and cash equivalents ( Note 14)	24.6	24.6	38.1	38.1

In 2010 and 2009, the fair value calculation of issued bonds was based on data from the last market transaction before year end.

The following is a breakdown of the amounts payable under finance lease at December 31:

Amount payable under finance lease	2010	2009
	Thousand of euros	
Within one year	26,882	9,740
In the second to fifth years inclusive	65,144	40,210
After five years	114,774	125,921
Total	206,800	175,871
Less: future finance charges	(73,353)	(78,117)
<b>Present value lease obligations</b>	<b>133,447</b>	<b>97,754</b>

### 19. Non-current provisions

Company	Thousand of euros
January 1, 2010	-
Charge during the year (Note 9)	777
<b>December 31, 2010</b>	<b>777</b>

The amount accrued as non current provision during the year is due to the negative equity of Jazzcom Ltd. at December 31, 2010.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 20. Equity

#### Listed shares

	2010		2009	
	Number of shares	€'000 Capital	Number of shares	€'000 Capital
<b>Authorized</b>				
(ordinary shares at €0.80 each)	327,500,0000	262,000	327,500,0000	262,000
(non-voting shares at €0.015 each)	-	-	5,000,000	75
	<u>327,500,0000</u>	<u>262,000</u>	<u>332,500,000</u>	<u>262,075</u>
<b>Allotted, called-up, and fully paid</b>				
(ordinary shares at €0.80 each)	244,667,173	195,734	243,983,032	195,187
(non-voting shares at €0.015 each)	-	-	5,000,000	75
	<u>244,667,173</u>	<u>195,734</u>	<u>248,983,032</u>	<u>195,262</u>

On June 5, 2009, the General Shareholders Meeting agreed to a share consolidation of the Company's authorized share capital, in which 3,275,000,000 ordinary shares with voting rights at a nominal value of €0.08 each are to be reduced to 327,500,000 ordinary shares with voting rights at a nominal value of €0.80 each, representing a 1 for 10 reverse stock split. The Board of Directors approved this agreement on December 21, 2009. This reverse stock split was effective on January 18, 2010, when the new shares were listed. Issued share capital at that date was reduced from 2,439,830,328 to 243,983,032 shares.

Further, on May 14, 2010, the Company repurchased and cancelled 5,000,000 non-voting shares denominated in pound sterling and with a nominal value of 0.01 pounds sterling each. These shares, issued at incorporation of the Company and listed on the Madrid, Barcelona, Bilbao, and Valencia stock exchanges, were subject to legal obligations in the UK. These obligations were met with the passing of the new UK Companies Act in 2006. In accordance with the stipulations of the Company's bylaws, these shares were repurchased for a total price of one penny.

Furthermore, on 27 April 2010, the Board of Directors approved the entering into by the Company of a deed of amendment amending the terms of an escrow deed which was entered into on 18 November 2002 between the Company and The Bank of New York Mellon in relation to the 2003 group restructuring of debt of Jazztel, and under which the Company appointed The Bank of New York Mellon as agent to hold in escrow, on behalf of various beneficial owners, certain shares, convertible bonds and monies in accordance with the terms established therein. Said deed of amendment, was entered into by the parties on 28 April 2010, which allowed the Company to acquire, for nil consideration, the 87,091 Escrow Shares, with a nominal value of EUR 0.8 each, which had not been claimed from The Bank of New York Mellon and which, once acquired, were also cancelled on 10 June 2010. Consequently, Jazztel notified Companies House on 15 June 2010 of the cancellation of the Escrow Shares.

During 2010 599,606 ordinary shares were issued to meet warrants of Series A exercised, with a nominal value of €479,685, and 171,625 ordinary shares to meet the exercise of share options, with a nominal value of €137,300.

During 2009, 5,826,812 ordinary shares with a nominal value of €466,145 were issued at a premium of 592 thousand Euros, to meet the share options execution.

During 2009, 50,346,595 ordinary shares with a nominal value of €4,027,728 were issued at a premium of €10,134,770 as settlement for convertible 5% bond interest.

During 2009, 141,902,999 ordinary shares were issued to meet warrants exercise, from which 99,685,652 of Serie B and 42,217,347 of Serie A have been executed at year end, without anticipated expiration date condition. Warrants series B not exercised expired on November 13, 2009 (see paragraph "Warrants" below).

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

As a result of the convertible bond restructuring agreement and in order to finance the bond repurchases, on July 16, 2009 the Company carried out a €90 million capital increase and issued 200 million warrants for the purchase of 200 million ordinary shares\* of the Company. In this respect, during 2009, 750,000,000 ordinary shares with a nominal value of €60,000,000 were issued with a €30,000,000 share premium.

### Company's Reserves

The reserves represent €648 million of net realized losses and €165 million of non distributable unrealised gains as at 31 december 2010.

### Capital risk management

The Group manages its capital to ensure it will be able to continue its activities whilst maximizing the return to stakeholders through optimization of the debt and equity ratio. The Group's capital structure is composed of debt, which includes borrowings disclosed in Notes 17 and 18, cash and cash equivalents, and equity attributable to equity holders of the Parent, comprising issued capital, reserves, and retained earnings as disclosed in this Note. The Group reviews its financial structure regularly, considering the cost of capital and the risks associated with each financial class, i.e. debt or capital.

### Significant Shareholder

On September 25, 2004, the Company reached an agreement with a new investor for the acquisition of a 24.9% stake in the share capital of the Company. On October 18, 2004 the Spanish Securities Exchange Commission (CNMV) registered the abridged prospectus of the transaction by which Leopoldo Fernández Pujals, entrepreneur and founder of TelePizza, acquired a 24.9% equity holding in the Company. The transaction was closed on September 24, 2004 for €61.9 million. The investment was carried out on October 18, 2004, by means of a capital increase and issue of convertible bonds without any preferential subscription rights for shareholders.

At December 31, 2009, Company equity interest of the significant shareholder (Leopoldo Fernández Pujals), through the company Prepsa Traders, S.A., stood at 19.225% of voting rights (46,904,829 shares).

On 29 of July 2010 the private placement of 9,770,000 shares of Jazztel plc has been carried out by investment entities through an accelerated bookbuilding process, representing 4% of its share capital, held by PREPSA TRADERS, S.A. After this transaction, PREPSA TRADERS, S.A. owns 37,126,096 shares of Jazztel plc, representing 15.174% of its share capital.

The change of consideration in Company's equity interest based on proportion of voting rights became as consequence of the entry into force of Act 2 in December 19, 2007 issued by CNMV, in which are regulated and approved several forms of notification of significant shareholders, Directors, Top Management and own shares operations made by the issuer and Act RD 1362/2007, of October 19, in which are regulated transparency requirements in relation to issuers information to listed Companies in Spain or in other EU state.

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(\*) Share consolidation that took place in 2010 in proportion of 1 to 10 does not affect the number of warrants issues, but the number of shares that intitles its exercise, being necessary the exercise of 10 warrants to issue 1 share.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Other equity instruments

The breakdown of the Group's Other equity instruments is as follows:

	Share options	5% Convertible		Total
		Warrants	bond	
Thousand of euros				
<b>Balance at January 1, 2008</b>	19,004	19,850	76,332	115,186
Granting of share options	1,755	-	-	1,755
Extraordinary variable compensation plan	1,788	-	-	1,788
Partial cancellation of long-term incentive plan	(2,764)	-	-	(2,764)
Reclassification 2005 and 2009 Share Schemes	(15,317)	-	-	(15,317)
Cancellation of equity portion on bond	-	-	(76,332)	(76,332)
Warrants issue	-	24,410	-	24,410
Warrants exercised	-	(16,348)	-	(16,348)
<b>Balance at December 31, 2009</b>	<b>4,466</b>	<b>27,912</b>	<b>-</b>	<b>32,378</b>
Granting of share options	1,371	-	-	1,371
Long-term incentive plan	2,554	-	-	2,554
Warrants exercised	-	(839)	-	(839)
Warrants lapsed	-	(19,823)	-	(19,823)
<b>Balance at December 31, 2010</b>	<b>8,391</b>	<b>7,250</b>	<b>-</b>	<b>15,641</b>

### Warrants

The detail of outstanding warrants is as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Issued at April, 1999	-	-	33,423
Issued at July, 2000	-	225,000	225,000
Issued at May, 2009 (Series A)	51,786,579	57,782,653	-
Issued at May, 2009 (Series B)	-	-	-

In connection with the April 1999 offering of \$110,000,000 and €100,000,000 14% senior notes, due in 2009, that were cancelled during 2002, the Company issued 500,000 dollar warrants and 550,000 Euro warrants to purchase 1,913,213 and 2,262,795 ordinary shares respectively at an exercise price of €0.08 per share. The estimated fair value of these warrants at the date issued was \$2.82 for each dollar warrant and €2.82 for each Euro warrant.

In connection with the July 2000 offering of €225,000,000 14% Senior Notes, due in 2010, that were cancelled during 2002, the Company issued 225,000 Euro warrants to purchase 1,350,000 ordinary shares at an exercise price of €34.10 per share. The estimated fair value of these warrants at the date issued was €87.80 for each Euro warrant.

The expiration date of each Dollar and Euro warrant was 1 April 2009 for the warrants issued in 1999 and was 15 July 2010 for the warrants issued during July 2000. Any warrant that was not exercised before the expiration date became void, and all rights of the holder under the applicable warrant agreement ceased.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

As explained in Note 18 and in the Director's Report, as result of the convertible bond restructuring agreement signed on May 5, 2009 the Company issued in July 2009, 200 million warrants (100 million Series A warrants and 100 million Series B warrants) to be exercised as 200 million ordinary shares at an exercise price of €0.18. The expiration date of both Series A and Series B warrants is April 29, 2013. The difference between the Series A warrants and the Series B warrants is that under the terms of the Series B warrants, the Company may notify the holders of an early expiry date, if the price of the ordinary shares of the Company is equal to or exceeds €0.27 per share on more than any 20 trading days during any consecutive period of 30 trading days. These conditions were fulfilled on October 16, 2009, and the warrants expired on November 13, 2009.

The method used to determine the fair value of warrants and the main assumptions used are as follows:

<b>Main assumption</b>	<b>Series A warrants</b>	<b>Series B warrants</b>
Method of valuation	Black-Scholes	Monte Carlo
Share price at issue date	0.24	0.24
Volatility	70%-72	70%-72
Dividend rate	0%	0%
Exercise price	0.18	0.18
Free interest rate	2.47%	2.47%
Fair value at issue	0.14	0.1041

In 2009 141,902,999 warrants were exercised, of which 99,685,652 were warrants of Series B exercised at December 31, and 42,217,347 were warrants of Series A without the early expiry condition, and 9,650 warrants related to the bonds issued on April 1999 had been exercised.

In 2010 additional 5,996,074 warrants Series A were exercised with a fair value of 839 thousand of euros. At December 31, 2010 there were warrants Series A 51,786,579 pending to be exercised (57,782,653 at December 31, 2009).

Share consolidation that took place in 2010 in proportion of 1 to 10 does not affect the number of warrants issues, but the number of shares that intitles its exercise, being necessary the exercise of 10 warrants to issue 1 share.

In connection with the July 2000 offering of warrants, they have expired and have not been exercised at July 15, 2010 and consequently all rights to holders were cancelled and extinguished. The estimated fair value of these warrants at the date issued was €87.81 for each warrant (the impact amounted to approximately 19.8 million Euros).

### Stock options plans

Plan 2003, New Scheme 2005, and Scheme 2009 vested during 2009.

The Shareholders' Meeting approved at April 25, 2008 a new Plan named 2008-2012 previously approved by the Board of Directors. The total number of shares on which options can be granted under the Plan cannot exceed 2% of the Company's share capital at January 31, 2008. Members of the Company's Board of Directors and key employees of Jazz Telecom, S.A.U. and Jazzplat S.A. can be designated as participants in the Plan. In order to qualify for the Plan, all participants must be customers of Jazz Telecom S.A.U. and maintain their labour relation or Board membership with their respective companies. The options granted can be exercised from January 1, 2009 to March 31, 2013. At each year end one fifth of the options granted may be exercised. The exercise is at the holder's discretion and the exercise rights may be accumulated in their entirety or partially until the last year of the Plan. However, each annual block must be exercised in its entirety. The options can be exercised between the 1st and 20th day of each month. The exercise price of options granted was €0.29, corresponding to the average value of Jazztel PLC's share price during January 2008, until it was modified to €0.18 by virtue of a resolution passed by the Board of Directors on July 27, 2009 following a proposal from the Appointment and Remuneration Committee.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

The impact of the modifications to exercise prices ("repricing") on the income statement was recognized in accordance with the stipulations of paragraph 27 of IFRS 2: the amount recognized for the equity instruments was increased by the difference between estimated fair value of the original option and the modified fair value resulting from its new measurement consequent to repricing. The incremental fair value of the modified options related to the repricing is as follows:

Schemes	2009 Scheme		2008-2012 Scheme
Exercise period for the share options	June 1, 2009	November 1, 2009	March 31, 2013
<b>Incremental fair value of repriced option (€ per option)</b>	<b>0.0221</b>	<b>0.0308</b>	<b>0.0284</b>

The incremental fair value was calculated for each plan and equity instrument granted as the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated at the date of modification. Fair value of the repriced option was calculated with the same valuation method applied to the original option, i.e. the binomial options pricing model developed by Cox.

All share option payments described above are share based payments that can only be settled with equity instruments.

The Company calculates fair value of the options at the issue date using the binomial pricing model or the Black Scholes model. Volatility used in the valuation is historic volatility over the term to maturity of the option, calculated with the daily closing quotes up to the valuation date. For the purpose of calculating future share prices it was assumed that no dividends would be paid. The Company recognizes the cost that results from the valuation throughout the vesting period.

The total impact of the share option scheme is €1.37 million that has been recorded against other reserves, recognized in "Other equity instruments" (2009: €1.76 million).

The movement in options outstanding during the years ended December 31, 2010 and 2009 is summarized in the following tables:

### *Number of options under Plan 2003 and New Scheme 2005*

	Plan 2003		New Scheme 2005				Total
	Plan 2003	Plan 2003	Grant 2005	Grant 2006	Grant 2007	Grant 2008	
<b>Outstanding at January 1, 2009</b>	<b>75,000</b>	<b>100,044</b>	<b>595,409</b>	<b>260,000</b>	<b>282,320</b>	<b>116,979</b>	<b>1,429,752</b>
Granting of options in 2009	-	-	-	-	-	-	-
Exercised during 2009	(75,000)	-	(7,007)	-	(90,559)	-	(172,566)
Options cancelled/ forfeited during 2009	-	(100,044)	(588,402)	(260,000)	(191,761)	(116,979)	(1,257,186)
<b>Outstanding at December 31, 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

The assumptions used for the valuation of share options in respect of the different schemes are described in the following table:

Main assumption	New Scheme 2005			
	Grant 2005	Grant 2006	Grant 2007	Grant 2008
Method of valuation	Black Scholes	Binominal (Cox)	Binominal (Cox)	Binominal (Cox)
Share price at issue date	1.00 – 1.20	0.47 – 0.76	0.41 – 0.60	0.32
Volatility	40%	40%	72% - 83%	50% - 59%
Dividend rate	0%	0%	0%	0%
Exercise price	0.256	0.256	0.256	0.256
Interest rate	2.10% - 2.12%	2.65% - 3.35%	4.04% - 4.63%	4.48% - 4.60%
Valuation per share at issue date	0.35 – 0.86	0.04 – 0.50	0.11 – 0.36	0.06-0.093

### Number of options under Scheme 2009 and Scheme 2008-2012

	Scheme 2009			Scheme 2008-2012			Total
	Grant 2007	Grant 2008	Grant 2009	Grant 2008	Grant 2009	Grant 2010	
<b>Outstanding at January 1, 2009</b>	<b>4,159,444</b>	<b>266,724</b>	-	<b>23,435,000</b>	-	-	<b>27,861,168</b>
Granting of options in 2009	-	-	615,604	-	6,504,093	-	7,119,697
Exercised during 2009	(3,700,249)	(216,346)	(493,251)	(1,204,547)	(39,853)	-	(5,654,246)
Options cancelled/ forfeited during 2009	(459,195)	(50,378)	(122,353)	(4,166,453)	(4,440,370)	-	(9,238,749)
<b>Outstanding at December 31, 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,064,000</b>	<b>2,023,870</b>	<b>-</b>	<b>20,087,870</b>
<b>Outstanding at January 1, 2010 (after share consolidation)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,806,400</b>	<b>202,387</b>	<b>-</b>	<b>2,008,787</b>
Granting of options in 2010	-	-	-	-	-	650,337	650,337
Exercised during 2010	-	-	-	(163,700)	(13,274)	(1,925)	(178,899)
Options cancelled/ forfeited during 2010	-	-	-	(37,500)	-	(15,000)	(52,500)
<b>Outstanding at December 31, 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,605,200</b>	<b>189,113</b>	<b>633,412</b>	<b>2,427,725</b>
Exercisable at December 31, 2009	-	-	-	350,000	12,000	-	362,000
Exercisable at December 31, 2010	-	-	-	550,400	45,113	9,388	604,901
Exercise price	1.80	1.80	1.80	1.80	1.80	1.80	1.80
Exercise period	June and November 2009	June and November 2009	June and November 2009	May be exercised till March 2013			

The assumptions used for the valuation of share options in respect of the different schemes are described in the following table:

Main assumptions	Scheme 2009			Scheme 2008-2012		
	Grant 2007	Grant 2008	Grant 2009	Grant 2008	Grant 2009	Grant 2010
Method of valuation	Binominal (Cox)	Binominal (Cox)	Binominal (Cox)	Binominal (Cox)	Binominal (Cox)	Binominal (Cox)
Share price at issue date	0.41	0.32	0.258	0.29	0.26	3.299
Volatility	60% - 64.45%	50% - 59%	79.87%	59%	72%	48%
Dividend rate	0%	0%	0%	0%	0%	0%
Exercise price	0.43	0.43	0.18	0.29	0.18	1.80
Interest rate	4.47% - 4.77%	4.48% - 4.60%	0.95%	4.41%	2.48%	1.67%
Valuation per share at issue date	0.13 – 0.29	0.06-0.093	0.09	0.152	0.159	1.756

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Long term incentive plan

On July 24, 2006, the Board of Directors approved the Special Remuneration Plan in favour of the CEO (Mr José Miguel García Fernández) and a number of key executives and employees approved by the Appointment and Remuneration Committees. This plan was also approved at the general shareholder meeting that took place on April 26, 2007. It involved delivery of shares to the beneficiaries of the Plan in 2010. The total value of shares delivered was limited to a maximum of 1% (of which 0.5% is allocated to the CEO and the remaining 0.5% to the other beneficiaries) of the Company's increase in value from July 1, 2006 until July 1, 2010.

A necessary condition for delivery of the shares was that the Company attains profits as at June 30, 2010. At the time of exercise, beneficiaries of the Plan must be employed by the Group and users of Jazztel's services. In the case of a tender offer before the Plan's vesting date or if the Company were sold, the Plan would be settled as per the value of the Company at the date of sale.

<b>Main assumption</b>	<b>Long term incentive plan</b>
Method of valuation	Binominal (Cox)
Share price at issue date	0.62
Volatility	68%
Exercise price	0.525
Dividend rate	0%
Interest rate	4.76%
Valuation per share at issue date	0.335

Following a proposal of the Appointment and Compensation Committee, on November 5, 2009 the Board of Directors resolved to cancel the Special Remuneration Plan (Long Term Incentive Plan) as they considered that the non market vesting condition would not be met. As the cancellation of this Plan is a result of the failure to satisfy non market performance conditions that required the Company to generate net profits as at June 30, 2010, in accordance with IFRS 2 no amounts have to be recognized for the services received. The costs recognized before cancellation, amounting to €2.7 million, were reversed in the statement of comprehensive income in 2009.

### Extraordinary variable compensation plan\*

On November 5, 2009 the Board of Directors approved an extraordinary variable compensation plan tied to the appreciation of the Company's share price in the period 2009 to 2014.

The plan was established for the dual purpose of acknowledging and compensating the work performed by the CEO and members of the Executive Committee during recent years, and retaining and incentivizing these same executives since their presence is critical to the Company's ability to confront the challenges in executing the new Business Plan.

The Plan involves awarding the beneficiaries an extraordinary variable compensation consisting of the right to receive the potential appreciation of a certain number of the Company's shares assigned by the Board of Directors to each one of them. The appreciation will be determined by initial and final values of shares taken as a reference. The Board of Directors may grant compensation rights under the plan on a maximum number of 3,463,000 Company shares, equivalent to 1.43% of the issued capital. The notional number of shares allotted to the Chief Executive Officer (Mr. José Miguel García Fernández) is 1,400,000, which will be partially consolidated in five equal tranches as described as follows.

For calculation of the variable compensation, the €1.80 shall be taken as the starting reference value and the weighted average market price of the Company's share in the twenty trading sessions preceding the settlement date shall be taken as the final reference value.

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(\*) Number of shares and exercise price after share capital consolidation.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

The beneficiaries' right to receive the extraordinary variable compensation shall be partially consolidated in five tranches on December 31, 2009, 2010, 2011, 2012, and 2013 respectively, at the rate of 20% of the total variable compensation for each year. A total of 692,600 notional shares have been consolidated this year (692,600 in 2009). The starting date for settlement request will be July 1, 2010, whilst the last date for settlement request will be May 31, 2014. At the time of exercise, beneficiaries of the plan must be in the Group's employ.

This plan is only payable in shares.

The assumptions used for the valuation of share options in this scheme are described in the following table:

<b>Main assumption</b>	<b>Extraordinary variable compensation plan</b>
Method of valuation	Binominal (Cox)
Share price at issue date	0.291
Volatility	70.18%
Dividend rate	0%
Exercise price	0.18
Interest rate	2.68%
Valuation per share at issue date	0.1967

The total impact of this plan on results in 2010 amounted to €2.55 million that has been recognized in "Other equity instruments" (2009: €1.8 million)

All share option payments described above are equity-settled share-based payment transactions.

To exercise the options the CEO and members of the Executive Committee must remain employed when each tranche is exercised.

### Capital increase with preferential subscription rights

As a result of the convertible bond restructuring agreement and in order to finance the partial repurchase of the bonds, the Company carried out a €90 million capital increase on July 16, 2009 (Note 1).

### Other changes in equity

In connection with the C-569-07 case of HSBC against HMRC (Her Majesty's Revenue and Customs), on October 1, 2009, the European Community Court of Justice ruled that the stamp duty was contrary to Community regulations with respect to the free circulation of capital.

As a result of the ruling, the Company, which had been paying the stamp duty in disconformity, went on to request reimbursement of the amounts paid plus any late payment interest. HMRC decided in favor of the Company and paid the amounts claimed for the last six years. This brought with it a movement of 3,058 thousand euros in "Share premium" in the first half of 2010.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### 21. Major non-cash transactions

The most significant non-cash movements recorded through the comprehensive income relate to transactions for the year in connection with the share options, amounting €1.374 million (€1.76 million in 2009), and the extraordinary variable compensation plan, amounting €2.55 million (€1.8 million in 2009).

On April 29, 2009 the Company paid the coupon on the 5% Convertible Bond for the period between April 29, 2008 and April 28, 2009, by awarding JAZZTEL PLC ordinary shares to the bondholders (Note 18).

As a result of the convertible bond restructuring, the Company issued 200 million warrants (100 million Series A warrants and 100 million Series B warrants) for the purchase of 200 million ordinary shares\* at an exercise price of €0.18. The estimated fair value of Series A warrants and Series B warrants at the date of issue was €0.14 and €0.1041 respectively, resulting in the issue of warrants with a total fair value of €24,410,000 (Note 20).

### 22. Financial commitments, guarantees, and contingencies

#### Commitments

At the statement of financial position date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Group	2010	2009
	Thousand of euros	
Expiry date		
- within one year	1,883	2,165
- between two and five years	6,469	3,363
- After five years	2,581	4,760
	<u>10,933</u>	<u>10,288</u>

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance, and repair costs.

#### Guarantees

Jazztel PLC also maintains bank guarantees with various credit institutions, up to a maximum of approximately €0.13 million, which have been fully drawn (2009: €2.24 million).

On December 31, 2010 Jazz Telecom, S.A. had up to a maximum of €23.8 million (2009: €13.1 million) in available bank guarantees with various credit institutions. At December 31, 2010, Jazz Telecom, S.A. had drawn down €17.28 million (2009: €12.3 million).

As a result of the debt restructuring agreement for the 5% convertible bond (Note 18), Jazz Telecom S.A. became guarantor for the Company's obligations.

The directors of the Company consider that these guarantees will not result in significant liabilities for either the Company or the Group.

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(\*) Share consolidation that took place in 2010 in proportion of 1 to 10 does not affect the number of warrants issues, but the number of shares that entitles its exercise, being necessary the exercise of 10 warrants to issue 1 share.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

### Contingencies

#### *Litigation, claims, and assessments*

#### **Complaint filed by a former employee of Jazz Telecom before Court of Instruction No. 3 in Alcobendas**

On March 27, 2007, Jazz Telecom, S.A.U. received a penal claim from a former employee of Jazz Telecom, S.A.U. The lawsuit was filed at the Court of Instruction N° 3 in Alcobendas. The key issues addressed by the claim are:

- Significant differences between the financial statements of Jazz Telecom, S.A.U. and the financial information filed with mercantile registries, provided and approved by the defendant, in areas such as "options not exercised at December 31, 1999, granting of options during the year 2000, and options not exercised at December 31, 2000."
- Erroneous accounting of Ya.com's sale: in Jazz Telecom, S.A.U.'s 2000 financial statements, €45,134,608 of cash revenue was recorded for the sale, whereas the plaintiff claims the sale amounted to €550,000,000, of which €100 million was delivered in cash and the remaining amount in T-Online International AG ("T-Online") shares.
- Various differences between the amounts that appear in "Share option plans" in the Notes to the financial statements of the Company, and the registers provided by the Company.

On April 16, 2007 a hearing was held on the matter, and on May 9, 2007 the Company was required to provide further information, such as registers of granted and exercised options and bonuses.

On September 24, 2007 the Court issued judicial instructions for the Police Brigade of Economic Crimes to report on whether there were substantial differences between the financial statements of Jazz Telecom for the years 1999, 2000, 2001, 2002, and 2003, and the Share Option Plan, and if there were any inaccuracies in the financial statements with respect to the Ya.com sale. The Brigade of Economic Crimes will in the end not issue a report. Jazz Telecom, S.A.U. commissioned a Report from Ernst & Young, which has been issued and was presented to the Court on September 30, 2008. There has been no subsequent news.

The main conclusions of the Report issued by Ernst & Young in relation to the issues outlined above are:

- With regard to the claim concerning erroneous bookkeeping in the Ya.com sale, the report concludes that, in accordance with the audited financial statements and the purchase-sale contract of Ya.com shares, the consideration obtained by the sale of Jazz Telecom S.A.U.'s 9.12% interest in Ya.com was €45,134,607 in cash, with the rest of the capital going to other sellers.
- With respect to the claim concerning significant differences between the financial statements of Jazz Telecom, S.A.U. and the registers provided by the defendant, in items such as "Options not exercised at December 31, 1999," "Granting of options during the year 2000 and options not exercised at December 31, 2000", the Ernst & Young's report included the following conclusion: after carrying out an analysis of the financial statements for the abovementioned years, and of the option plans, the difference in "Options not exercised at December 31, 2000" is 0.61% rather than the 102% specified in the claim. The difference is attributable to erroneous criteria used in the claim, which did not take into account that the effective date is the one stated in the concession letters to staff rather than the granting date.
- With regard to the alleged errors in the amounts disclosed under the "Share option plans" heading in the Notes to the Company's financial statements, as compared to the amounts shown in the registers provided by the Company, the report includes the following conclusion: "After analyzing the movements in options on shares for the years 1999-2004 (inclusive), reflected in the financial statements of Jazz Telecom, S.A.U (1999 Jazztel, P.L.C.): the differences are not significant, and are in any case unrelated to those alleged by the plaintiff.

Thus, the report concludes that the information contained in the registers provided by Jazz Telecom, S.A.U. and in its audited financial statements, is in accordance with the various option plans as approved by Jazztel PLC.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

The Court has appointed a judicial expert so that he analyzes Jose Maria Blanco's claim. Jazztel has requested that the expert report is restrained to verifying the information of the report performed by Ernst and Young. This request has been accepted by the Court. Jose Maria Blanco has appealed the court order that accepts Jazztel's request.

It is the Company's understanding that there are no discrepancies in its accounting for the years in question and that the lawsuit will therefore be dismissed.

### 23. Related parties

The Group considers related parties to be subsidiaries, "key management personnel" in the Company and Group (members of the Board of Directors and those top managers no) which report directly to Board of Directors or to Chief Executive Officer of the Company), and those entities over which key management personnel can exercise significant influence or control.

During 2010 and 2009, the Company and Group carried out the following transactions with related parties:

- Financing of subsidiaries (Note 13);
- Management services provided by Jazz Telecom, S.A.U to the Company, amounting to €2.1 million (2009: €5.1 million);
- Purchase-sale of convertible bonds in 2009 between the Company and Jazz Telecom S.A.U., amounting to €8.3 million (Note 18); and
- Remuneration of directors and senior management.

Directors' and Other Key executive's interest in Company share capital at December 31, 2010 and 2009, was as follows:

Number of shares	December 31, 2010	December 31, 2009
Board members	37,318,512	47,066,303
Other Key Management personnel	176,971	168,168
<b>Total</b>	<b>37,495,483</b>	<b>47,234,471</b>

No Board member or Other Key Management personnel holds any interest in the Company or Group that is not related to share options, as described in the Directors' Remuneration Report.

Total remuneration of "Other Key management personnel" breaks down as follows:

	Salary	Bonus 2010	Taxable benefits	Attendance at Board meetings	Total 2010	Total 2009
Board members	350,898	166,250	16,679	336,000	869,827	858,608
Other Key Management personnel (1), (2)	937,599	370,256	74,562	-	1,382,417	1,488,186
<b>Total</b>	<b>1,288,497</b>	<b>536,506</b>	<b>91,241</b>	<b>336,000</b>	<b>2,252,244</b>	<b>2,346,794</b>

(1) Following the CNMV's recommendation on Corporate Governance Report, top managers which report directly to Chief Executive Officer have been considered as Other Key Management Personnel, being 8 key managers and head of internal audit. For comparative purposes the data of 2009 has been restated. In previous years only 5 key managers have been considered as Other Key Management Personnel;

(2) The decrease in total remuneration received in 2010, is driven by resignation of one of top managers in 2009 and the abolition of his position.

# Jazztel PLC

## Notes to the financial statements For the year ended 31 December 2010

Detailed information on the options exercised by Directors and Other Key Management Personnel during 2010 is broken down below:

	Options held on January 1, 2010 (1)	Options Granted 2010	Options exercised during 2010	Options held on December 31, 2010 (2)	Exercise price €	Weighted average price exercised	Gain on exercise 2010	Gain on exercise 2009
Board members	450,000	450,312	-	900,312	1.80	-	-	40,325
Other Key Management personnel (3)	559,000	120,000	(20,000)	659,000	1.80	3.24	28,800	84,685
<b>Total</b>	<b>1,009,000</b>	<b>570,312</b>	<b>(20,000)</b>	<b>1,559,312</b>			<b>28,800</b>	<b>125,010</b>

(1) Or date of appointment if later

(2) Or date of resignation if earlier

(3) Eight of other Key Management Personnel, members of the executive committee, are beneficiaries of Extraordinary Variable Compensation Plan, which gives them a right to receive the potential appreciation of 2,063,000 notional shares assigned to them.

The options will vest as follows:

	2008-2012 Plan					Exercise price
	2009(*)	2010(*)	2011	2012	2013	
Board members	90,000	96,312	318,000	198,000	198,000	1.80
Other Key Management personnel	93,000	107,000	153,000	153,000	153,000	1.80
<b>Total</b>	<b>183,000</b>	<b>203,312</b>	<b>471,000</b>	<b>351,000</b>	<b>351,000</b>	

(\*)These options vested in 2009 and 2010. Directors and Key Management personnel can exercise them till March, 2013.

Related party transactions in connection with financing subsidiaries and management services rendered were eliminated on consolidation of the Company's and subsidiaries' financial statements. At December 31, 2010 the Group had carried out no other related party transactions other than those described in this Note.

The Directors of the Group hold no shares or corporate positions in other companies whose activity is similar or complementary to those of the Group's companies, except for Mr. José Miguel García, who is a Board member in JAZZTEL PLC and Sole Director of Jazz Telecom, S.A.

### 24. Environmental issues

The Company's corporate activity, based on its bylaws, consists in providing telematic and telecommunications services and also the establishment and operation of a public landline telephone network (Note 1).

Given the Company's activities, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial situation, and results. Consequently, these Notes to the financial statements do not include specific details regarding environmental issues.

### 25. Subsequent events

There are no significant subsequent events from December 31, 2010 to the date of approval of these financial statements.