Everything Everywhere Limited

Company number: 2382161

Everything Everywhere Limited

Group and Company Financial Statements

Period ended 31 December 2010

Everything Everywhere Limited

Contents

Everything Everywhere Limited

Directors and advisers

Directors

Thomas Alexander
Richard Moat
Timotheus Höttges
Guido Kerkhoff
Gervais Pellissier
Olaf Swantee

Secretary

James Blendis

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Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

Auditors

Ernst & Young LLP
1 More London Place
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SE1 2AF

Everything Everywhere Limited

Business review

Introduction

In September 2009, France Telecom S.A. ("FT") and Deutsche Telekom A.G. ("DT") announced an agreement to combine their respective UK mobile businesses, which operate under the brand names Orange and T-Mobile.

With European Commission approval gained in March 2010, the joint venture company (referred to as "the Group") was legally formed on 1 April 2010.

FT, via its UK subsidiary company Orange Telecommunications Group Limited ("OTGL") contributed the following subsidiaries (referred to as "OUK") to the joint venture:

- Orange Jersey Limited ("OJL")
- Orange Personal Communications Services Limited ("OPCS")
- Orange Retail Limited ("ORL")
- Orange Home (UK) Limited ("OHL")
- Orange Services India Private Limited ("OSIPL")
- Orange Pension Trustees Limited
- Orange FURBS Limited

DT, via its UK subsidiary company T-Mobile Holdings Limited ("TMHL") contributed the following subsidiaries to the joint venture:

- T-Mobile (UK) Limited ("TMUK")
- T-Mobile (UK) Pension Trustees Limited

On 1 July 2010, TMUK was renamed Everything Everywhere Limited ("EE"). On the same day, all the assets, liabilities and employees of OPCS, ORL and OHL were transferred to EE. All subsidiaries within the Group are dormant from 1 July 2010 with the exception of OSIPL.

EE as a company continues to trade under the brand names Orange and T-Mobile.

The Group's consolidated results, reported under IFRS are for 9 months commencing on legal formation, from 1 April to 31 December 2010. The parent Company accounts, reported under UK GAAP are for the 12 months ended 31 December 2010.

Strategy

The Group is the UK's largest communications provider with 28 million customers. The Group's aspiration is to bring people closer to the people and things that matter most, by giving them instant access to everything, everywhere. The Group is transforming its mobile business to take advantage of new revenue opportunities, which are rapidly emerging through the greater adoption of data services. These are driven by the increasing use of smartphones, mobile broadband and other services, such as industrial machine-to-machine technologies.

The Group believes it can differentiate itself through the creation of the UK's first 'supernetwork', combining the former networks of TMUK and OUK, and leveraging its multiple mobile, fixed and wifi networks for its customers. The Group is aiming to operate the best combined network infrastructure in the UK, helping to deliver 'Digital Britain'.

The Group has the ambition to be the best place to work for employees, and wants to grow through cost leadership, business simplicity and offering the most compelling products and services in its markets.

Business review (continued)

Operating review

2010 was a year of achievement for the Group. It was a period of rapid change, affecting every single member of staff, during which it completed a comprehensive restructuring and maintained good commercial momentum throughout, with improved retention and growth on the post pay customer base.

During the period, 1 April 2010 to 31 December 2010, the total mobile base increased from 27.0 million to 27.2 million customers. The proportion of post pay customer base as a percentage of the total base has increased from 41% to 44%. This change in composition of the base is a key value driver as post pay customers tend to have higher average revenue per user.

The Group has made good progress in the year towards achieving the £3,500 million net present value of the planned synergies it announced at the time of its formation.

The first major customer proposition of the new Group was launched in October 2010, with the introduction of 2G national roaming across both brands' networks. This allowed customers to utilise the network coverage of either the Orange or T-Mobile brands. By 31 December 2010 4 million customers had opted in to use the service. The Group is on track to offer automatic national roaming to all its customers over 2G and 3G in 2011. The network is at the heart of the customer offer and a critical differentiator for both brands.

Financial position of the Group as at 31 December 2010

The net assets of the Group decreased from £12,919 million at 1 April 2010 to £12,252 million at 31 December 2010. The decrease in net assets during the period was significantly influenced by a £646 million dividend payment.

Financial risk management objectives, policies and exposure

Details of the Group's approach to financial risk management and its policies are set out within note 2.3 Summary of accounting policies within these financial statements.

Risks and uncertainties

The Group has an active risk management process in place, which is designed to identify, manage and mitigate business risks. Regular reporting of these risks, and the monitoring of actions and controls, is conducted on behalf of the Directors by the relevant business function.

The Group's business is directly impacted by the external environment, and in particular the regulatory environment and competitive marketplace in which the Group operates.

Level of competitive activity

The mobile communications market in the UK is highly competitive. Pressures are increasing as existing operators and other service providers seek to strengthen their market position. Close monitoring of customer trends and competitor activity enables the Group to respond by developing innovative customer propositions and retention campaigns.

Business review (continued)

Risks and uncertainties (continued)

Spectrum factors

The Group's operations in the future may be affected by the ability to obtain additional spectrum. The Group monitors any developments from the European Commission, the Government and Ofcom. The Group is equipped to respond to any consultations. As part of the clearance from the European Commission to form the Group, there is a commitment to relinquish part of its 2G spectrum. The Group is able to seek a review of part of this commitment at any time prior to the auction of further mobile spectrum by Ofcom, and will decide whether to do so in light of the requirements for spectrum, and the rules of the forthcoming auction. This auction will involve the spectrum needed to provide high speed mobile broadband services. Ofcom is currently consulting on those rules and a competitive assessment of the mobile broadband market, and is also considering the basis on which it charges for the spectrum usage. The Group's position may be affected by the ability of its competitors to use the spectrum, as it enables the cheaper provision of mobile broadband in rural areas.

Regulatory factors

The Group's operations are subject to stringent regulatory requirements. The Group monitors regulatory developments and undertakes regular reviews and audits to ensure compliance.

In common with other UK operators the Group has been found by Ofcom to have a dominant position, or significant market power, in the wholesale market for the termination of calls on the network. As such Ofcom has imposed various conditions, including a ceiling on the amount the Group is able to charge other operators when calls from their customers terminate on its networks. Such regulated charges have declined over a number of years as Ofcom has sought to ensure that such charges are cost related. Ofcom completed its latest review of this market on 15 March 2011, and imposed further reductions in the amount the Group is able to charge over the next 4 years. Ofcom adopted a new methodology in determining the amount of the ceiling applicable to the Group, implementing a recommendation by the European Commission which does not allow the recovery of most common costs, particularly network costs, incurred in relation to the provision of the call termination service. An appeal against Ofcom's decision is being considered, as the Group may be forced to implement changes to the way in which mobile services are marketed, which is likely to disproportionately affect its pre-pay customers. The reduced charges will apply from 1 April 2011.

Price risk

The Group is not exposed to significant commodity price risk given the nature of its business. The Group does not hold listed or unlisted equity securities except for associates and joint ventures as disclosed in note 16 and therefore there is minimal exposure to equity price risk.

Credit risk

Credit risk is the risk that one party to a transaction will cause a financial loss for the other party by failing to discharge an obligation. The Group's policies are aimed at minimising such losses, by generally requiring that customers satisfy creditworthiness criteria. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed regularly.

Liquidity risk

The Group is financed through short term shareholder loans that are secured by shareholder letters of comfort to ensure that sufficient funds are available for operations and planned growth.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from the purchases of inventory and capital equipment in currencies other than sterling. The risk is mitigated by a treasury policy of arranging forward currency exchange contracts on the market.

Business review (continued)

Risks and uncertainties (continued)

Business continuity risk

The Group is exposed to the risk of natural or man-made incidents and disasters. The risk is mitigated because the Group has designed its network and operations to minimise the impact, and there are business continuity plans in place to ensure that services could be recovered if necessary.

Directors' Report

The Directors present their consolidated report and the audited financial statements of the Group for the 9 months ended 31 December 2010.

The Directors also present their annual report and audited financial statements of EE for the 12 months ended 31 December 2010.

Principal activities

The Group is principally involved with the operation of a national digital wirefree personal communications network, and the provision of digital telecommunications services. The Group continues to invest in the development of digital mobile communications technology.

Business review

A review of the Group's operations, key performance indicators, principal business risks and future developments are detailed in the Business Review on pages 2 to 5.

Results for the financial period, dividends and transfer to reserves

The loss after taxation for the 9 months ended 31 December 2010 was £84 million on a turnover of £5,298 million and has been transferred to reserves. Detailed results for this period are shown in the Consolidated Income Statement on page 13.

Dividends declared and paid during the period totalled £646 million (£29.30 per share) with the payment made equally to OTGL (£323 million) and TMHL (£323 million).

Directors

The Directors who held office during the year, and up to the date of signature, are shown below:

	Appointed	Resigned
Thomas Alexander	1 April 2010	
Richard Moat		
Timotheus Höttges	1 April 2010	
Philipp Humm		1 July 2010
Guido Kerkhoff	1 July 2010	
Gervais Pellissier	1 April 2010	
Olaf Swantee	1 April 2010	
Srinivasan Gopalan		18 February 2010
Lars Nordmark		23 March 2010
Bernhard Michael Günther		31 March 2010
Andreas Möelich		31 March 2010

There are no Directors' interests requiring disclosure under the Companies Act 2006.

Research and development

The Group works actively with its suppliers in developing the standards for future mobile communication services and equipment.

Political and charitable donations

The Group has made charitable donations during the period of £147,261.

The Group made no political donations during the period.

Directors' Report (continued)

Going concern

The Group's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Group, are set out in the Business review.

The Group is expected to continue to generate positive operating cash flows for the foreseeable future.

FT and DT have each provided letters of comfort, dated 20 December 2010, to the Group, for a period not less than 12 months from the date of approval of these financial statements. These letters provide financial support of up to £625 million each, being the amount of their respective holdings of the £1,250 million Eurobond loan issued to them, which is due to mature on 30 November 2011. The financial support would be in the form of a short term loan priced on arm's length terms in accordance with the then current market conditions.

The Directors have made enquiries of the Group's investors FT and DT regarding their intention to support the business as a going concern. As each of FT and DT confirmed that the financing undertakings taken by both Groups on 20 December 2010 remain unchanged, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the 9 months Group and Company annual financial statements.

Supplier payments policy

It is the Group's policy to pay its suppliers within the agreed terms of payment.

Events since the balance sheet date

On 11 March 2011 the board approved a second interim dividend of £466 million (£21.13 per share) to be paid on 29 March 2011 to OTGL (£233 million) and TMHL (£233 million).

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. The announcement is expected to contribute to total future reductions of £12 million to the deferred tax asset as disclosed in Note 13.

Employees

Between 1 January 2010 and 30 June 2010, TMUK operated the payroll for its employees and adhered to its employment policies and procedures.

Between 1 January 2010 and 30 June 2010, OPCS was the employing company for the UK based employees of OUK. OPCS operated the payroll for the employees and adhered to its employment policies and procedures.

On 1 July 2010, the employees of OPCS were transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 to TMUK, and TMUK was re-named EE.

From 1 July 2010 EE was the employing entity, and operates the payroll for its UK based employees, and adheres to its employment policies and procedures.

Directors' Report (continued)

Employee involvement

EE ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during 2010, including a monthly employee magazine, regular email updates, an intranet site and regular meetings held between local management and their teams. Employee feedback and opinion is actively canvassed in such meetings and also via employee opinion surveys. Structured improvement plans are developed after each survey as a means of continual enhancement of the process of informing, involving and engaging employees in the future.

During 2010, comprehensive consultative arrangements were operated throughout the organisations. In OUK, these comprised eight local employee consultation forums and an overarching national employee consultation forum. In TMUK, these comprised eight local employee consultation forums and an overarching national employee consultation forum. Each body is characterised by elected employee representatives regularly meeting with senior managers to discuss items of employee interest and issues arising from business proposals and changes. These legacy TMUK and OUK arrangements continued in EE after 1 July 2010 in relation to the employees to which those consultation forums applied.

From 1 January 2010 to 30 June 2010 FT and DT also facilitated European Works Councils in which the Group's companies participated. Elected employee representatives of OUK sat on the FT European Works Council and elected representatives of TMUK sat on the DT European Works Council, in order to take part in consultative and information sharing activities at European level with management. From 1 July 2010 EE has not participated in a European Works Council as its non-UK based employees are not within the European Union.

Equal opportunities and disabled employees

EE strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.

EE is committed to valuing the diversity of its people, and to improve and measure its performance in this respect it has established collaborative working partnerships with a number of membership organisations including the UK Employers' Forum on Disability, Race for Opportunity, UK Employers Forum on Age, Working Families, Opportunity Now and the Gender Trust.

EE makes endeavours to ensure that known disabled employees, and those employees that become disabled during their employment, are given appropriate levels of support. Where practical, reasonable adjustments will be considered to ensure disabled employees can continue in employment, maximise their potential and have equality of opportunity throughout their career with the company.

Disclosure of information to the auditor

In the case of each person who was a Director at the date this report as approved under S418 of the Companies Act 2006, the following applies:

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

Directors' Report (continued)

Appointment of the auditor

PricewaterhouseCoopers LLP resigned as auditors on 24 June 2010, and Ernst & Young LLP were appointed as auditors. In accordance with S487(2) of the Companies Act 2006 the Group allows the deemed reappointment of Ernst & Young LLP as auditor.

By order of the board

Richard Moat
Director
29 March 2011

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the 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's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions, and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Everything Everywhere Limited

We have audited the Group financial statements of Everything Everywhere Limited for the period ended 31 December 2010, which comprise the Consolidated income statement, the Consolidated statement of financial position, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the related notes 1 to 32. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the Directors are responsible for the preparation of the Group 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 Group 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 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.

Independent auditor's report to the members of Everything Everywhere Limited (continued)

Opinion on financial statements

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of the Group's loss for the period then ended;
- the Group 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Ernst & Young LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 March 2011

Consolidated income statement

For the 9 months ended 31 December 2010

	Notes	9 months ended 31 December 2010 £m
Revenue		**5,298**
External purchases	5	(3,731)
Other operating income	7	14
Other operating expense	7	(286)
Labour expenses	8	(387)
Amortisation and depreciation	14/15	(878)
Restructuring expenses	10	(70)
Group operating loss		**(40)**
Finance income	11	14
Finance expense	12	(46)
Loss before taxation		**(72)**
Income tax	13	(12)
Loss for the period		**(84)**

Consolidated statement of comprehensive income
For the 9 months ended 31 December 2010

	Notes	9 months ended 31 December 2010 £m
Loss for the period		**(84)**
Other comprehensive income		
Actuarial gain on defined benefit pension scheme	26	84
Deferred tax relating to defined benefit pension scheme	13	(23)
Gain on cash flow hedges	24	2
Other comprehensive income for the period		**63**
Total comprehensive loss for the period		**(21)**
Attributable to:		
Equity holders		**(21)**

Consolidated statement of changes in equity

For the 9 months ended 31 December 2010

	Share capital	Share premium account	Capital contribution reserve	New basis reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2010	22	1,638	196	11,063	-	12,919
Net gain on cash flow hedges	-	-	-	-	2	2
Loss for the period	-	-	-	-	(84)	(84)
Net income for the year recognised in equity	-	-	-	-	61	61
Dividend declared and paid	-	-	-	-	(646)	(646)
At 31 December 2010	22	1,638	196	11,063	(667)	12,252

Everything Everywhere Limited

Consolidated statement of financial position
As at 1 April 2010 and 31 December 2010

	Notes	31 December 2010 £m	1 April 2010 £m
Non current assets			
Intangible assets	14	11,990	12,577
Property, plant and equipment	15	1,999	1,961
Associates and joint ventures	16	12	12
Loans receivable	18	60	53
Deferred tax asset	13	150	229
Other non current assets	20	59	69
Total non current assets		**14,270**	**14,901**
Current assets			
Inventories	17	144	112
Trade receivables	18	819	719
Other assets and prepaid expenses	20	441	437
Other financial assets	19	5	2
Cash and cash equivalents	21	523	535
Total current assets		**1,932**	**1,805**
Total assets		**16,202**	**16,706**
Current liabilities			
Trade payables	22	(1,306)	(1,212)
Other liabilities and deferred income	23	(678)	(535)
Provisions	25	(137)	(56)
Other financial liabilities	22	(1,253)	(8)
Current tax liability		(12)	(17)
Total current liabilities		**(3,386)**	**(1,828)**
Non current liabilities			
Provisions	25	(483)	(536)
Loan payable	22	-	(1,250)
Pension liability	26	(43)	(131)
Other non current liabilities	23	(38)	(42)
Total non current liabilities		**(564)**	**(1,959)**
Total liabilities		**(3,950)**	**(3,787)**
Total net assets		**12,252**	**12,919**

Consolidated statement of financial position (continued)

As at 1 April 2010 and 31 December 2010

	Notes	31 December 2010 £m	1 April 2010 £m
Capital and reserves			
Share capital	27	22	22
Share premium account	27	1,638	1,638
Capital contribution reserve	27	196	196
Retained earnings	27	(667)	-
New basis reserve	27	11,063	11,063
Equity		**12,252**	**12,919**

These Consolidated financial statements were approved by the board of Directors on 21 March 2011 and were signed on its behalf by

Richard Moat
Director

Everything Everywhere Limited

Consolidated statement of cash flows
For the 9 months ended 31 December 2010

	Notes	9 months ended 31 December 2010 £m
Operating activities		
Loss for the period		(84)
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortisation	14/15	878
Change in other provisions	25	28
Share of profits of associates	16	-
Difference between pension contributions and amounts recognised in the income statement		(4)
Income tax	13	12
Interest income and expense	11/12	36
Derivatives		(3)
Change in inventories, trade receivables and trade payables		
Increase in inventories (net)	17	(32)
Increase in trade accounts receivable	18	(100)
Increase in trade accounts payable	22	95
Other changes in working capital requirements		
Decrease in other receivables	20	5
Increase in other payables	23	139
Interest income received		3
Foreign exchange paid		(12)
Interest paid and interest rates effects on derivatives		(36)
Income tax received		39
Net cash provided by operating activities		**964**
Investing activities		
Purchases of property, plant and equipment and intangible assets		(329)
Decrease in other long-term assets	20	10
Net cash used in investing activities		**(319)**

Consolidated statement of cash flows (continued)
For the 9 months ended 31 December 2010

	Notes	9 months ended 31 December 2010 £m
Financing activities		
Issuances		
Non-current loan	18	(7)
Redemptions and repayments		
Decrease in bank overdrafts and short term borrowings		(4)
Dividends paid	28	(646)
Net cash used in financing activities		**(657)**
Net change in cash and cash equivalents	21	**(12)**
Cash and cash equivalents at the beginning of the period	21	535
Cash and cash equivalents at the end of the period	21	**523**

Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of Everything Everywhere Limited ("the Group") for the 9 month period ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 29 March 2011. The Consolidated statement of financial position was signed on behalf of the board by Richard Moat. The Group is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and adopted by the European Union.

On 8 September 2009, Deutsch Telekom A.G. ("DT") and France Telecom S.A. ("FT") announced that they had entered into exclusive negotiations to create a joint venture.

DT, via its UK subsidiary company T-Mobile Holdings Limited ("TMHL") contributed the following subsidiaries to the joint venture:

- T-Mobile (UK) Limited ("TMUK")
- T-Mobile (UK) Pension Trustees Limited

FT, via its UK subsidiary company Orange Telecommunications Group Limited ("OTGL") contributed the following subsidiaries ("OUK") to the joint venture:

- Orange Jersey Limited ("OJL")
- Orange Personal Communications Services Limited ("OPCS")
- Orange Retail Limited ("ORL")
- Orange Home (UK) Limited ("OHL")
- Orange Services India Private Limited ("OSIPL")
- Orange Pension Trustees Limited
- Orange FURBS Limited

In order to effect the combination, on 1 April 2010 TMUK acquired the entire outstanding issued share capital of OJL.

On 1 July 2010 TMUK changed its name to Everything Everywhere Limited.

The 9 month period ended 31 December 2010 represents the first reporting period for the Group following its formation on 1 April 2010.

Although the arrangement involved the acquisition of shares in OJL by TMUK, the arrangement is not within scope of IFRS 3 as it involves the formation of a joint venture. Moreover, it would not be possible to identify either an acquiring or an acquired entity.

Accordingly, the Directors have concluded that it is appropriate to prepare the financial statements on the assumption that, on forming the Group consisting of TMUK, OJL, their subsidiaries and associates, an entirely new reporting entity has been formed, and therefore there is no financial history or prior period comparative financial information. The Group has prepared its Consolidated statement of financial position as at the date of combination on this basis, including all of its assets and liabilities at fair value together with goodwill arising.

The fair value has been determined based on what a market participant would pay for the Group once formed. The valuation therefore includes the synergies of the combined businesses as well as the rationalisation costs associated with achieving them. Thus goodwill relates to the value of the Group as a whole.

Notes to the consolidated financial statements
2.1 Basis of preparation (continued)

The reserve arising on consolidation which has been termed "New basis reserve" throughout these financial statements consist of all previously recognised retained earnings of TMUK, OJL and their subsidiaries, as well as the fair value adjustments made on formation of the new reporting entity as at 1 April 2010.

In the Consolidated statement of financial position the comparative information consists of the fair values of the Group's recognised assets and liabilities as at 1 April 2010. The Consolidated income statement, the Consolidated statement of comprehensive income, and the Consolidated statement of cash flows do not have any comparative information as the current accounting period is the first reporting period for the Group.

The closing balance sheet position at the end of the accounting period represents the movements in the assets and liabilities from their opening fair value, resulting from the application of the Group's accounting policies to the reported operations of the business in the period.

Under new basis accounting, fair values are applied to the assets and liabilities of all parties to the combination, to reflect the substance of the transaction, and to avoid the imbalance created by identifying one party as the acquirer and the other as the acquired. Furthermore, the new basis approach allows for the impact of the expected Group synergies and rationalisations to be reflected in the consolidated balance sheet upon formation.

The book and fair values of the net assets at date of combination of 1 April 2010 were as follows:

	Book value		Fair value to Group
	OJL and Subsidiaries	TMUK and Subsidiaries	
	£m	£m	£m
Goodwill	-	304	-
Intangible assets	2,708	2,688	6,885
Property, plant & equipment	1,790	1,540	1,961
Other non-current assets	1	1,393	134
Deferred tax net liability	(87)	-	229
Cash & short-term deposits	179	372	535
Trade receivables	502	226	719
Inventories	67	45	112
Other current assets	447	200	439
Trade payables	(772)	(495)	(1,212)
Other current liabilities	(523)	(236)	(616)
Non-current loans	(1,250)	(1,250)	(1,250)
Non-current liabilities	(149)	(300)	(709)
Net identifiable assets	**2,913**	**4,487**	**7,227**
Goodwill arising on combination			5,692
Net assets			**12,919**

Subsequent to the initial fair value Consolidated statement of financial position measured on the basis described above, the principles applied to prepare the financial data relating to the reporting period ending 31 December 2010 are based upon all standards endorsed by the European Union, and interpretations compulsory as at 31 December 2010.

The consolidated financial statements are prepared in British Pounds and all values are rounded to the nearest million pounds (£m) except when otherwise indicated.

The financial statements of the Group and its subsidiaries included in the consolidated IFRS financial statements were prepared using uniform Group accounting policies.

Notes to the consolidated financial statements

2.1 Basis of preparation (continued)

The Group has elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards. These are presented on pages 69 to 96, and the accounting policies in respect of the Company are set out in pages 75 to 79.

Going concern

The Group's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Group, are set out in the Business review.

The Group is expected to continue to generate positive operating cash flows for the foreseeable future.

FT and DT have each provided letters of comfort, dated 20 December 2010, to the Group, for a period not less than 12 months from the date of approval of these financial statements. These letters provide financial support of up to £625 million each, being the amount of their respective holdings of the £1,250 million Eurobond loan issued to them, which is due to mature on 30 November 2011. The financial support would be in the form of a short term loan priced on arm's length terms in accordance with the then current market conditions.

The Directors have made enquiries of the Group's investors FT and DT regarding their intention to support the business as a going concern. As each of FT and DT confirmed that the financing undertakings taken by both Groups on 20 December 2010 remain unchanged, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the 9 months Group and Company annual financial statements.

Significant estimates and judgements

In preparing the Group financial statements, the Group's management makes estimates, insofar as many elements included in the financial statements cannot be measured with precision.

Management revises these estimates if the underlying circumstances evolve or in light of new information or experience. Consequently, estimates made at 31 December 2010 may subsequently be changed. The following are the most critical judgements, estimates and assumptions.

Fair values of tangible and intangible assets as at the date of combination

In order to determine the fair values as at the date of the business combination, the Directors determined appropriate bases on which to base the values. The fair values applied to the licenses to operate mobile telephone networks, and to property, plant and equipment are based upon the 'greenfield' valuation method which is a derivation of the income approach. This approach assumes that a hypothetical start-up entity begins operations owning only the licences and is therefore required to build a network and customer base comparable to the one in which the licences are actually used by the Group. These assumptions allow that the present value of the cashflows generated by the greenfield entity relate entirely to the value of the licences.

The fair values applied to software and related development costs at the date of the combination were assessed using the replacement cost methodology. This approach considers the cost of either purchasing or constructing an asset with a similar functionality to that being valued.

The fair values applied to customer relationships at the date of the combination are based upon the excess earnings valuation method. This approach identifies the discounted cash flows that will be achieved from the relationships after an estimation of apportioned capital charges has been applied.

Notes to the consolidated financial statements

2.1 Basis of preparation (continued)

Fair values of tangible and intangible assets as at the date of combination (continued)

Goodwill arising on the combination has been measured at the excess of the equity value transferred into the Group upon formation over the net fair value of the identifiable assets and liabilities.

Provisions

A provision is recognised when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory, contractual, or it may represent a constructive obligation. Constructive obligations arise from the Group's actions whereby an established pattern of past practice, or published policies, create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a contingent liability.

Due to the uncertainties of timing and amount that will be actually realised, the outflows of resources may differ from the amounts initially recognised.

Upon formation of the Group, significant provisions were recognised relating to restructuring and reorganisation. These provisions have used judgements based upon expected timing and costs associated with the decommissioning and vacating of surplus network sites and office accommodation, and resolving contractual and regulatory issues. It is possible that the actual timings and amounts incurred will differ from these initial expectations.

Deferred tax assets

The carrying amount of the deferred income tax assets is reviewed at each Consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each Consolidated statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Everything Everywhere Limited and its subsidiaries as at 31 December 2010.

Subsidiaries that are controlled exclusively by the Group, directly or indirectly, are fully consolidated. Control is deemed to exist when the Group owns more than 50% of the voting rights of an entity or has power:

- over more than one half of the voting rights of the other entity by virtue of an agreement;
- to govern the financial and operating policies of the other entity under a statute or agreement;
- to appoint or remove the majority of the Members of the Board of Directors or equivalent governing body of the other entity; or
- to cast the majority of votes at meetings of the Board of Directors or equivalent governing body of the other entity.

If these companies have any exclusively controlled, fully consolidated subsidiaries that are not wholly owned, non-controlling interests in these subsidiaries are recognised separately in the Group's consolidated financial statements

Companies that are controlled jointly by the Group and a limited number of other shareholders through a contractual arrangement are accounted for using the equity method.

Notes to the consolidated financial statements

2.2 Basis of consolidation (continued)

Companies over which the Group exercises significant influence (generally corresponding to an ownership interest of 20% to 50%) are accounted for using the equity method.

When assessing the level of control or significant influence exercised over a subsidiary or associate, account is taken of the existence and effect of any exercisable or convertible potential voting rights at the balance sheet date.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies except where stated.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2.3 Summary of significant accounting policies

a) Goodwill and business combinations

Goodwill arises from the combination of the TMUK and OUK businesses that formed the Group. Goodwill is initially measured at cost being the excess of the equity value transferred into the Group upon formation over the net fair value of the identifiable assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but tested for impairment at least once a year, or more frequently when there is an indication that it may be impaired. For the purpose of impairment testing, goodwill arising from formation is allocated to the cash generating unit ("CGU") that is expected to benefit from the combination.

A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Under IAS 36 if goodwill arising from a business combination cannot be allocated to CGUs by the end of the period in which the combination is effected, the initial allocation shall be completed before the end of the first period beginning after the combination.

Following the initial allocation of goodwill to CGUs, subsequent reviews of the allocation are performed if the Group changes the level at which it monitors return on investment for goodwill testing purposes.

An impairment loss for goodwill is recorded in the income statement as a deduction from operating income and is never reversed subsequently.

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGUs or groups of CGUs is compared to their recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the best estimate of the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information including:

(i) the discounted present value of future cash flows over a five-year period, plus a terminal value;

(ii) revenue and EBITDA multiples for comparable companies adjusted for a control premium; and; and

(iii) revenue and EBITDA for comparable transactions.

Notes to the consolidated financial statements
2.3 Summary of significant accounting policies

a) Goodwill and business combinations (continued)

Value in use is the present value of the future cash flows expected to be derived from the CGUs or groups of CGUs. Cash flow projections are based on economic and regulatory assumptions, license renewal assumptions and forecast trading conditions drawn up by the Group's management, as follows:

- cash flow projections are based on five-year business plans;
- cash flow projections beyond that timeframe are extrapolated by growth rate to perpetuity reflecting the expected long-term growth in the market; and
- the cash flows obtained are discounted using appropriate rates for the type of business and the countries concerned.

b) Interest in a Joint Venture

Prior to the formation of the Group, on 18 December 2007 TMUK and Hutchison 3G UK Limited ("3") (together "the Companies") signed a contract to co-operate in sharing elements of their separate mobile networks in order to establish a shared network, (the "Shared Network"), to be used by each of them in connection with their differentiated 3G Business. Each party retained and operated its own separate core network after the establishment of the Shared Network and was responsible for delivery of services to its own customers.

The Companies established a joint venture company, Mobile Broadband Network Limited ("MBNL"), for the ongoing purpose of implementing the consolidation of the legacy networks, acquiring assets relevant to the Shared Network on behalf of the Companies, and managing network and operational services as their agent in respect of the Shared Network, unilateral deployments (being network assets or services specific to one company only) and the T-Mobile 2G network in accordance with the terms set out in the contract.

As a consequence of signing this contract Everything Everywhere Limited (formerly TMUK) is committed to incurring 50% of costs in respect of restructuring the Shared Network.

Physical consolidation of 12,000 sites (substantially the whole TMUK and H3G network) was achieved in October 2010. However management anticipates that it will take a further year to substantially complete the restructuring and consolidation of the Shared Network, and while the amounts provided represent management's best estimate of the present value of the costs that the Group expects to incur, the timing and amount of the actual payments could differ from the amounts included in these estimates.

The joint venture agreement with 3 contains provisions for changes in ownership or control of either parent company of the joint venture.

The formation of the Group has not fallen under the definition of change of control. To the extent that this was successfully disputed (or should the position change), the effect of a change in control is limited. There is no right of termination of the joint venture in the event of a change in control of a parent company, rather there is a minor change to the governance procedure which provides the other company with greater influence over two key matters, being the selection of the joint venture company Managing Director and the prioritisation of resources to meet the 'Best 3G Network Standards' contained in the MBNL joint venture agreement.

Existing guarantees are given by DT and Hutchison Whampoa Limited. The formation of the Group has not required those arrangements to be changed. DT and FT have agreed between them to manage any potential liability by arrangements between themselves. Should the position change, either company is entitled to replace its parent guarantee at any time with a guarantee on substantially the same terms from a company or bank with the required long term A+ credit rating.

Concessions have been agreed with 3 as part of the European Commission's approval of the Joint Venture between TMUK and OUK. The Company will continue to support its network share arrangement with 3 and has concluded the agreed concessions have not impacted the carrying value of the company's network assets.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies (continued)

b) Interest in a Joint Venture (continued)

If at any time after the replacement or release the new guarantor drops below the required credit rating, the relevant party, here the Group, must either:

- obtain a new replacement guarantee from a bank or company that does satisfy the required rating; or
- provide cash collateral up to the unused amount of the guarantee.

On dissolution of the joint venture arrangement certain payments and sharing of assets may become liable depending on the specific nature of any termination.

c) Interests in associates

The results, assets and liabilities of associates are included in the Group's financial statements using equity accounting. The carrying amount of interests under equity accounting corresponds to the initial cost increased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. In case of losses and after the carrying amount of investment is reduced to zero, the Group ceases to recognise the additional share of losses unless it is committed beyond its investment.

d) Investments

Investments in equity stakes that do not provide the Group with control or significant influence are stated at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are stated at cost less any provision for impairment, which is determined as the higher of net realisable value and value in use.

e) Foreign currency translation

The Group's consolidated financial statements are presented in British Pounds, which is also the parent Company and all other Group entities' functional currency unless otherwise stated.

Transactions in foreign currencies are converted into the functional currency at the exchange rate at the transaction date.

Monetary assets and liabilities are remeasured at each Consolidated statement of financial position date at the period-end at the functional currency exchange rate and the resulting translation differences are recorded in the income statement:

- in operating income for commercial transactions;
- in financial income or finance costs for financial transactions.

e) Foreign currency translation (continued)

Both for transactions qualifying for hedge accounting and for economic hedging, changes in fair value currency derivatives that can be attributed to changes in exchange rate are accounted for under other operating income / expense when the underlying hedged item is an operating transaction and under finance income / expense when the underlying hedged item is a financing transaction. For cash flow hedges of a highly probable forecast transaction, these are booked in equity and reclassified in the Consolidated income statement following the preceding method when the hedged item affects the Consolidated income statement.

Notes to the consolidated financial statements
2.3 Summary of significant accounting policies (continued)

f) Revenue recognition

Revenue includes:

- amounts invoiced for airtime and related services supplied to subscribers, together with airtime income earned but not invoiced;
- amounts invoiced for interconnect in respect of calls terminating on the Everything Everywhere network, together with interconnect income earned but not invoiced;
- income from the sale of connected handsets and related accessories supplied to subscribers within the period;
- income from the sale of handsets and related accessories delivered to intermediaries within the period; and
- income from pre-paid customers which is deferred in the Consolidated statement of financial position on purchase by the customer and released to the Consolidated income statement as calls are made.

Revenue excludes airtime income billed in advance and value added tax.

Payments to customers, including payments to dealers and agents (discounts, provisions) are recognised as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognised as expenses.

Revenues from the Group's activities are recognised and presented as follows, in accordance with *IAS18: Revenue.*

Separable components of packaged and bundled offers

Numerous service offers by the Group include two components: equipment (e.g. a mobile handset) and a service (e.g. a talk plan). For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting using the framework of the emerging issues task force no. 00-21 'Accounting for Revenue Arrangements with Multiple Deliverables' (EITF 00-21) as permitted by IAS 8.12.

A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis, and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s).

The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on their relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount.

Sales of bundled offers in the mobile business frequently include a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount attributable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognised for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated in identifiable components, revenues are recognised in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognised over the average expected life of the contractual relationship.

f) Revenue recognition (continued)

Equipment sales

Revenues from equipment sales are recognised when the significant risks and rewards of ownership are transferred to the buyer.

Equipment rental

In accordance with *IFRIC 4: Determining Whether an Arrangement Contains a Lease*, equipment for which a right of use is granted is analysed in accordance with *IAS 17: Leases.*

Equipment lease revenues are recognised on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

Revenue share arrangements

The accounting for revenue sharing arrangements and supply depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognised on a gross or a net basis, an analysis is performed using the following criteria:

- the Group is the primary obligor of the arrangement;
- the Group bears inventory risk;
- the Group has a reasonable latitude in establishing price with the customer for the service;
- the Group has discretion in supplier selection;
- the Group is involved in the determination of service specifications; and
- the Group bears the credit risk.

Therefore, revenue-sharing arrangements (premium rate number, special numbers, etc.) are recognised:

- gross when the Group has a reasonable latitude in setting prices and determining the key features of the content (service or product) sold to the end customer; and
- net of amounts due to the service provider when the latter is responsible for the service and for setting the price to be paid by subscribers.

Similarly, revenues from the sale or supply of content (audio, video, games, etc.) via the Group's various communications systems (mobile, PC, etc.) are recognised:

- gross when the Group is deemed to be the primary obligor in the transaction with respect to the end customer (i.e. when the customer has no specific recourse against the content provider), when the Group bears the inventory risk and has a reasonable latitude in the selection of content providers and in setting prices charged to the end customer; and
- net of amounts due to the content provider when the latter is responsible for supplying the content to the end customer and for setting the price to subscribers.

Service revenues

Revenues from telephone service and internet access subscription fees as well as those from the wholesale access revenues are recognised on a straight-line basis over the subscription period.

Revenues from charges for incoming and outgoing telephone calls as well as those from the wholesale of traffic are recognised in revenue when the service is rendered.

Notes to the consolidated financial statements
2.3 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

Business contracts

The Group offers customised solutions to its business customers. Commercial discounts may be granted under the related contracts, if certain conditions are fulfilled, and are usually recorded as a deduction from revenue based upon the specific terms of each contract.

Costs associated with migrating business customers from other networks onto the Group network are recognised in expenses when they are incurred, except in the case of contracts that include an early termination compensation clause.

Promotional offers

Revenues are stated net of discounts. For certain commercial offers where customers are offered a free service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non-cancellable period.

Penalties

All the Group's commercial contracts contain service level commitments (delivery time, service reinstatement time). These service level agreements cover commitments given by the Group on the order process, the delivery process, and after sales services.

If the Group fails to comply with one of these commitments, it pays compensation to the end-customer, usually in the form of a price reduction which is deducted from revenues. Such penalties are recorded when it becomes probable that they will due based on the non-achievement of contractual terms.

Subscriber acquisition and retention costs

Subscriber acquisition and retention costs, other than loyalty programs costs, are recognised as an expense for the period in which they are incurred, that is to say on acquisition or renewal. In some cases, contractual clauses with retailers provide for a profit-sharing based on the recognised and paid revenue: this profit-sharing is expensed when the related revenue is recognised.

Loyalty programs

Credits awarded to customers are treated as a separable component to be delivered of the transaction that triggered the acquisition of credit.

An element of the invoiced revenue is allocated in respect to the credit based on its value taking into account an estimated utilisation rate, and deferred until the date on which the credits are definitively converted into benefits. The credit's value is defined as the excess discount over the sales incentive that would be granted to any new customer.

Advertising and related costs

Advertising, promotion, sponsoring, communication and brand marketing costs are charged to selling and distribution costs in the Consolidated income statement as incurred.

Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the construction or acquisition of qualifying assets. A qualifying asset is one that takes a period in excess of 12 months to get ready for its intended use

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies (continued)

h) Intangible assets

On formation of the Group, fair values were applied to all identifiable intangible assets, recognised in the Consolidated statement of financial position at the date of the combination.

Intangible assets held at fair value in the Consolidated statement of financial position consist mainly of customer relationships, spectrum, and software.

Customer relationships

The fair values applied to customer relationships at the date of the combination are based upon the excess earnings valuation method. This approach identifies the discounted cash flows that will be achieved from the relationships after an estimation of apportioned capital charges has been applied.

The following useful economic lives have been applied to the identified customer relationship assets:

- Pre-pay relationships — 4 years
- Post-pay relationships — 9 years
- MVNO relationships — 6 to 14 years (based upon contract period)

New customer relationships entered into following the formation of the Group are not capitalised, and any associated costs are charged through the Consolidated income statement as incurred.

Spectrum

The fair value applied to the spectrum to operate mobile telephone networks at the date of combination are based upon the greenfield valuation method which is a derivation of the income approach. This approach assumes that a hypothetical start-up entity begins operations owning only the spectrum and is therefore required to build a network and customer base comparable to the one in which the spectrum is actually used by the Group. These assumptions allow that the present value of the cash flows generated by the greenfield entity relate entirely to the value of the spectrum.

The fair value of the spectrum to operate mobile telephone networks determined at the date of combination are amortised through the Consolidated income statement on a straight-line basis from the date of combination for the remaining spectrum period.

Software and research and development costs

The fair values applied to software and related development costs at the date of the combination were assessed using the replacement cost methodology. This approach considers the cost of either purchasing or constructing an asset with a similar functionality to that being valued.

The Group's research and development projects mainly concern:

- upgrading the network architecture or functionality; and
- developing service platforms aimed at offering new services to the Group's customers.

These projects generally give rise to the development of software that does not form an integral part of the network's tangible assets. Under IAS 38, software that machinery cannot function without, is considered integral to the related hardware and is capitalised as property, plant and equipment. When the software is not an integral part of the hardware it is treated as an intangible asset.

Notes to the consolidated financial statements
2.3 Summary of significant accounting policies (continued)

h) Intangible assets (continued)

Development costs are recognised as intangible assets when the following conditions are met:

- the intention to complete the intangible asset and use or sell it and the ability of adequate technical and financial resources for this purpose;
- the probability for the intangible asset to generate future economic benefits for the Group; and
- the reliable measurement of the expenditure attributable to the intangible asset during its development.

Research costs and development costs not fulfilling the above criteria are expensed as incurred. Capitalised development costs are presented in the same way as software on the "intangible assets" line. They are amortised on a straight-line basis over their expected useful life generally not exceeding 3 years. Software is amortised on a straight-line basis over its expected useful life which does not exceed 5 years.

Other development costs

Website development costs are capitalised when all of the following conditions are met:

- it is probable that the website will be successfully developed, the Group has adequate resources (technical, financial and other) and has the intention of and the ability to complete the site and use or sell it;
- the website will generate future economic benefits; and
- the Group has the ability to reliably measure the expenditure attributable to the website during its development.

Expenditure incurred after the website has been completed is recorded as an expense, except where it enables the website to generate future additional economic benefits provided it can be reliably estimated and attributed to the website.

i) Property, plant and equipment

On formation of the Group, fair values were applied to all identifiable property, plant and equipment, recognised in the Consolidated statement of financial position at the date of the combination.

The fair values applied to property, plant and equipment at the date of combination were assessed using the replacement cost methodology on a greenfield valuation approach. This approach considers the cost of either purchasing or constructing an asset with a similar functionality to that being valued. The fair valuation also considered the impact of the expectation of a rationalisation of the duplicate assets held by the Group upon formation.

Property, plant and equipment acquired or constructed subsequent to formation of the Group is initially recognised at cost.

Cost

The cost of tangible assets corresponds to their purchase or production cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

Notes to the consolidated financial statements
2.3 Summary of significant accounting policies (continued)

i) Property, plant and equipment (continued)

Cost (continued)

The cost of networks includes design and construction costs, as well as capacity improvement costs. The total cost of an asset is allocated among its different components and each component accounted for separately, when the components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is then revised accordingly. Maintenance and repair costs are expensed as incurred, except where they serve to restore or increase the asset's productivity or prolong its useful life.

Network share assets

Certain assets have been contributed to the network share arrangement by both the group and 3, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement, and the Group's share of the assets are initially recognised at fair value within tangible assets, and depreciated according to Group policy.

Finance leases

Assets acquired under leases that transfer the risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. The risks and rewards of ownership are considered as having been transferred to the Group when:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the estimated economic life of the leased asset; and
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Government grants

The Group may receive non-repayable government grants in the form of direct or indirect funding of capital projects, mainly provided by local and regional authorities. These grants are deducted from the cost of the related assets and recognised in the income statement, based on the pattern in which the related asset's expected future economic benefits are consumed.

Depreciation

Property, plant and equipment are depreciated to write off their cost less any residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed. Therefore, the straight-line basis is usually applied over the following estimated useful lives:

• Freehold land:	Nil
• Freehold buildings:	50 years
• Short-term leasehold improvements:	shorter of 10 years or lease team
• Network:	5 to 20 years
• Fixtures, fittings and equipment:	3 to 6 years

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognised prospectively.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies (continued)

j) Impairment of non-current assets other than goodwill

In the case of a decline in the recoverable amount of an item of property, plant and equipment or an intangible asset to below its net book value, due to events or circumstances occurring during the period (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) an impairment loss is recognised.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, assessed by the discounted cash flows method, based on management's best estimate of the set of economic conditions. The impairment loss recognised is equal to the difference between the net book value and the recoverable amount.

k) Financial assets and liabilities

Financial assets and liabilities are recognised initially at fair value. They are subsequently measured either at fair value or amortised cost using the effective interest method, in accordance with the IAS 39 category they belong to. The effective interest rate is the rate that discounts estimated future cash payments through the expected contractual term, or the most probable expected term of the financial instrument, to the net carrying amount of the financial liability. This calculation includes all fees and points paid or received between parties to the contract.

Loans and receivables

This category mainly includes trade receivables, cash, some cash collateral, as well as other loans and receivables. These instruments are recognised at fair value upon origination and are subsequently measured at amortised cost by the effective interest method. Short-term receivables with no stated interest rate are measured at original invoice amount unless there is any significant impact resulting from the application of an implicit interest rate.

If there is any objective evidence of impairment of these assets, the value of the asset is reviewed at each balance sheet date. An impairment loss is recognised in the income statement when the financial asset carrying amount is higher than its recoverable amount.

k) Financial assets and liabilities (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are:

- assets held for trading that the Group acquired principally for the purpose of selling them in the near term
- assets that form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking;
- derivative assets not qualifying for hedge accounting;
- assets voluntarily classified at inception in this category because:
    - this classification allows the elimination or significant reduction of a measurement or recognition inconsistency regarding recognition of assets or liabilities linked together, that would otherwise be assessed differently (for instance, a financial asset measured at fair value, linked to a financial liability measured at amortised cost);
    - a group of financial assets, financial liabilities or both is managed and its performance is valued on a fair value basis, in accordance with a documented risk management or investment strategy, and information about this group of financial instruments is provided internally on that basis to the Group's key management personnel; and
    - the entity decides not to separate from the host contract a separable embedded derivative. It should then assess the entire hybrid instrument at its fair value.

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

With the exception of financial liabilities at fair value, borrowings and other financial liabilities are recognised upon origination at fair value of the sums paid or received in exchange for the liability, and subsequently measured at amortised cost using the effective interest method. Interest-free payables are booked at their nominal value.

Transaction costs that are directly attributable to the acquisition or issue of the financial liability are deducted from the liability's carrying value. The costs are subsequently amortised over the life of the debt, by the effective interest method.

Within the Group, some financial liabilities at amortised cost, including borrowings, are subject to hedge accounting. These relate mostly to fixed rate borrowings hedged against changes in interest rate and currency value (fair value hedge) and to foreign currency borrowings in order to hedge to future cash flows against changes in currency value (cash flow hedge).

Financial liabilities at fair value through profit or loss

The above mentioned comments relating to financial assets at fair value through the Consolidated income statement are applicable to the financial liabilities of identical nature.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies (continued)

k) Financial assets and liabilities (continued)

Recognition and measurement of derivative instruments

Derivative instruments are measured at fair value in the Consolidated statement of financial position and presented according to their maturity date, whether or not they qualify for hedge accounting under IAS 39. Derivatives are classified as financial assets or liabilities through the income statement or as a separate line item on the face of the Consolidated statement of financial position when they qualify for hedge accounting.

Hedge accounting is applicable when:

- at the inception of the hedge, there is a formal designation and documentation of the hedging relationship;
- at the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (i.e. the actual results of the hedge are within a range of 80-125%).

Cash flow hedge accounting is performed as follows:

- the cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular interest rate and/or currency risk associated with a recognised asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect the Consolidated income statement; and
- for the hedged item not yet recognised, the effective portion of change in fair value of the hedging instrument is booked in equity. The amounts recorded in equity are reclassified in profit or loss when the hedged item affects the income statement.

Recognition and measurement of derivative instruments (continued)

Hedge accounting can be terminated in the following circumstances:

- hedged item derecognition: amounts booked in equity are reclassified in the income statement;
- voluntary revocation: amounts booked in equity are reclassified in the income statement.

In both cases, subsequent changes in value are recorded in profit or loss.

l) Equipment inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenues from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by the FIFO cost method.

m) Provisions

A provision is recognised when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory, contractual, or it may represent a constructive obligation. Constructive obligations arise from the Group's actions whereby an established pattern of past practice, published policies create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a contingent liability.

m) Provisions (continued)

Contingent liabilities are disclosed in the notes to the financial statements. They correspond to:

- probable obligations that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control; or
- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Restructuring

Provisions for restructuring costs are recognised only when the restructuring has been announced and the Group has started to implement a detailed formal plan, prior to the Consolidated statement of financial position date.

Provisions for dismantling and restoring sites

The Group is required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time. This estimate is revised annually and adjusted against the asset to which it relates, which is then subject to an impairment assessment.

Provisions for the treatment of Waste Electrical and Electronic Equipment (WEEE)

European Directive 2002/96/EC as amended by Directive 2003/108/EC distinguishes the waste of electrical and electronic equipment between the users (private households or professional) and between the responsibilities of the market participants. The Group believes that its obligations principally involve equipment used for its own needs (network equipment, information systems equipment, etc.) In accordance with this Directive, the Group has adopted the following principles:

- obligations relating to collection, treatment and recovery of waste electrical and electronic equipment related to the professional use are accrued for. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled and an average cost per ton, and discounted as it will be settled at a future date;
- obligations relating to waste of electrical and electronic equipment related to the private households have been considered as immaterial by the Group and have therefore not been accrued for.

Network share restructuring provision

The major assumptions used for estimating the restructuring provision for the network share arrangements with 3 are:

- Leases for 90% of the sites identified for decommissioning will be terminated and remaining 10% of the sites will be sublet;
- Cost of decommissioning sites based on experience and adjusted for expected economies of scale; and
- Restructuring will be completed in 2012; however, following the finalisation of key contracts in the year the costs in relation to vacant site rentals will now continue to be incurred until 2018.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies (continued)

n) Employee benefits

The Group operates both a defined benefit pension scheme, and a defined contribution pension scheme. Both schemes are accounted for in accordance with *IAS 19: Employee benefits*.

Defined Contribution Scheme

This scheme is open to all employees and the contributions payable are expensed to the Consolidated income statement when service is rendered.

Defined Benefit Scheme

This scheme is closed to new members, but continues to operate for existing members.

The Group's net obligation in respect of the defined benefit schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service to date. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate used is the yield at the Consolidated statement of financial position date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The net obligation recognised in the Consolidated statement of financial position is the present value of the defined benefit obligation less the fair value of the scheme's assets.

The Consolidated income statement charge is split between an operating charge and a net finance charge. The operating charge reflects the service costs which are spread systematically over the working lives of the employees. The net finance charge relates to the unwinding of the discount applied to the liabilities of the schemes offset by the expected return on plan assets of the schemes, based on conditions prevailing at the start of the period. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the Consolidated statement of comprehensive income.

o) Share capital

Ordinary shares are classified as equity.

p) Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Consolidated statement of financial position date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated income statement.

q) Deferred taxes

Deferred income tax is provided using the liability method on temporary differences at the Consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except;

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the consolidated financial statements

2.3 Summary of significant accounting policies (continued)

q) Deferred taxes (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of the deferred income tax assets is reviewed at each Consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Consolidated statement of financial position date.

Deferred income tax relating to items recognised directly in equity is recognised in the Consolidated statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

r) Cash and cash equivalents

Cash and cash equivalents in the Consolidated statement of financial position comprise cash at bank and in hand, overdrafts and amounts held in the cash pooling accounts with the shareholders.

3. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

Notes to the consolidated financial statements

3. Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonably possible impact on the Group:

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no material impact from the adoption of the amendments on its financial position or performance

4. Segment Information

The Group supplies communication services and products to the UK market, through a national telecommunications network. This is considered to be a single group of services and products provided by an inter-dependent asset infrastructure, to one geographical area. The Group has focused upon integration since the combination and produces all operating results, forecasts and budgets at the consolidated level for the purposes of allocating resources. Operationally the Group has demonstrated its unity to its customers by providing free roaming across both legacy branded networks. Due to these factors there are not considered to be separable identifiable business segments for which financial information can be presented.

Notes to the consolidated financial statements

5. External purchases

External purchases comprise:

- commercial expenses, which include purchases of handsets and other products sold, retail fees and commissions, and advertising, promotional, sponsoring and re-branding costs;
- service fees and inter-operator costs;
- other network charges and IT charges which include outsourcing fees relating to technical operation and maintenance and IT; and
- other external purchases, which include overheads, real estate fees, and purchase of equipment and call centre outsourcing fees, net of capitalised goods and service costs.

	9 months ended 31 December 2010 £m
Commercial expenses	1,867
Service fees and inter-operator costs	1,219
Other network charges, IT charges	239
Other external purchases	406
Total external purchases	3,731

6. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

	9 months ended 31 December 2010 £m
Audit of the Group financial statements	2
Other fees to the auditors:	
- auditing the accounts of subsidiaries	-
	2

The auditors did not perform any non-audit services.

7. Other operating income / expense

Other operating income	9 months ended 31 December 2010 £m
Other operating income	14
Total other operating income	14

Notes to the consolidated financial statements

7. Other operating income / expense (continued)

Other operating expense	9 months ended 31 December 2010 £m
Property rates	70
Spectrum fees	30
Bad debt expense	56
Management and brand fees	117
Other charges	13
Total operating expense	286

8. Employees

The number of staff employed under contracts of service during the period is as follows:

	31 December 2010 No.	1 April 2010 No.
Operations	1,423	1,917
Selling and distribution	6,235	5,129
Customer care and administration	9,641	11,090
	17,299	18,136

The costs incurred in respect of these employees are:

	9 months ended 31 December 2010 £m
Wages and salaries	361
Social security costs	42
Pension costs	
- Defined benefit	11
- Defined contribution	13
Own work capitalised	(40)
Total labour expenses	387

Notes to the consolidated financial statements

9. Directors emoluments

The Directors, deemed to be key management, received the following remuneration in respect of services rendered to the Company:

	31 December 2010 £m
Total emoluments	3
Pension costs	-
	3

The emoluments in relation to the highest paid Director are as follows:

	31 December 2010 £m
Total emoluments	1
Pension costs	-
	1

The Directors disclosure relates to the 12 months to 31 December 2010 and includes Directors that have resigned and were appointed during the year pro rated for the period they were / have been in office.

Gervais Pellissier and Olaf Swantee represent France Telecom S.A. on the board and do not receive any emoluments for their services as Directors. Timotheus Höttges and Guido Kerkhoff represent Deutsche Telekom A.G. on the board and also do not receive any emoluments for their services as Directors.

Retirement benefits in the form of defined benefit schemes are accruing for one Director. Contributions of £46,928 were made during the year in respect of Directors.

10. Restructuring expenses

	9 months ended 31 December 2010 £m
Lease exit costs	9
Employee costs	50
Other	11
Total restructuring expenses	70

Notes to the consolidated financial statements

11. Finance income

	9 months ended 31 December 2010 £m
Other interest receivable and similar income	12
Fair value movements of derivative financial instruments classified at fair value through Consolidated income statement	2
Total finance income	14

12. Finance expense

	9 months ended 31 December 2010 £m
Other interest payable and similar expense	32
Unwinding of discount	4
Foreign exchange losses	10
Total finance expense	46

13. Taxation

(a) Income tax charged in the Consolidated income statement

	9 months ended 31 December 2010 £m
Current income tax:	
UK corporation tax	(32)
Adjustments in respect of previous periods	(12)
Total current income tax income	(44)
Deferred income tax:	
Origination and reversal of temporary differences	43
Impact of tax rate change on closing deferred tax asset	6
Adjustments in respect of previous periods	7
Total deferred income tax expense	56
Income tax expense in the Consolidated income statement	12

Adjustments in respect of previous periods relate to items accounted for in the individual companies prior to the formation of the Group.

Notes to the consolidated financial statements

13. Taxation (continued)

(b) Income tax charged in the Consolidated statement of comprehensive income

	9 months ended 31 December 2010 £m
Deferred income tax related to items charged or credited directly to the Consolidated statement of comprehensive income:	
Deferred tax on actuarial gains on pension liability	23
Deferred income tax expense in the Consolidated statement of comprehensive income	23

(c) Reconciliation of the total income tax expense

The income tax expense for the period differs from the standard rate of corporation tax in the UK of 28%. The differences are reconciled below:

	9 months ended 31 December 2010 £m
Accounting loss before income tax	(72)
Accounting loss multiplied by the UK standard rate of corporation tax of 28%	(20)
Non-deductible expenses	31
Impact of tax rate change on the closing deferred tax asset	6
Current income tax adjustments in respect of previous periods	(12)
Deferred income tax adjustments in respect of previous periods	7
Total income tax expense at the effective tax rate of negative 16.7%	12

(d) Change in Corporation Tax rate

Announcements were made during and after the period by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Group. The change in the corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010, whereas further reductions to 23% have been announced but not substantively enacted.

The tax rate reduction from 28% to 27% has resulted in a decrease in the Group's net deferred tax asset of £6 million all of which has been reported in the Consolidated income statement. The Group estimates that the future tax rate reductions to 23% would result in an additional £12 million decrease in the deferred tax asset.

Notes to the consolidated financial statements

13. Taxation (continued)

(e) Deferred income tax asset / (liability)

The deferred tax in the Consolidated statement of financial position is as follows:

	31 December 2010 £m	1 April 2010 £m
Deferred income tax liability		
Accelerated tax depreciation	(503)	(407)
	(503)	(407)
Deferred income tax asset		
Trading tax losses	554	504
Pension scheme liabilities	12	37
Provisions deductible on a paid basis	87	95
	653	636
Disclosed in the Consolidated statement of financial position		
Net deferred income tax asset	150	229

The Group offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The deferred tax assets and liabilities listed above relate to income tax levied by HM Revenue & Customs in the UK.

	9 months ended 31 December 2010 £m
Opening balance at 1 April 2010	229
Deferred income tax (expense) / income in the Consolidated income statement	
Accelerated tax depreciation	(96)
Trading tax losses	50
Pension scheme liabilities	(2)
Provisions deductible on a paid basis	(8)
Deferred income tax in the Consolidated statement of comprehensive income	
Pension scheme liabilities	(23)
Closing balance at 31 December 2010	150

The trading tax losses are available for indefinite carry forward and may only be offset against taxable profits arising from the same trade.

Notes to the consolidated financial statements

13. Taxation (continued)

(e) Deferred income tax asset / (liability) (continued)

Although the Group was loss making in the period to 31 December 2010, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

There are unrecognised taxation losses not yet agreed with the taxation authorities. These taxation losses relate, in the main, to the amortisation of the goodwill arising on the reorganisation of the former T-Mobile business undertaken on 31 December 2002 to collapse the partnership structure in operation at that time. To the extent these tax losses are agreed with the taxation authorities, they will be available for indefinite carry forward, and will be subject to the same usage conditions as the existing trading tax losses.

There are no income tax consequences attached to the payment of dividends in the period to 31 December 2010 by the Group to its shareholders.

14. Intangible assets

	Goodwill	Customer relationships	Spectrum	Other	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 April 2010	5,692	2,600	3,682	603	12,577
Additions	-	-	-	59	59
Transfer in	-	-	-	1	1
Disposals	-	-	-	(1)	(1)
At 31 December 2010	5,692	2,600	3,682	662	12,636
Amortisation:					
At 1 April 2010	-	-	-	-	-
Charge during the period	-	(277)	(251)	(118)	(646)
Disposals	-	-	-	-	-
At 31 December 2010	-	(277)	(251)	(118)	(646)
Net book value at 31 December 2010	5,692	2,323	3,431	544	11,990
Net book value at 1 April 2010	5,692	2,600	3,682	603	12,577

Goodwill

Goodwill arose upon the combination of the TMUK and OUK businesses that formed the Group. On formation of the Group goodwill is initially measured at cost being the excess of the equity value transferred into the Group upon formation, over the net fair value of the identifiable assets and liabilities assumed.

Impairment test for goodwill

Goodwill is not ascribed a useful economic life, but, as required by *IAS 36: Impairment of Assets*, is subject to an annual impairment review. The impairment review was performed as at 31 October 2010, and resulted in no impairment to the carrying value of Goodwill.

Notes to the consolidated financial statements

14. Intangible assets (continued)

Impairment test for goodwill

The Group has determined that the business comprises a single operating segment to which all the Goodwill is allocated. The 5 year method used for establishing the recoverable amount was a fair value less cost to sell calculation derived from conventional discounted cash flow projections.

The valuation comprised the discounted cash flows of the business for a 5 year period and a terminal value in perpetuity. A 5 year forecast period was used because management considered that by the end of this period a reliable and sustainable cash flow would emerge on which to base the terminal value.

The projections used a long term growth rate of 1%, and a discount rate of 8.56% was used within a capital asset pricing model. The discount rate used was based upon an entity specific assessment of the long term sources of financing available to the Group from the shareholders, and the risk factors unique to the UK market and the Group specifically.

There were a number of key assumptions which affected the cash flow forecast of the business. These included assumptions about the synergies to be achieved from the formation of the Group, the development of the UK market and the market size, the Group's share of the market, customer revenues, operating margins and capital expenditure.

Customer Relationships

Under the new basis accounting applied upon formation of the Group, a fair value assessment was applied to the customer relationships that existed within the TMUK and OUK businesses.

The customer relationship assets that resulted from the fair value assessment are considered to have finite useful lives, and as such amortisation is charged on a straight line basis over the relevant periods.

In accordance with IAS 36, an assessment at the Consolidated statement of financial position date was performed to assess whether any indication of impairment existed for the customer relationships. No indicators of impairments were identified.

Spectrum

At 1 April 2010 the frequency spectrum available to the Group under the existing 2G and 3G licence agreements held by TMUK and OPCS was recognised at fair value.

The valuation of the spectrum considers the frequencies used for both 2G and 3G, the terms of the related licences, and the impact of capacity that is known to be in excess of requirements.

The licences, held by the Group upon formation, include those relating to 3G spectrum that expire on 31 December 2021, and those relating to 2G spectrum that are renewed annually.

As spectrum frequency is granted under licence, the related intangible asset is considered finite and useful economic lives have been applied. The fair value of the spectrum is amortised on a straight-line basis over the relevant periods.

Other

Other intangible assets mainly consist of software licences and development. These assets are ascribed useful economic lives and amortised accordingly.

Notes to the consolidated financial statements

15. Tangible assets

	Freehold land & buildings £m	Short term leasehold improvements £m	Network £m	Fixtures & fittings £m	Total £m
Cost:					
At 1 April 2010	53	100	1,723	85	1,961
Additions	-	11	250	9	270
Disposals	-	(1)	(18)	(3)	(22)
At 31 December 2010	53	110	1,955	91	2,209
Depreciation:					
At 1 April 2010	-	-	-	-	-
Charge during the period	(1)	(9)	(206)	(16)	(232)
Disposals	-	1	18	3	22
At 31 December 2010	(1)	(8)	(188)	(13)	(210)
Net book value at 31 December 2010	52	102	1,767	78	1,999
Net book value at 1 April 2010	53	100	1,723	85	1,961

At 1 April 2010 tangible fixed assets have been recognised at their fair value, after considering the impact of the planned network rationalisation programme. In calculating depreciation, residual economic lives have been assessed for all assets currently in use, within the framework of the useful economic lives applied to additions.

Network Assets

Network includes assets held under finance leases with a net book value of £19 million at 31 December 2010 (1 April 2010: £23 million). Fixtures, fittings and equipment include assets held under finance leases with a net book value of £1 million at 31 December 2010 (1 April 2010: £1 million).

Network Share Arrangement

As part of the shared network agreement (Note 2.3b), selected network assets are jointly controlled with 3. Included within network assets are 3G assets with a net book amount of approximately £38 million that are part of the shared network. Also included within network assets are 2G and core network assets with a net book amount of approximately £125 million, that will not be shared assets. The remaining network assets relate to the network infrastructure, an element of which is attributed to the shared network. The reciprocal nature of the arrangement means that, in exchange for these assets, the Group will have access to assets held by 3. The fair value of the assets held by 3 could not be reliably determined; therefore the cost of 3's shared assets is determined based on the fair value of the Group assets shared.

These jointly controlled assets are of a similar nature and will be consumed in a manner similar to those given up. Therefore the shared network assets now reflect 50% of the original shared network assets, and the fair value of 50% of the assets received.

Notes to the consolidated financial statements
15. Tangible assets (continued)

Network Share Arrangement (continued)

Network assets acquired jointly with 3 following the joint venture agreement are treated as jointly controlled assets. The Group records 50% of each new asset acquired within network assets. As at 31 December 2010, network assets in the course of construction with a net book value of £66 million (1 April 2010: £85 million) were jointly controlled.

Sale of rights

The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International by the former TMUK business. Due to the fact that the Group still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the plant, property and equipment of the Group. The net book amount of these assets as at 31 December 2010 was £22 million (1 April 2010: £24 million).

16. Principal subsidiaries, associates and joint venture investments

a) Interests in subsidiaries

The Group's subsidiary undertakings throughout the period were as follows:

Name	Country of incorporation	Period end	Principal activities	Percentage shareholding
Orange Services India Private Limited	India	31 March	Management support	100%
Orange Personal Communications Services Limited	UK	31 December	Dormant	100%
Orange Retail Limited	UK	31 December	Dormant	100%
Orange Home (UK) Limited	UK	31 December	Dormant	100%
Orange Jersey Limited	Jersey	31 December	Dormant	100%
T-Mobile (UK) Pension Trustees Limited	UK	31 December	Pension Trustee	100%
Orange Pension Trustees Limited	UK	5 April	Pension Trustee	100%
Orange FURBS Limited	UK	31 December	Pension Trustee	100%

All subsidiaries have share capital consisting of ordinary shares. The subsidiaries with non co-terminous year ends are consolidated using the last relevant audited financial statements, adjusted for subsequent material transactions.

All subsidiaries have a functional currency of British Pounds except for Orange Services India Private Limited, which has a functional currency of Indian Rupees.

Notes to the consolidated financial statements

16. Principal subsidiaries, associates and joint venture investments (continued)

b) Interests in associates and joint ventures

A summary of the Group's share of the aggregated financial information of the equity accounted associates and joint ventures is set out below.

The Group's share as at	31 December 2010 (unaudited) £m	1 April 2010 (unaudited) £m
Share of equity shareholders funds in:		
Associates	1	1
Joint ventures	11	11
	12	12

There were no material profits in associates or joint ventures to be included in the Group results.

Associates

The Group's associate undertakings throughout the period were as follows:

Name	Period end	Principal activities	Percentage shareholding
Midland Communications Distribution Limited	31 October	Communication distribution	35%
Mainline Communications Group PLC	31 August	Communication distribution	26%

The Group's share of the aggregated financial information of the equity accounted associates at 31 December 2010 and 1 April 2010 was in aggregate £1 million. In consequence, there is no significant share of profits to be recorded.

These associates with non co-terminous year ends are equity accounted using the last relevant audited financial statements, adjusted for subsequent material transactions.

Notes to the consolidated financial statements

16. Principal subsidiaries, associates and joint ventures (continued)

Joint venture

The Group has a 50% share of the ordinary share capital of Mobile Broadband Network Limited, which was formed as part of the network sharing contract with 3 by the former TMUK business.

The Group's share as at	31 December 2010 (unaudited) £m	1 April 2010 (unaudited) £m
Revenue	10	2
Profit on ordinary activities before taxation	-	-
Tax on profit on ordinary activities	-	-
Profit for the financial period	-	-
Fixed assets	78	62
Current assets	5	5
Creditors: amounts falling due within one year	(12)	(3)
Creditors: amounts falling due after more than one year	(60)	(53)
Net assets	11	11

17. Inventories

	31 December 2010 £m	1 April 2010 £m
Inventories of handsets	168	141
Gross value	168	141
Provision for obsolescence	(24)	(29)
Total inventories at the lower of cost and net realisable value	144	112

The amount of write-down of inventories recognised as an expense within the income statement is £24 million (1 April 2010: £29 million). Of this expense £19 million relates to 14 day money back returns of handsets, many of which are recycled for use in the business through the Orange Care handset insurance scheme.

Notes to the consolidated financial statements

18. Loans and trade receivables

	31 December 2010 £m	1 April 2010 £m
Trade receivables	819	719
Non-current loans	60	53
	879	772

Receivables from joint ventures relate to trading balances and are unsecured, interest free and have no fixed date of repayment.

Non-current loans from joint ventures of £60 million (1 April 2010: £53 million) are unsecured, with an interest rate of 1 month LIBOR with a margin based on a leverage cover ratio, and are to be repaid on the 5th anniversary of the agreement or by giving prior notice.

Trade receivables are non-interest bearing, are generally on 15 or 30 days' terms, and are shown net of a provision for impairment. As at 31 December 2010, trade receivables at nominal value of £174 million (1 April 2010: £184 million) were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2010 £m
Opening balance as at 1 April	184
Decrease in provision	(10)
Closing balance as at 31 December	174

As at 31 December 2010 and 1 April 2010 the analysis of trade receivables that were past due but not impaired is as follows:

	31 December 2010 £m	1 April 2010 £m
Neither past due nor impaired	735	653
Past due but not impaired		
30 days	67	53
60 days	17	13
	819	719

Notes to the consolidated financial statements

19. Financial assets at fair value through Consolidated income statement

	31 December 2010 £m	1 April 2010 £m
Current:		
Other financial assets at fair value through Consolidated income statement	5	2

All above assets are derivatives held for trading.

20. Other assets and prepaid expenses

	31 December 2010 £m	1 April 2010 £m
Current:		
Prepaid external purchases	367	373
Loan receivable	54	56
Other assets and prepaid operating expenses	11	8
	432	437
Accrued interest	9	-
Total other current assets and prepaid expenses	441	437

	31 December 2010 £m	1 April 2010 £m
Non-current:		
Prepayments	59	69

21. Cash and cash equivalents

	31 December 2010 £m	1 April 2010 £m
Cash at bank	76	214
Cash pooling	492	329
Bank overdraft	(45)	(8)
	523	535

Notes to the consolidated financial statements

21. Cash and cash equivalents (continued)

Cash and cash equivalents also include the cash pooling account. On a daily basis the Group upstreams cash to each Shareholder on an equal 50:50 basis. The account also earns interest at the overnight LIBOR rate minus 15 b.p. At 31 December 2010 overdraft facilities of £120 million are available to the Group.

22. Financial liabilities and net financial debt

	31 December 2010 £m	1 April 2010 £m
Current:		
Financial liabilities at amortised cost	1,253	8
Trade payables	1,306	1,212
	2,559	1,220

	31 December 2010 £m	1 April 2010 £m
Non - current:		
Loan payable	-	1,250
	-	1,250

On 30 December 2010, the Group amended the term of the £1,250 million loan granted as a long term Eurobond listed on the Channel Islands Stock Exchange. The Eurobond, which consists 1,250 £1 million loan notes, was originally issued to France Telecom S.A and Deutsche Telekom A.G. through a private offer. The rate of interest payable on the Eurobond is fixed Libor 11 months as at 31 December 2010 + 0. 6%. The Eurobond is unsecured.

Net financial debt

Net financial debt as defined and used by the Group corresponds to financial liabilities excluding operating payables (translated at the year-end closing rate), less:

i. derivative instruments carried in assets / liabilities held for trading, cash flow hedges, fair value hedges, and net investment hedges;
ii. cash collateral paid on derivative instruments;
iii. cash and cash equivalents and financial assets at fair value; and
iv. deposits paid on certain specific transactions (if the associated liability is included in gross financial debt).

Derivatives qualifying as cash flow hedges and net investment hedges are set up to hedge items that are not included in net financial debt (future cash flows, net assets in foreign currencies). However, the market value of these derivatives is included in the calculation. The "effective portion of cash flow hedges" and the "unrealised gain or loss on net investment hedges" is added to net financial debt to offset this temporary difference.

Notes to the consolidated financial statements

22. Financial liabilities and net financial debt (continued)

	31 December 2010 £m	1 April 2010 £m
Amounts due to France Telecom S.A.	625	625
Amounts due to Deutsche Telekom A.G.	625	625
Finance lease liability	1	1
Pension deficit	43	131
Bank overdrafts	45	8
Financial liabilities at amortised cost excluding trade payables	1,339	1,390
Derivatives – assets	(5)	(2)
Gross financial debt after derivatives	1,334	1,388
Cash	(568)	(543)
Effective portion of cash flow hedges	2	-
Net financial debt	768	845

23. Other liabilities and deferred income

	31 December 2010 £m	1 April 2010 £m
Current:		
VAT payable	142	84
Other taxes	27	41
Employee related payables	28	16
Deferred income	278	283
Other	203	111
	678	535

	31 December 2010 £m	1 April 2010 £m
Non-current:		
Other	38	42
	38	42

Notes to the consolidated financial statements

24. Derivative financial instruments

	31 December 2010 £m	1 April 2010 £m
Forward foreign currency contracts – cash flow hedges	2	-
Total contracts	2	-

To hedge the exposure of some of its operating cash flows in foreign currencies, the Group has set up risk hedging policies.

Currency	*Hedged nominal amount (£m)*	*Maturity date of hedged item*	*Hedging instrument*	*Hedged risk*
EUR	481	2011	Forward FX contracts	Purchases in Euros
USD	67	2011	Forward FX contracts	Purchases in Dollars

	31 December 2010 £m
Gain recognised in equity during the period	2
Ineffectiveness / (finance costs, net)	2

25. Provisions

Current:	Restructuring provision £m	Onerous lease provision £m	ARO / WEEE / Dilaps £m	Network share provision £m	Total £m
Cost:					
At 1 April 2010	5	3	34	14	56
Increase in provision during the period	49	-	2	1	52
Transfer from non-current provisions	44	9	-	-	53
Utilisation	(9)	-	(8)	(7)	(24)
At 31 December 2010	89	12	28	8	137

Notes to the consolidated financial statements

25. Provisions (continued)

Non-current:	Restructuring provision £m	Onerous lease provision £m	ARO / WEEE / Dilaps £m	Network share provision £m	Total £m
Cost:					
At 1 April 2010	48	101	242	145	536
Increase in provision during the period	-	1	2	-	3
Transfer to current provisions	(44)	(9)	-	-	(53)
Unwinding of discount	-	-	2	2	4
Utilisation	(4)	(3)	-	-	(7)
At 31 December 2010	-	90	246	147	483

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (WEEE)

This represents the liabilities relating to the responsibility of the Group to dismantle radio frequency mast sites where leases are not renewed, and to dispose of electrical equipment at the end of its life that is held by subscribers. These obligations are provided for at their net present value.

Given the long term nature of this provision discount rates based upon long term bonds and inflation assumptions based upon RPI have been used. These costs are expected to be incurred over a period of up to 20 years.

Restructuring provision

This relates to the costs of employee redundancy or one off costs following restructuring within the Group. These costs are expected to be incurred within 12 months of recognition of the provision.

Onerous lease provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under the lease contracts, being the difference between rentals paid and the sub lease rentals received has been provided for at its net present value.

Network share provision

This represents the liabilities arising from restructuring obligations relating to historic network share agreements, prior to the combination of the TMUK and OUK businesses

26. Pensions

Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Group, amounted to £17 million during the period. Included in other creditors is £3 million (1 April 2010: £3 million) in respect of contributions payable to the scheme.

Notes to the consolidated financial statements

26. Pensions (continued)

Defined benefit pension scheme

The following summarises the movement in the T-Mobile (UK) Limited Pension Scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2010. The DB pension scheme was established on 1 March 2000 with benefits are based on final remuneration and length of service. Assets are held in separately administered trusts. A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out as at 31 December 2009 and updated to 31 December 2010 by actuaries AON Hewitt Associates Limited.

At the time of the combination (1 April 2010) a full actuarial valuation was not performed. Rather the 31 December 2009 valuation was updated to reflect the effect of three months of the 2010 service cost, interest cost and expected return on assets (increases to the liability); offset by employer and employee contributions and benefit payments for the quarter (decreases to the liability). As a result, the Consolidated income statement for the 9 months ended 31 December 2010 include only the nine months of changes to the pension liability, in addition to the full effect of actuarial and curtailment gains resulting from the 31 December 2010 valuation and changes to the scheme. After considering the impact of the changes to the liability for the first three months of 2010, the net liability of £131 million at 1 April 2010 was effectively unchanged from the net liability of £130 million at 31 December 2009.

The full twelve months disclosure was included to provide a complete view of the movement between annual valuations.

Disclosures as at 31 December 2010 and for the period then ended

The main financial assumptions used in the actuarial valuation of the pension scheme were as follows:

	31 December 2010 %	31 December 2009 %
Inflation assumptions - RPI	3.4	3.6
Inflation assumptions - CPI	2.6	n/a
Expected return on plan assets	6.6	7.0
Rate of increase in salaries	4.4	4.6
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.2	3.4
Rate of increase for pensions in payment – accrued post 6 April 2006	2.2	2.2
Discount rate	5.4	5.7

The mortality assumptions used were as follows:

	31 December 2010 Years	31 December 2009 Years
Longevity at age 65 for current pensioners:		
- Men	22.1	22.0
- Women	23.0	24.8
Longevity at age 65 for future pensioners:		
- Men	24.0	23.1
- Women	24.9	25.9

Notes to the consolidated financial statements

26. Pensions (continued)

The Group employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied, and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the benchmark asset allocation for the DB pension scheme at 31 December 2010 rounded to the nearest 0.1% per annum. The Group's share of the assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 December 2010 % p.a.	Value at 31 December 2010 £m	Long-term rate of return expected at 31 December 2009 % p.a.	Value at 31 December 2009 £m
UK equity and unit trusts	8.10	103	8.50	107
Property	8.10	47	8.50	37
Hedge funds	8.00	21	6.20	19
Gilts	4.10	34	4.50	10
Bonds	5.20	83	5.50	68
Other	n/a	34	1.20	33
Fair value of the scheme assets		322		274
Present value of scheme obligations		(365)		(404)
Liability in the Consolidated statement of financial position		(43)		(130)

Reconciliation of present value of scheme obligations:

	2010 £m
At 1 January	404
Current service cost	18
Interest cost	24
Benefits paid	(7)
Actuarial gains	(73)
Curtailments	(1)
At 31 December	365

In July 2010 the UK Government announced its decision that the Consumer Prices Index (CPI), rather than Retail Prices Index (RPI), will be used as the basis for determining the rate of inflation for the statutory revaluation and indexation of occupational pension rights. The inflation measure has been recorded as an actuarial gain in the Consolidated statement of comprehensive income.

Notes to the consolidated financial statements

26. Pensions (continued)

Reconciliation of fair value of schemes assets:

	2010 £m
At 1 January	274
Expected return on pension scheme assets	20
Actuarial gains	11
Benefits paid	(7)
Contributions	24
At 31 December	322

The scheme assets do not include any of the Group's own financial instruments, or any property occupied by the Group. The expected long term rate of return on assets is determined by considering the current level of expected returns on equities, property, corporate bonds and cash and the expectations for future returns of these asset classes.

The following amounts were recognised in the Group's performance statements in the period to 31 December 2010:

	31 December 2010 £m
Operating loss	
Current service cost	18
Gain on curtailment	(1)
Pension costs	17
Other financial expense	
Expected return on pension scheme assets	20
Interest on pension scheme liabilities	(24)
Net return	(4)

The actual return on plan assets was a £31 million gain.

Movement in the deficit in the year:

	2010 £m
Opening deficit in the scheme at 1 January	(130)
Current period service cost	(18)
Contributions	24
Other finance income	(4)
Curtailments	1
Actuarial gain	84
Closing deficit in scheme at 31 December	(43)

Notes to the consolidated financial statements

26. Pensions (continued)

Analysis of the amounts that are recognised in the Consolidated statement of comprehensive income:

	31 December 2010 £m
Actual return less expected return on pension scheme assets	11
Experience gains and losses arising on the scheme liabilities	50
Changes in assumptions underlying the present value of the scheme liabilities	23
Actuarial gain recognised in the Consolidated statement of comprehensive income	84

The cumulative amount of actuarial gains recognised in the Consolidated statement of changes in equity, is £30 million gain (2009: £54 million loss).

Under the current schedule of contributions the Group is expected to contribute £23 million to the schemes in the twelve months to 31 December 2011.

The effect of a 0.2% movement in the discount rate used of 5.4% would be as follows:

Discount rate	5.6% £m	5.2% £m
Deficit in scheme at end of period	(24)	(63)

The effect of a 0.2% movement in the inflation rate assumption of 2.6% would be to as follows:

Inflation rate	2.8% £m	2.4% £m
Deficit in schemes at end of period	(62)	(27)

A deferred taxation liability in respect of cumulative actuarial gains has been recognised in the period in the Consolidated statement of comprehensive income. See Note 13.

Notes to the consolidated financial statements

27. Share Capital and reserves

	31 December 2010 £m	1 April 2010 £m
Issued and fully paid		
11,025,153 Ordinary 'A' shares of £1 each	11	11
11,025,153 Ordinary 'B' shares of £1 each	11	11
	22	22

	Share premium account £m	Capital contribution reserve £m	New basis reserve £m	Profit and loss account £m
At 1 April 2010	1,638	196	11,063	-
Loss for the period	-	-	-	(84)
Cash flow hedges recognised in equity	-	-	-	2
Actuarial gain on the defined benefit pension scheme	-	-	-	84
Movement on deferred taxation relating to actuarial gain	-	-	-	(23)
Dividends declared and paid	-	-	-	(646)
At 31 December 2010	1,638	196	11,063	(667)

Nature and purpose of reserves

Capital contribution reserve

The capital contribution reserve relates to a cash contribution from the shareholders without the issue of additional shares.

New basis reserve

The New basis reserve arises on consolidation and includes all previously recognised retained earnings of TMUK, OJL and their subsidiaries as well the fair value adjustments made on formation of the new reporting entity as at 1 April 2010.

28. Dividends paid

	9 months ended 31 December 2010 £m
Dividends declared and paid	646

Notes to the consolidated financial statements

29. Related party transactions

Under *IAS24: Related party transactions*, the Group is exempt from the requirement to disclose transactions with entities that are wholly owned within the Everything Everywhere Limited Group.

Related party transactions with joint ventures

MBNL charges the Group fees in relation to the management and use of the shared network. Charges from MBNL during the period totalled £8 million. The Group recharged MBNL for certain costs including staff and commitment fees. Charges to MBNL during the period totalled £nil.

At 31 December 2010 MBNL was holding £2 million (1 April 2010: £nil) of restricted cash on behalf of the Group. The net amount owed to the Group at the end of the year was £9 million (1 April 2010: £nil). In addition £60 million of formal loan funding was provided by the Group to MBNL. As at 31 December 2010, the outstanding balance receivable in respect of this loan amounted to £60 million (1 April 2010: £53 million) which included accrued interest of £nil. The loan was provided on an arm's length basis, and attracts interest at a rate of LIBOR plus1.75%.

Related party transactions with companies within the France Telecom S.A. group

FT charges the Group for a series of services, including IT and network support and licences, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the Orange brand. Total charges in the period amounted to £111 million, and the balance outstanding at 31 December 2010 was £66 million.

FT provided a loan of £625 million to the Group through its subsidiary, Atlas Services Belgium S.A. on 1 April 2010. The outstanding balance at 31 December 2010 was £625 million (1 April 2010: £625 million). The loan was provided on an arm's length basis, and attracted interest of LIBOR plus a margin ranging from 0.6% to 2.5%. Interest paid in the period totalled £14 million, and the outstanding balance payable was £nil (1 April 2010: £nil). In addition, there is a guarantee fee payable to FT of 0.25% of the loan per annum from 20 December 2010.

Working capital funds deposited with FT totalled £246 million at 31 December 2010 (1 April 2010: £123 million). Interest is received at overnight LIBOR minus 0.15%, and totalled £1 million. FT undertook a series of foreign exchange trades on behalf of the Group. These were conducted as arm's length transactions.

Related party transactions with companies within the Deutsche Telekom A.G. group

DT charges the Group for a series of services including IT and network support, network services, management fees, and international roaming charges. In addition, a royalty fee is charged for the use of the T-Mobile brand. Total charges for the period amounted to £103 million, and the balance outstanding at 31 December 2010 was £112 million.

DT provided a loan of £625 million to the Group on 1 April 2010. The outstanding balance at 31 December 2010 was £625 million (1 April 2010: £625 million). The loan was provided on an arm's length basis, and attracted interest of LIBOR plus a margin ranging from 0.6% to 2.5%. Interest paid in the year totalled £14 million, and the outstanding balance payable was £nil (1 April 2010: £nil). In addition, there is a guarantee fee payable to DT of 0.25% of the loan per annum from 20 December 2010.

Working capital funds deposited with DT totalled £246 million at 31 December 2010 (1 April 2010: £206 million). Interest is received at overnight LIBOR minus 0.15% and totalled £1 million. DT undertook a series of foreign exchange trades on behalf of the Group. These were conducted as arm's length transactions.

There were no material transactions with any other related parties.

Notes to the consolidated financial statements

30. Capital and financial commitments

Finance leases

Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	31 December 2010 £m	1 April 2010 £m
Not later than one year	0.5	0.5
After one year but not more than five years	-	-
After five years	-	-
Less finance charges allocated to future periods	-	-
Present value of minimum lease payments	0.5	0.5

The present value of minimum lease payments is analysed as follows:

	31 December 2010 £m	1 April 2010 £m
Not later than one year	0.5	0.5
After one year but not more than five years	-	-
After five years	-	-
Present value of minimum lease payments	0.5	0.5

Operating leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2010 £m	1 April 2010 £m
Not later than one year	271	264
After one year but not more than five years	783	795
After five years	605	674
	1,659	1,733

Capital commitments

The Group has £159 million of capital commitments at 31 December 2010 (1 April 2010: £152 million).

30. Capital and financial commitments (continued)

Contingent liabilities

The Group had no significant contingent liabilities at 31 December 2010 (1 April 2010: £nil).

The annual financial commitments shown above include the Group's share of the MBNL joint venture's annual financial commitments under operating leases, which is £nil. In addition, the Group's share of the MBNL joint venture's capital commitments is £13 million.

31. Financial risk management, objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables, all of which are used to finance operations. The Group has loan, trade and other receivables, and cash and short term deposits, derived from its operations. The Group also enters into derivative transactions.

These activities expose the Group primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Market prices comprise of three types of risk: interest rate risk, currency risk and other price risk such as equity. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December and 1 April 2010.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate interest rates, and the proportion of financial instruments in foreign currencies are constant on the hedge designations in place at 31 December 2010.

The sensitivity analyses exclude the impact of movements in market variables on the carrying values of pension obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives;
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risk. This is based upon the financial assets and financial liabilities held at 31 December, and 1 April 2010 including the effect of hedge accounting;
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 31 December 2010 for the effects of the assumed changes in the underlying items.

Notes to the consolidated financial statements

31. Financial risk management, objectives and policies (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is limited due to the majority of its financing being provided by the two shareholders. However, as the interest charge on the funding from the shareholders is linked to movements in Libor, and given the funding's short term nature, a sensitivity analysis has been presented to demonstrate the impact of a reasonably possible change in the interest rates. With all other variables held constant, the Group's loss before tax and equity is affected through the impact on borrowing as follows:

	Change in interest rate	Effect on loss before tax £m	Effect on equity £m
31 December 2010	+1%	(10)	-
	-1%	10	-

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to operating activities when revenues and expenses are denominated in a currency other than the Group's functional currency.

The Group mitigates its exposure to foreign currency risk by the treasury policy of hedging transactions that are expected to occur within a 12 month period.

Due to the policy of hedging foreign currency transactions for purchases of inventories for resale and capital equipment, there is minimal risk arising from foreign exchange.

Equity price risk

The Group does not hold listed or unlisted equity securities except for associates and joint ventures as disclosed in note 16 and therefore there is minimal exposure to equity price risk.

Credit risk

Credit risk is the risk of loss resulting from counterparty default arising on all credit exposures. The Group is exposed to credit risk from its operating activities (primarily for trade receivables), and from financing activities including deposits with banks, foreign exchange transactions and other financial instruments.

The Group manages its credit risk by generally requiring that customers satisfy credit worthiness criteria. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed regularly.

Credit risk related to the derivatives held for trading that are fair valued through the Consolidated income statement are subject to the maximum exposure amount shown in note 19 and in the liquidity table below.

Notes to the consolidated financial statements

31. Financial risk management, objectives and policies (continued)

Credit risk (continued)

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the reporting dates:

	31 December 2010 £m	1 April 2010 £m
Trade and other receivables	819	719
Cash at bank and in hand	523	535
Current loans	54	56
Non current loans	60	53

The disclosure regarding financial assets that are past due or impaired is given in note 18.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due owing to insufficient financial resources. The Group manages liquidity risk by sourcing its current funding requirements from its shareholders in a manner to ensure the Group has sufficient funds for operations and planned growth. Current funding arrangements with the shareholders have a maturity of less than 12 months from the Consolidated statement of financial position date.

The table below summarises the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments. Interest rates on variable rate loans have been based on a forward curve.

At 31 December 2010

	On demand £m	Less than 12 months £m	1 to 5 years £m
Bank overdrafts	45	-	-
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G. Group companies	-	1,253	-
Trade payables	-	1,306	-
	45	2,559	-

At 1 April 2010

	On demand £m	Less than 12 months £m	1 to 5 years £m
Bank overdrafts	8	-	-
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G. Group companies	-	-	1,250
Trade payables	1,212	-	-
	1,220	-	1,250

Notes to the consolidated financial statements

31. Financial risk management, objectives and policies (continued)

Capital management

The primary objective of the Group's capital management is to facilitate the ongoing operations of the Group. This is currently achieved through an intercompany funding arrangement with the shareholders.

	31 December 2010 £m	1 April 2010 £m
Bank overdrafts	45	8
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G. Group companies	1,253	1,250
Trade payables	1,306	1,212
Net debt	2,604	2,470
Total capital	12,252	12,919
Capital and net debt	21%	19%
Gearing ratio		

All financial assets are held for trading, and as such the Group does not recognise any financial assets as available for sale.

Hedges

Details of the Group's cash flow hedging arrangements are included in note 24.

32. Events after the balance sheet date

On 11 March 2011 the board approved a second interim dividend of £466 million to be paid on 29 March 2011 to Orange Telecommunications Group Limited (£233 million) and T-Mobile Holdings Limited (£233 million).

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. The announcement is expected to contribute to total future reductions of £12 million to the deferred tax asset as disclosed in Note 13.

Company number: 2382161

Everything Everywhere Limited (formerly T-Mobile (UK) Limited)

UK GAAP financial statements

For the year ended 31 December 2010

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

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

Independent auditors' report to the members of Everything Everywhere Limited

We have audited the parent Company financial statements of Everything Everywhere Limited for the year ended 31 December 2010, which comprise the parent Company Balance Sheet, the parent Company Reconciliation of Movements in Shareholders' Funds, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 70, the Directors are responsible for the preparation of the 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 parent Company 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 parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Independent auditors' report to the members of Everything Everywhere Limited (continued)

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 March 2011

Everything Everywhere Limited

Balance sheet – Company number 2382161
As at 31 December 2010

	Notes	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Intangible assets	4	4,809	3,066
Tangible fixed assets	5	2,912	1,497
Investments	6	10	10
		7,731	4,573
Current assets			
Stock	7	144	33
Debtors amounts falling due within one year	8	1,314	487
Debtors amounts falling due after more than one year	9	615	78
Cash at bank and in hand		523	76
		2,596	674
Creditors amounts falling due within one year	10	(3,448)	(876)
Net current liabilities		(852)	(202)
Total assets less current liabilities		6,879	4,371
Creditors amounts falling due after more than one year	11	(27)	(1,065)
Provisions for liabilities	12	(483)	(149)
Net assets excluding pension deficit		6,369	3,157
Pension deficit	17	(31)	(130)
Net assets including pension deficit		**6,338**	**3,027**
Capital and reserves			
Called up share capital	13	22	11
Share premium account	14	1,638	5,143
Capital contribution	14	196	196
Profit and loss reserve	14	4,482	(2,323)
Total shareholders' funds	**15**	**6,338**	**3,027**

These financial statements were approved by the board of Directors on 29 March 2011 and were signed on its behalf by

Richard Moat
Director

Reconciliation of movements in Shareholders' funds
As at 31 December 2010

	Notes	2010 £m	2009 £m
Profit (loss) for the financial year	14	2,609	(132)
Actuarial gains / (losses) on the Company's pension scheme during the year	14	84	(121)
Deferred taxation on actuarial gains / (losses) on the company's pension scheme	3	(8)	15
Policy alignment – licence policy	4	(517)	-
Deferred taxation on licence policy alignment	3	140	-
Capital increase	13	11	-
Share premium increase	14	1,638	-
Dividend payment	14	(646)	-
Net change in shareholders' funds		3,311	(238)
Opening shareholders' funds		3,027	3,265
Closing shareholders' funds		**6,338**	**3,027**

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

On 1 July 2010 T-Mobile (UK) Limited ("TMUK") changed its name to Everything Everywhere Limited ("the Company").

The financial statements of the Company were approved for issue on 29 March 2011, and are presented in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice.

The financial statements are prepared on the going concern basis, under the historical cost convention.

The Company has not presented an individual profit and loss account as permitted by section 408(3) of the Companies Act 2006. The parent Company's financial statements are not intended to give a true and fair view of the cash flows of the Company as its liquidity, solvency and financial adaptability rely upon the Group position. Therefore, as permitted under FRS 1 "Cash Flow Statements", no cash flow statement is presented in the Company's financial statements.

The Company has taken advantage of the exemption contained in FRS 8 "Related Party Disclosures" and has not reported transactions with 100% owned subsidiaries.

The Company's functional currency is British Pounds.

Going concern

The Company's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Company, are set out in the Business review.

The Company is expected to continue to generate positive operating cash flows for the foreseeable future.

FT and DT have each provided letters of comfort, dated 20 December 2010, to the Company, for a period not less than 12 months from the date of approval of these financial statements. These letters provide financial support of up to £625 million each, being the amount of their respective holdings of the £1,250 million Eurobond loan issued to them, which is due to mature on 30 November 2011. The financial support would be in the form of a short term loan priced on arm's length terms in accordance with the then current market conditions.

The Directors have made enquiries of the Company's investors FT and DT regarding their intention to support the business as a going concern. As each of FT and DT confirmed that the financing undertakings taken by both Groups on 20 December 2010 remain unchanged, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

On the basis of the assessment of the Company's financial position, the Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the Company's annual financial statements.

Notes to the financial statements

1. Accounting policies (continued)

1.1 Basis of preparation

Use of Estimates

In preparing the Company financial statements, management makes estimates, insofar as many elements included in the financial statements cannot be measured with precision.

Management revises these estimates if the underlying circumstances evolve, or in light of new information or experience. Consequently, estimates made at 31 December 2010 may subsequently be changed. The underlying assumptions used for significant estimates are described in the following notes:

- Note 3 - Deferred tax
- Note 4 - Goodwill
- Note 12 - Provisions

1.2 Acquisition of Orange Jersey Limited and transfer of trade and assets

On 1 April 2010 the Company acquired Orange Jersey Limited ("OJL") and its subsidiary undertakings from Orange Telecommunications Group Limited ("OTGL"). The consideration granted to OTGL was 50% of the ordinary shares of the Company through the issue of 11,025,153 new £1 ordinary B shares. The significant subsidiaries of OJL are Orange Personal Communications Services Limited ("OPCS"), Orange Home (UK) Limited ("OHL") and Orange Retail Limited ("ORL").

The investment in OJL was recorded by the Company at the nominal value of the share capital issued, which amounted to £11 million.

On 1 July 2010, the trade and assets of OPCS, OHL and ORL were transferred to the Company at the net book value of the recognised assets and liabilities on that date.

Subsequent to the transfer of trade and assets, dividends were paid to the Company by OPCS and ORL, and the Company's carrying value of the investment in OJL was adjusted for impairment.

1.3 Derivative instruments

The Company uses forward currency contracts to reduce exposure to foreign exchange rate exposures.

Forward foreign currency contracts

Forward foreign currency contracts are not revalued to fair value, or recognised on the Balance Sheet. Gains and losses are recognised in the Profit and Loss Account when the contracts mature.

1.4 Intangible fixed assets and goodwill

Licences and similar rights are valued at the cost of acquisition less any provision for impairment. Costs include interest incurred on amounts borrowed in order to place the deposit required as part of the conditions for entrance into the licence auction process, less interest received on that deposit as a result of the successful bid in the auction. Amortisation is charged on a straight-line basis over the estimated useful economic life of the asset from the date of acquisition.

Goodwill represents the difference between the cost of an acquisition and the share of net assets or liabilities acquired. Goodwill is capitalised as an intangible fixed asset and amortised over a period of 15 years on a straight line basis.

The Company evaluates the carrying value of goodwill in each financial year to determine if there has been impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

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

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. The cost of fixed assets includes all costs incurred in bringing the assets to their present condition and location including, where appropriate, external consultancy fees together with directly attributable internal labour and overhead.

The cost attributed to network assets includes capital equipment and external professional fees and expenses incurred in the acquisition of sites, engineering labour and directly attributable overhead, together with the payroll and directly attributable overheads relating to employees whose time, prior to commissioning, is spent wholly on network development.

Network maintenance stocks are included within tangible fixed assets. Network maintenance consumables are charged to the profit and loss account as incurred. The cost of computer systems includes the cost of external consultants and external software development costs.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. Depreciation commences on the date the assets are brought into service and is charged on a straight-line basis.

The useful economic lives used for this purpose are:

• Freehold land:	Nil
• Freehold buildings:	50 years
• Short-term leasehold improvements:	shorter of 10 years or lease team
• Network:	5 to 20 years
• Fixtures, fittings and equipment:	3 to 6 years

Tangible fixed assets in the course of construction and freehold land are not depreciated.

Accelerated depreciation is provided where an asset is expected to become obsolete before the end of its useful economic life, or if events or circumstances indicate that the carrying amount of the asset may not be recoverable.

1.6 Investments

Fixed asset investments are stated individually at cost less any provision for impairment, which is determined as the higher of net realisable value and value in use.

1.7 Impairment of fixed assets and goodwill

The Company's tangible and intangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the future cash flows of the relevant group of assets, or their disposal value if higher. When it is determined that the carrying value exceeds the recoverable amount the excess is written off to the profit and loss account.

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

1.8 Foreign currencies

Transactions denominated in foreign currencies are initially recorded in the Company's functional currency by applying the spot exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the Company's functional currency rate of exchange ruling at the balance sheet date.

Any gain or loss arising from a movement in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

1.9 Stocks

Stocks comprise equipment for sale to customers, and are stated at the lower of cost and net realisable value on a first in, first out basis. Cost includes all costs incurred in bringing the stock to its present condition and location, including appropriate overheads. Net realisable value takes account of excess stock, deterioration, obsolescence, disposal costs and also revenue margin expected to be earned subsequent to customer acquisition.

1.10 Loans

All loans are stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings, and represent a constant proportion of the balance of capital repayments outstanding.

1.11 Provisions for liabilities

Provisions are recognised by the Company when three criteria are met: (i) the Company has a constructive or legal obligation as a result of a past event; (ii) it is probable that a transfer of economic benefits will be required to settle the obligation; and (iii) a reliable estimate of the obligation can be made.

1.12 Pensions

The Company operates both a defined benefit scheme, and a defined contribution scheme. Both schemes are accounted for in accordance with *FRS 17: Retirement benefits.*

Defined Contribution Scheme

This scheme is open to all employees.

The contributions payable are expensed to the profit and loss account when service is rendered.

Defined Benefit Scheme

This scheme is closed to new members, but continues to operate for existing members.

The Company's net obligation in respect of the defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service to date. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate used is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit method. The net obligation recognised in the balance sheet is the present value of the defined benefit obligation less the fair value of the scheme assets.

Notes to the financial statements

1. Accounting policies (continued)

1.12 Pensions (continued)

Defined Benefit Scheme

The profit and loss account charge is split between an operating charge and a net finance charge. The operating charge reflects the service costs which are spread systematically over the working lives of the employees. The net finance charge relates to the unwinding of the discount applied to the liabilities of the scheme offset by the expected return on plan assets of the scheme, based on conditions prevailing at the start of the year. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the statement of total recognised gains and losses.

1.13 Taxation

The charge for taxation is based on the result for the year and takes into account deferred taxation.

Deferred taxation is recognised in respect of all timing differences that have originated but not been reversed by the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings.

A net deferred taxation asset is regarded as recoverable, and therefore recognised, only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates or laws that have been enacted or substantially enacted by the balance sheet date. Deferred taxation is measured on a non-discounted basis.

1.14 Joint arrangements not entities

Certain assets have been contributed to the network share arrangement by both the Company and 3, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement, and the Company's share of the assets are initially recognised at cost within tangible assets, and depreciated according to Company policy.

2. Profit / (Loss) attributable to the Company

The profit dealt with in the financial statements of the Company is £2,609,000,000 (2009: loss £132,000,000).

Notes to the financial statements

3. Taxation

(a) Taxation on profit / (loss) on ordinary activities

	31 December 2010 £m	31 December 2009 £m
Current taxation		
Current taxation income for the year	31	-
Current taxation expense for previous years	(1)	-
	30	-
Deferred taxation		
Origination and reversal of timing differences	69	(15)
Recognition of deferred tax previously treated as irrecoverable	408	-
Impact of tax rate change on closing deferred tax	(14)	-
	463	(15)
Taxation income / (expense) on profit on ordinary activities	**493**	**(15)**

(b)Taxation included directly in shareholders funds

	31 December 2010 £m	31 December 2009 £m
Deferred taxation		
Origination and reversal of timing differences	122	15
Recognition of deferred tax previously treated as irrecoverable	15	-
Impact of tax rate change on closing deferred tax	(5)	-
Taxation income included directly in shareholders' funds	**132**	**15**

Notes to the financial statements

3. Taxation (continued)

(c) Factors affecting the current tax credit

The taxation assessed for the year was lower (2009 - lower) than the standard rate of corporation taxation in the UK applicable to the Company. The differences are explained below:

	31 December 2010 £m	31 December 2009 £m
Profit / (loss) on ordinary activities before taxation	2,117	(117)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation taxation in the UK of 28% (2009: 28%)	(593)	33
Effects of:		
Expenses not deductible for taxation purposes	(103)	(41)
Non taxable UK dividend income	801	-
Investment impairments not deductible for taxation purposes	(3)	-
Capital allowances in excess of depreciation	(38)	21
Other timing differences	(20)	(5)
Tax losses carried forward	(13)	(8)
Adjustment in respect of previous years	(1)	-
Current taxation income for the year	**30**	**-**

(d) Factors that may affect future taxation charges

As part of the business combination which took place during the year, the Company acquired a net deferred taxation liability of £87 million inherent in the Orange business.

As a consequence of the business combination, the Company now considers that it will have suitable taxable profits against which its net deferred tax asset can reverse, and as such has met the deferred tax asset recognition criteria set out in FRS 19. Accordingly, the Company has recognised £423 million of net deferred tax assets that were previously unrecognised.

Announcements were made during and after the year by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Company. The change in the corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010, whereas further reductions to 23% have been announced but not substantively enacted.

The tax rate reduction from 28% to 27% has resulted in a decrease in the Company's net deferred tax asset of £19 million, £14 million of which was expensed through the profit and loss account, and the remaining £5 million was expensed directly to shareholders' funds. The Company estimates that the future tax rate reductions to 23% would result in an additional £47 million decrease in the deferred tax asset.

Notes to the financial statements

3. Taxation (continued)

(e) Deferred taxation

The Company's gross deferred taxation assets and liabilities, measured on a non-discounted basis at the current rate of corporation taxation in the UK of 27% (2009: 28%), are analysed as follows:

	Accelerated depreciation	Other timing differences	Taxation losses	Total
	£m	£m	£m	£m
At 1 January 2010 - unrecognised	(92)	93	422	423
Deferred taxation now recognised	92	(93)	(422)	(423)
At 31 December 2010 - unrecognised	-	-	-	-

	Accelerated depreciation	Other timing differences	Taxation losses	Total
	£m	£m	£m	£m
At 1 January 2010 – recognised	-	-	-	-
Deferred taxation (expense) / income in the profit and loss account	(46)	95	414	463
Deferred taxation income recognised directly in shareholders' funds	-	(8)	140	132
Deferred taxation asset / (liability) acquired in the year	(99)	12	-	(87)
At 31 December 2010 - recognised	(145)	99	554	508

The deferred tax in the balance sheet is as follows:	Accelerated depreciation	Other timing differences	Taxation losses	Total
	£m	£m	£m	£m
Included within debtors amounts falling due after more than one year (note 9)	(145)	87	554	496
Included within pension deficit (note 17)	-	12	-	12
At 31 December 2010 - recognised	(145)	99	554	508

In addition, there are unrecognised trading taxation losses not yet agreed with the taxation authorities. These taxation losses relate, in the main, to the amortisation of the goodwill arising on the Company reorganisation undertaken on 31 December 2002 to collapse the partnership structure in operation at that time. These losses may be utilised in the future to the extent that there are sufficient levels of trading profit.

Notes to the financial statements

4. Intangible fixed assets

	Licence £m	Goodwill £m	Total £m
Cost			
At 1 January 2010	4,004	2,681	6,685
Additions	4,097	48	4,145
At 31 December 2010	8,101	2,729	10,830
Accumulated amortisation			
At 1 January 2010	(1,786)	(1,833)	(3,619)
Additions	(1,455)	(3)	(1,458)
Accounting policy alignment	(517)	-	(517)
Charge for the year	(277)	(150)	(427)
At 31 December 2010	(4,035)	(1,986)	(6,021)
Net book value			
At 31 December 2010	4,066	743	4,809
At 31 December 2009	2,218	848	3,066

The additions transferred from OPCS relate to the purchase of a beneficial right to a 3G UMTS licence from OPCS on 1 July 2010. The rights to this licence were acquired for consideration equivalent to the net book value in OPCS's books at the date of transfer. Upon transfer the OPCS 3G licence was subject to an amortisation accounting policy alignment adjustment of £517 million, which has been included in the closing accumulated amortisation.

5. Tangible fixed assets

	Land & buildings £m	Fixtures & fittings £m	Computer & software development costs £m	Network assets (see b & f below) £m	Total £m
Cost					
At 1 January 2010	152	13	695	3,432	4,292
Transfers in	93	140	934	4,562	5,729
Additions	5	4	27	287	323
Disposals	-	(4)	(57)	(254)	(315)
At 31 December 2010	250	153	1,599	8,027	10,029
Accumulated depreciation					
At 1 January 2010	(68)	(6)	(553)	(2,168)	(2,795)
Transfers in	(42)	(103)	(583)	(3,228)	(3,956)
Charge for the year	(19)	(5)	(90)	(530)	(644)
Disposals	-	3	22	253	278
At 31 December 2010	(129)	(111)	(1,204)	(5,673)	(7,117)
Net book value					
At 31 December 2010	121	42	395	2,354	2,912
At 31 December 2009	84	7	142	1,264	1,497

Notes to the financial statements

5. Tangible fixed assets (continued)

a) The net book value of land and buildings includes £41 million (2009: £21 million) of freehold land and buildings and £80 million (2009: £63 million) of short leaseholds.

b) As part of the network share agreement (see Note 5e), selected TMUK network assets will become jointly controlled with Hutchinson 3G UK Limited ("3"). Included within TMUK's network assets are 3G assets with a net book amount of approximately £38 million (2009: £67 million) that will become part of the shared network. Also included within network assets are 2G and core network assets with a net book amount of approximately £125 million (2009: £146 million) that will not be shared assets. The remaining network assets relate to the network infrastructure, an element of which is attributed to the shared network. The reciprocal nature of the arrangement means that, in exchange for these assets, the Company will have access to assets held by 3. The fair value of the assets held by 3 could not be reliably determined; therefore the cost of 3's shared assets is determined based on the fair value of the Company assets shared.

c) These jointly controlled assets are of a similar nature and will be consumed in a similar manner as those given up. Therefore the shared network assets now reflect 50% of the original shared network assets and the fair value of 50% of the assets received.

d) At 31 December 2010 network assets with a net book value of £675 million (2009: £310 million) were jointly controlled. No income from the sale or use of jointly controlled assets was earned, and no liabilities have been incurred by TMUK alone or jointly with 3.

e) Shared network assets acquired following the agreement are treated as jointly controlled assets, and the amount included in tangible fixed assets is 50% of the value of each new asset acquired. As at 31 December 2010, network assets in the course of construction with a net book value of £310 million (2009: £204 million) were jointly controlled.

On 18 December 2007 TMUK and 3, (together "the Companies") signed a contract to co-operate in sharing elements of their separate mobile networks in order to establish a shared network, (the "Shared Network"), to be used by each of them in connection with their differentiated 3G Business. Each party retained and operated its own separate core network after the establishment of the Shared Network and was responsible for delivery of services to its own customers.

The Companies established a joint venture company, Mobile Broadband Network Limited ("MBNL"), for the ongoing purpose of implementing the consolidation of the legacy networks, acquiring assets relevant to the Shared Network on behalf of the Companies, and managing network and operational services as their agent in respect of the Shared Network, unilateral deployments, (being network assets or services specific to one Company only) and the T-Mobile 2G Network in accordance with the terms set out in the contract.

As a consequence of signing this contract the Company is committed to incurring 50% of costs in respect of the Shared Network. A provision of £73 million was established in the year ended 31 December 2007 in respect of restructuring costs as allowed by FRS 12 "Provisions, contingent liabilities and contingent assets", see Note 12 for further details. The amounts provided represent management's best estimate of the present value of the costs that the Company expects to incur, the timing and amount of the actual payments could differ from the amounts included in these estimates.

Concessions have been agreed with 3 as part of the European Commission's approval of the Joint Venture between TMUK and OUK. The Company will continue to support its network share arrangement with 3 and has concluded the agreed concessions have not impacted the carrying value of the company's network assets.

On dissolution of the joint venture arrangement with 3 certain payments and sharing of assets may become liable depending on the specific nature of any termination.

Notes to the financial statements

5. Tangible fixed assets (continued)

f) The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International. Due to the fact that the Company still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the tangible assets of the Company. The net book amount of these assets as at 31 December 2010 was £25 million (2009: £32 million).

g) Included above are fully depreciated assets with an original cost of £3,963 million (2009: £1,351 million), which are still in use. The net book amount of own labour and overheads capitalised within the cost of network assets at 31 December 2010 is £183 million (2009: £47 million).

6. Investments

	Shares in subsidiaries and joint ventures
	£m
Cost	
At 1 January 2010	10
Additions	11
At 31 December 2010	21
Impairment	
At 1 January 2010	-
Charge for the year	(11)
At 31 December 2010	(11)
Net book value	
Net book value at 31 December 2010	10
Net book value at 31 December 2009	10

Subsidiary undertakings

The Company's subsidiary undertakings throughout the year are as follows:

Name	Country of incorporation	Principal activities	Percentage shareholding
Subsidiaries			
T-Mobile (UK) Pension Trustee Limited	UK	Dormant	100%
Orange Jersey Limited	Jersey	Holding company	100%
Joint venture			
Mobile Broadband Network Limited	UK	Network communications	50%

Notes to the financial statements
6. Investments (continued)

Acquisitions

On 1 April 2010 the Company acquired 100% of the share capital of OJL, from OTGL whose ultimate parent company is France Telecom S.A. The consideration granted to OTGL was 50% of the ordinary shares of the Company through the issue of 11,025,153 new ordinary 'B' shares.

The investment in OJL was recorded by the Company at the nominal value of the share capital issued, which amounted to £11 million. Within the period this investment has been impaired to £1 following the hive up of all the assets and liabilities from OPCS, OHL and ORL.

The net assets of OJL at the date of acquisition consisted of £1 share capital and £1 cash.

Disposals

On 23 March 2010 the Company disposed of One 2 One Personal Communications Limited, T-Mobile International Limited and T-Mobile (UK) Retail Limited to T-Mobile Holdings Limited.

Joint venture

The Company has a 50% share of the ordinary share capital of MBNL, which was created as part of the network sharing contract with 3.

The company's share as at	31 December 2010 (unaudited) £m	31 December 2009 (unaudited) £m
Turnover	10	7
Profit on ordinary activities before taxation	-	-
Tax on profit on ordinary activities	-	-
Profit for the financial period	-	-
Fixed assets	78	38
Current assets	5	6
Creditors: amounts falling due within one year	(12)	(9)
Creditors: amounts falling due after more than one year	(60)	(25)
Net assets	11	10

7. Stocks

	31 December 2010 £m	31 December 2009 £m
Equipment for sale to customers	144	33

Notes to the financial statements

8. Debtors amounts falling due within one year

	31 December 2010 £m	31 December 2009 £m
Trade debtors	711	270
Amounts due from group undertakings	103	131
Amounts due from joint ventures	12	13
Other debtors	13	8
Prepayments and accrued income	475	65
	1,314	487

Amounts due from group undertakings are unsecured and have no fixed date of repayment. Amounts due from joint ventures relate to trading balances and are unsecured, interest free and have no fixed date of repayment.

9. Debtors amounts falling due after more than one year

	31 December 2010 £m	31 December 2009 £m
Trade debtors	-	4
Amounts due from joint ventures	60	25
Prepayments and accrued income	59	49
Deferred tax asset (note 3)	496	-
	615	78

Amounts due from joint ventures relates to a trading loan that is unsecured, all falling due after more than one year and attracts interest at a rate of LIBOR plus 1.75%.

10. Creditors amounts falling due within one year

	31 December 2010 £m	31 December 2009 £m
Trade creditors	392	443
Amounts owed to group undertakings	177	260
Amounts owed to joint ventures	-	4
Taxation and social security	169	47
Other creditors	1,277	25
Corporation tax	12	-
Accruals and deferred income	1,421	97
	3,448	876

On 30 December 2010, the Company amended the term of the £1,250 million loan granted as a long term Eurobond listed on the Channel Islands Stock Exchange. The Eurobond, which consists 1,250 £1 million loan notes, was originally issued to France Telecom S.A and Deutsche Telekom A.G. through a private offer. The rate of interest payable on the Eurobond is fixed Libor 11 months as at 31 December 2010 + 0. 6%. The Eurobond is unsecured.

Amounts due to joint ventures relate to trading balances, and are unsecured, interest free and have no fixed date of repayment.

Notes to the financial statements

11. Creditors amounts falling due after more than one year

	31 December 2010	31 December 2009
	£m	£m
Amounts owed to group undertakings	-	1,027
Other creditors	27	38
	27	1,065

The maturity profile is analysed as follows:

	31 December 2010	31 December 2009
	£m	£m
In one year or less or on demand (Note 10)	-	260
In more than one year but not more than two years	27	367
In more than two years but not more than five years	-	-
In more than five years	-	660
	27	1,287

As part of preparing for the Joint Venture prior to 1 April 2010 the Company repaid all long term debt as per the Joint Venture Agreement.

12. Provisions for liabilities

	Restructuring provision	Onerous lease provision	ARO / WEEE / dilaps	Network share provision	Total
	£m	£m	£m	£m	£m
At 1 January 2010	-	3	76	70	149
Increase in provision	48	99	195	89	431
Transfer to current liabilities	(44)	(9)	(27)	(12)	(92)
Discount unwinding	-	-	2	2	4
Utilisation	(4)	(3)	-	(2)	(9)
At 31 December 2010	-	90	246	147	483

Onerous lease provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under the lease contracts, being the difference between rentals paid and the sub lease rentals received has been provided for at its net present value.

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (WEEE)

This represents the liability relating to the responsibility of the Company to dismantle radio frequency mast sites where leases are not renewed and to dispose of electrical equipment at the end of its life that is held in subscribers' homes. These obligations are provided for at their net present value.

Given the long term nature of this provision discount rates based upon the long term bonds and inflation assumptions based upon the RPI have been used.

Notes to the financial statements
12. Provisions for liabilities (continued)

Network share provision

This represents the liabilities arsing from restructuring obligations relating to historic network share agreements, prior to the combination of the TMUK and OUK businesses.

13. Called up share capital

	31 December 2010	31 December 2009
	£m	£m
Authorised		
1,000,000,000 ordinary shares of £1 each	-	1,000
Allotted and fully paid		
5,923,500 ordinary shares of £1 each	-	6
5,101,652 redeemable ordinary shares of £1 each	-	5
11,025,153 ordinary 'A' shares of £1 each	11	-
11,025,153 ordinary 'B' shares of £1 each	11	-
	22	11

On 24 March 2010 the Company's articles of association were amended, and in line with the Companies Act 2006 the authorised share capital was removed as it is no longer required.

On 24 March 2010 the 5,923,500 £1 ordinary shares were converted to 5,923,500 £1 ordinary 'A' shares. On the same date a special resolution was passed to convert the 5,101,652 £1 redeemable shares into 5,101,652 £1 ordinary 'A' shares. Finally on the same date 1 £1 ordinary 'A' share was issued to T-Mobile Holdings Limited ("TMH") for £1,637,449,839.55 which has been fully paid.

On 1 April 2010 the Company issued 11,025,153 new £1 ordinary 'B' shares to Orange Telecommunications Group Limited in return for the investment in Orange Jersey Limited.

14. Reserves

	Capital contribution	Share premium account	Profit and loss account
	£m	£m	£m
At 1 January 2010	196	5,143	(2,323)
Profit for the financial year	-	-	2,609
Actuarial gain on pension schemes net of taxes	-	-	76
Policy alignment net of taxes	-	-	(377)
Dividends declared and paid	-	-	(646)
Share premium reduction	-	(5,143)	5,143
Share premium on issue of shares	-	1,638	-
At 31 December 2010	196	1,638	4,482

On 23 March 2010 a special resolution was passed to reduce the share premium account at that time. On 24 March 2010 a share premium of £1,637,449,838.55 was recognised along with the issue of the £1 ordinary 'A' share as detailed above.

Notes to the financial statements

15. Reconciliation of movements in Shareholders' funds

	Notes	31 December 2010 £m	31 December 2009 £m
Profit (loss) for the financial year	14	2,609	(132)
Actuarial gains / (losses) on the Company's pension scheme during the year	14	84	(121)
Deferred taxation on actuarial gains / (losses) on the Company's pension scheme	3	(8)	15
Policy alignment – licence policy	4	(517)	-
Deferred taxation on licence policy alignment	3	140	-
Capital increase	13	11	-
Share premium increase	14	1,638	-
Dividend payment	14	(646)	-
Net change in shareholders' funds		3,311	(238)
Opening shareholders' funds		3,027	3,265
Closing shareholders' funds		**6,338**	**3,027**

16. Capital and financial commitments

The Company had capital commitments as follows:

	31 December 2010 £m	31 December 2009 £m
Capital expenditure that has been contracted but not provided for	146	63

Annual commitments under non cancellable operating leases are as follows:

	31 December 2010 £m	31 December 2009 £m
Expiring within 1 year	14	63
Expiring between 2 and 5 years	93	82
Expiring in over 5 years	152	79
	259	224

The Company has no guarantees or contingent liabilities at 31 December 2010 (2009; £nil).

The Company's share of MBNL's annual financial commitments under operating leases is £nil (2009: £nil). In addition to the company's share of MBNL's capital commitments is £13 million (2009: £22 million).

Notes to the financial statements

17. Pension commitments

Defined contribution pension scheme

The pension cost for defined contribution schemes, which represents contributions payable by the Company, amounted to £13 million during the year. Included in other creditors is £3 million in respect of contributions payable to the schemes.

Defined benefit pension scheme

As at 31 December 2010, the Company operated a pension scheme as follows:

- The T-Mobile (UK) Pension is scheme a defined benefit scheme in which retirement benefits are based on final remuneration and length of service. Assets are held in separately administered trusts. This scheme was established on 1 March 2000.

Employees of one other subsidiary of Deutsche Telekom A.G. also participated in this pension scheme until 1 April 2010.

A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out at 31 December 2009 and updated to 31 December 2010 by actuaries AON Hewitt Associates Limited.

Disclosures as at 31 December 2010 and for the year then ended

The main financial assumptions used in the actuarial valuation of the pension scheme were as follows:

	31 December 2010	31 December 2009
	%	%
Inflation assumptions - RPI	3.4	3.6
Inflation assumptions - CPI	2.6	n/a
Rate of increase in salaries	4.4	4.6
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.2	3.4
Rate of increase for pensions in payment – accrued post 6 April 2006	2.2	2.2
Discount rate	5.4	5.7

The mortality assumptions used were as follows:

	31 December 2010	31 December 2009
	Years	Years
Longevity at age 65 for current pensioners:		
- Men	22.1	22.0
- Women	23.0	24.8
Longevity at age 65 for future pensioners:		
- Men	24.0	23.1
- Women	24.9	25.9

Notes to the financial statements

17. Pension commitments (continued)

The Company's share of the assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 December 2010	Value at 31 December 2010	Long-term rate of return expected at 31 December 2009	Value at 31 December 2009
	%	£m	%	£m
UK equities and unit trusts	8.1	103	8.5	107
Property	8.1	47	8.5	37
Hedge funds	8.0	21	6.2	19
Gilts	4.1	34	4.5	10
Corporate bonds	5.2	83	5.5	68
Other	n/a	34	1.2	33
Total market value of assets	6.6	322	7.0	274
Present value of scheme liabilities		(365)		(404)
Deficit in the scheme		(43)		(130)
Related deferred taxation asset (see Note 3)		12		-
		(31)		(130)

Reconciliation of present value of scheme liabilities:

	2010	2009
	£m	£m
At 1 January	404	327
Current service cost	18	24
Interest cost	24	19
Curtailments	(1)	-
Benefits paid	(7)	(5)
Actuarial (gains) / losses	(73)	39
At 31 December	365	404

In July 2010 the UK Government announced its decision that the Consumer Prices Index (CPI), rather than Retail Prices Index (RPI), will be used as the basis for determining the rate of inflation for the statutory revaluation and indexation of occupational pension rights. The inflation measure has been recorded as an actuarial gain in the Reconciliation of movements in shareholders' funds.

Reconciliation of fair value of scheme assets:

	2010	2009
	£m	£m
At 1 January	274	312
Expected return on scheme assets	20	22
Actuarial gains / (losses)	11	(82)
Benefits paid	(7)	(5)
Contributions	24	27
At 31 December	322	274

Notes to the financial statements
17. Pension commitments (continued)

The scheme assets do not include any of the Company's own financial instruments, or any property occupied by the Company. The expected long-term rate of return on assets is determined by considering the current level of expected returns on equities, property, corporate bonds and cash and the expectations for future returns of these asset classes.

The actual return on scheme assets in the year was positive £31 million (2009: negative £60 million).

The following amounts were recognised in the Company's performance statements in the year to 31 December 2010:

	31 December 2010 £m	31 December 2009 £m
Operating loss		
Current service cost	18	24
Curtailments	(1)	-
	17	24
Other financial expense		
Expected return on pension scheme assets	20	22
Interest on pension scheme liabilities	(24)	(19)
Net return	(4)	3

Movement in the deficit in the year:

	2010 £m	2009 £m
Opening deficit in the scheme at 1 January	(130)	(15)
Current year service cost	(18)	(24)
Contributions	24	27
Other finance (expense) / income	(4)	3
Curtailments	1	-
Actuarial gain / (loss)	84	(121)
Closing deficit in scheme at 31 December	(43)	(130)

Analysis of the amounts that were recognised in shareholders' funds:

	31 December 2010 £m	31 December 2009 £m
Actual return less expected return on pension scheme assets	11	(82)
Experience gains arising on the scheme liabilities	50	7
Changes in assumptions underlying the present value of the scheme liabilities	23	(46)
Actuarial gain / (loss) recognised in shareholders' funds	84	(121)

Notes to the financial statements

17. Pension commitments (continued)

The cumulative amount of actuarial gains recognised in the reconciliation of movements in shareholders funds, had the Company shown the pension scheme as a defined benefit scheme since 2002, is £30 million gain (2009: £54 million loss).

Under the current schedule of contributions, the Company is expected to contribute £23 million to the scheme in the year ending 31 December 2011.

The effect of a 0.2% movement in the discount rate would be as follows:

Discount Rate	5.6% £m	5.2% £m
Deficit in scheme at end of year	(24)	(63)

The effect of a 0.2% movement in the inflation rate assumption of 2.6% would be to as follows:

Inflation rate	2.8% £m	2.4% £m
Deficit in schemes at end of period	(62)	(27)

History of gains and losses in the scheme

	2010	2009	2008	2007	2006
Defined benefit obligations (£m)	(365)	(404)	(327)	(320)	(318)
Plan assets (£m)	322	274	312	227	203
Deficit (£m)	(43)	(130)	(15)	(93)	(115)
Difference between the expected and actual return on scheme assets:					
Amount (£m)	11	(82)	47	(7)	(9)
Percentage of scheme assets	3.4%	(29.9)%	14.9%	(2.9)%	(4.3)%
Experience gains and losses on scheme liabilities:					
Amount (£m)	50	7	3	(1)	12
Percentage of the present value of the scheme liabilities	13.7%	1.8%	1.0%	(0.4)%	3.8%
Total amount recognised in shareholders funds:					
Amount (£m)	84	(121)	84	34	(16)
Percentage of the present value of the scheme liabilities	23.0%	(30.0)%	25.8%	10.6%	(5.0)%

Notes to the financial statements

18. Related Party Transactions

Under *FRS8: 'Related Party Transactions'*, the Company is exempt from the requirement to disclose transactions with entities that are wholly owned within the Everything Everywhere Limited Group.

Related party transactions with joint ventures

MBNL charges the Company fees in relation to the management and use of the shared network. Charges from MBNL during the year totalled £10 million (2009: £6 million). The Company recharged MBNL for certain costs including staff and commitment fees. Charges to MBNL during the year totalled £nil (2009: £2 million).

At 31 December 2010 MBNL was holding £2 million (2009: £1 million) of restricted cash on behalf of the Company. The net amount owed to the Company at the end of the year was £9 million (2009: £9 million). In addition £60 million of formal loan funding was provided by the company to MBNL. As at 31 December 2010 the outstanding balance receivable in respect of this loan amounted to £60 million (2009: £25 million), which included accrued interest of £nil (2009: £nil). The loan was provided on an arm's length basis, and attracts interest at a rate of LIBOR plus1.75%.

Related party transactions with companies within the France Telecom S.A. group

FT charges the Company for a series of services including IT and network support and licences, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the Orange brand. Total charges in the period amounted to £70 million, and the balance outstanding at 31 December 2010 was £66 million.

FT provided a loan of £625 million to the Company through its subsidiary, Atlas Services Belgium S.A., on 1 April 2010. The outstanding balance at 31 December 2010 was £625 million. The loan was provided on an arm's length basis and attracted interest of LIBOR plus a margin ranging from 0.6% to 2.5%. Interest paid in the year totalled £14 million and the outstanding balance payable was £nil. In addition, there is a guarantee fee payable to FT of 0.25% of the loan per annum from 20 December 2010.

Working capital funds deposited with FT totalled £246 million at 31 December 2010. Interest is received at overnight LIBOR minus 0.15% and totalled £1 million. FT undertook a series of foreign exchange trades on behalf of the Company. These were conducted as arm's length transactions.

Related party transactions with companies within the Deutsche Telekom A.G. group

DT charges the Company for a series of services including IT and network support, network services, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the T-Mobile brand. Total charges for the year amounted to £123 million, and the balance outstanding at 31 December 2010 was £112 million.

DT provided a loan of £625 million to the Company on 1 April 2010. The outstanding balance at 31 December 2010 was £625 million. The loan was provided on an arm's length basis and attracted interest of LIBOR plus a margin ranging from 0.6% to 2.5%. Interest paid in the year totalled £14 million and the outstanding balance payable was £nil. In addition, there is a guarantee fee payable to DT of 0.25% of the loan per annum from 20 December 2010.

Working capital funds deposited with DT totalled £246 million at 31 December 2010. Interest is received at overnight LIBOR minus 0.15% and totalled £1 million. DT undertook a series of foreign exchange trades on behalf of the Company. These were conducted as arm's length transactions.

There were no material transactions with any other related parties.

Notes to the financial statements

19. Post Balance Sheet Events

On 11 March 2011 the board approved a second interim dividend of £466 million to be paid on 29 March 2011 to Orange Telecommunications Group Limited (£233 million) and T-Mobile Holdings Limited (£233 million).

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. The announcement is expected to contribute to total future reductions of £47 million to the deferred tax asset as disclosed in Note 3.

20. Ultimate Parent Shareholders

At 31 December 2010 the Company's immediate shareholders each with a 50% shareholding were:

T-Mobile Holding Limited ("TMH"). The registered office for TMH is Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW, and its ultimate shareholder is Deutsche Telekom A.G., a company incorporated in Germany. A copy of Deutsche Telekom A.G.'s published consolidated financial statements can be obtained from The Press and Corporate Communication Department, Postfach 20 00, D 53 105 Bonn, Germany.

Orange Telecommunications Group Limited ("OTGL"). The registered office for OTGL is St. James Court, Great Park Road, Almondsbury Park, Bradley Stoke, Bristol BS32 4QJ, and its ultimate shareholder is France Telecom S.A, a company incorporated in France. Copies of France Telecom S.A.'s consolidated financial statements can be obtained from the General Counsel at 6 Place d'Alleray, 75505 Paris, Cedex 15, France.