Company number: 2382161

Everything Everywhere Limited

Annual Report

Group and Company Financial Statements

Year ended 31 December 2011

Contents

Directors and advisers

Directors

Olaf Swantee
Neal Milsom
Timotheus Höttges
Gervais Pellissier
Benoit Scheen
Claudia Nemat

Secretary

James Blendis

Registered office

Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

Auditors

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

Business Review

Introduction

Everything Everywhere Limited ("EE" or "the Group") is the UK's largest mobile communications provider with nearly 27.6 million customers and mobile subscriber market share of 34%. The Group, which operates exclusively in the UK, runs two of Britain's most famous brands – Orange and T-Mobile – and offers mobile services (consisting of voice, messaging and data services) and fixed voice and broadband services to both retail and business customers through multiple telecommunications technologies and across the UK's largest mobile network.

The Group was formed on 1 April 2010 when France Telecom S.A. ("FT") and Deutsche Telekom A.G. ("DT") combined their respective UK mobile businesses as a joint venture.

Strategy

Our objectives are to maximise value for our shareholders and customers, while at the same time contributing to the social and economic well-being of the UK. In pursuit of these objectives, our strategy is focussed on three core areas – driving customer loyalty, ensuring operational excellence and creating the platform for secure long term growth. This is supported by strong cash flows and a conservative financing structure.

We aim to be the number one for customer loyalty in the UK. We look to deliver exceptional customer service through our retail networks, customer operations and on-line channels. Our leading network infrastructure allows us to deliver superior coverage and capacity, positively differentiating our network experience in the wider mobile marketplace. We focus relentlessly on our customers' experience, driving their satisfaction and loyalty as the trusted partner across all aspects of their digital lives.

We continually invest in new capabilities to lead our industry's development, meet evolving customer demand and provide the platform from which to drive and optimise future growth opportunities.

Results

Group turnover for the year was £6.8 billion (9 months ended 31 December 2010: £5.3 billion). Adjusted EBITDA, which excludes restructuring costs, brand and management fees, was £1,416 million (9 months ended 31 December 2010: £1,023 million).

Operating Review

2011 saw Everything Everywhere make good progress across all key areas of management focus.

Driving Customer Loyalty

Underlying service growth was driven by a healthy 7.5% increase in the post paid (PAYM) customer base over the year. In this respect we are pleased that the final quarter of the year was the strongest ever final quarter of PAYM customer growth and T-Mobile achieved its best PAYM net additions performance for both the fourth quarter and the year since 2006. PAYM customers at the year end represented 48% of our mobile customer base, up from 44% a year ago.

We also during the year achieved excellent levels of PAYM customer retention, with PAYM customer churn (the number of customers leaving the customer base divided by the average customer base) maintained at a market leading 1.1% (monthly average in the quarter) for each of the final three quarters of the year.

This strong level of customer loyalty was been driven by a number of initiatives to improve their mobile experience. These included network improvements such as 3G signal sharing, giving Orange and T-Mobile customers the widest 3G coverage in the UK by providing access to our two networks for the price of one; we are pleased that more than 22 million customers have benefited from cross-network signal sharing since launch. We also launched T-Mobile YouFix, which helps families manage their spend, Orange Swapables, which helps customers get the most out of their smartphones, and the Orange Connected Plan, which gives customers the convenience of an Apple iPhone and iPad on a single plan.

Business review (continued)

Operating review (continued)

Ensuring Operational Excellence

During the year we made substantial progress simplifying and streamlining the business to reduce costs and improve efficiencies. We introduced a number of business simplification programmes, including reducing the number of IT applications, outsourcing our IT testing capability. We have also successfully migrated fixed broadband which has lowered operating costs.

Adjusted EBITDA margin for the year improved 1.6% compared to the previous 9 month period to 20.9%. It is pleasing that we have improved margins sequentially over the last three half years (H2 2010: 18.7%; H1 2011: 20.3%; H2 2012: 21.5%). We have also now achieved an annual run rate of £278 million in annual gross opex savings, more than 60% of the £445 million annual run rate goal by 2014, and are on track for achieving £3.5 billion + NPV in synergy savings.

Creating the platform for long term growth

Everything Everywhere's future revenue growth will be driven by participating in a number of areas of the mobile telecommunications and personal technology sectors, sometimes in collaboration with other leading industry companies.

A key opportunity for Everything Everywhere is the accelerating growth in data across the mobile market. During 2011 we continued to advance our goal of significantly increasing smartphone penetration, with the percentage of PAYM customers using smartphones rising to 69% at the year end from 51% a year ago. Likewise, non voice revenues (data and messaging) rose rapidly, as evidenced by an increase to 43% in the fourth quarter of 2011 against 37% in the comparable quarter of 2010.

We are generating strong momentum in our machine-to-machine (M2M) business, in 2011 launching a new M2M platform and entering agreements with RACO Wireless, a leading M2M enabler in the US, which will allow RACO Wireless customers access to our network, and with France Telecom and Deutsche Telekom that will allow our customers network access across Europe. We were pleased to achieve the milestone of more than 1 million M2M connections, up by over 400,000 during the year. These are not included in the reported customer base.

Capital Structure

On the formation of the Group in April 2010 our parent companies equally provided Everything Everywhere with shareholder loans totalling £1.25 billion. In November 2011 we were pleased to confirm new banking facilities of £875 million, which were used to refinance part of the shareholder loan. The facilities, comprising a term loan and a multi currency revolving facility, were provided by a group of leading UK and international banks. Subsequent to the year end we have also raised €500 million under a new Euro Medium Term Note programme, for general corporate purposes.

Both fund raisings are part of an ongoing process of diversifying our sources of funding, and we are delighted to have established ourselves so successfully as a borrower in the international capital markets. These do not change the ownership of Everything Everywhere, with Deutsche Telekom and France Telecom each continuing to own 50% of the business.

Outlook

Everything Everywhere's focus for the current year will be to deliver a further solid commercial performance, driving continued margin improvement, market leading customer retention, network leadership and enhanced customer service and experience. Against a background of economic uncertainty and regulatory pressures, we remain well placed to make good progress towards delivering on our 2014 goals.

Business review (continued)

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 it operates.

Level of competitive activity

The Group operates exclusively in the UK. 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.

The level of demand for the Group's products and services could weaken if growth in the UK economy remains weak. The Group actively monitors the macroeconomic environment and responds appropriately to any changes in outlook.

Spectrum factors

In the future, the Group's operations may be affected by the ability to obtain additional spectrum for its existing and future networks. As a result, the Group monitors any developments from the European Commission, the UK Government and the independent regulator and competition authority for the UK communications industries ("Ofcom") in relation to the allocation of mobile network spectrum in the UK. The Group is aware that Ofcom is planning an auction of further mobile network spectrum, needed to provide high speed mobile broadband services. This may commence in 2012 but is likely to conclude in 2013. The exact timing of the auction is however still to be determined by Ofcom.

As part of the clearance from the European Commission to form the Group, the Group made a commitment to relinquish part of its 1800 MHz spectrum. The Group is able to seek a review of part of this commitment at a time prior to the planned auction of further mobile spectrum by Ofcom. Ofcom is currently consulting on the rules for the auction and a competitive assessment of the mobile broadband market post auction and considering the basis on which it charges for spectrum usage.

The Group's business and operations may be adversely affected by the ability of its competitors to use the spectrum which the Group is required to dispose of under its agreement with the European Commission and/or its failure to secure further mobile network spectrum in the forthcoming auction. It is also likely to face increased spectrum usage charges for its current spectrum.

Regulatory factors

The Group must comply with an extensive range of requirements that govern and regulate the licensing, construction and operation of its telecommunications networks and the provision of services in the UK. Decisions by regulators regarding the granting, amendment or renewal of licences to the Group or to third parties, changes to the general conditions of entitlement or to significant market power conditions could adversely affect the Group's business and operations.

In respect of international roaming charges, the European Commission is currently planning measures to be included in a new Regulation amending the existing international roaming regulations to be implemented from mid 2012 with significantly lower price ceilings, an inclusion of a retail data tariff ceiling and structural measures to foster increased competition. This expansion of the existing regulation may have a negative effect on the Group's international roaming revenues.

With regard to call termination charges, 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 its mobile phone networks. 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 been reduced over a number of years as Ofcom has sought to ensure that such charges are cost related.

Business review (continued)

Risks and uncertainties (continued)

Regulatory factors (continued)

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 four years. Ofcom adopted a new methodology in determining the amount of the charge ceiling applicable to the Group, implementing a recommendation by the European Commission which does not allow for the recovery of most common costs, particularly network costs, incurred in relation to the provision of the call termination service. The reduced charges have been applied since 1 April 2011. Consolidated appeals against Ofcom's decision are currently being considered by the Competition Appeal Tribunal ("CAT"). These combine the appeals by Vodafone, the Group, Hutchison 3G UK Limited ("Hutchison") and British Telecommunications plc ("BT"), and the interventions by O2 and each of the appellants in each of the appeals. As these appeals relate to a price control matter the CAT is obliged to refer it to the Competition Commission. The Competition Commission has determined that Ofcom erred in setting a four year glide path to reduce charges to the level determined by the cost methodology used by Ofcom and it should be replaced by a three year glide path. It has also disagreed with some cost modelling of base station costs by Ofcom which would result in a reduction to the ceiling on the amount which the Group is able to charge. Any party may now challenge the Competition Commission's determination on judicial review grounds before the CAT. The new call termination charging ceiling or a reduction in the amount of time in which rates may reduce may force the Group to implement changes to the way in which mobile services are marketed, which would be likely to affect its pre-pay customers disproportionately and may have a negative impact on the Group's business and operations.

Brand risk

It is critical for the Group to maintain and develop its brands so as to maintain effectively its customer base (both retail and business to business) and to secure or grow its revenue. Since the Group operates in a highly competitive market where brand recognition is a key driver of customers' selection of their preferred mobile telecommunications provider, maintaining and enhancing the Group's brands directly affects its ability to maintain market position, revenues and profitability. The Group's main competitors have established successful brands and are continuing to take steps to increase their brand recognition and, as such, the Group must continue to maintain and enhance the recognition and value of its brands in the highly competitive market in which it operates. The development of an additional or new brand by the Group is an option under consideration, which may be complementary to or in substitution of one or both of the existing brands of T-Mobile and Orange. However, if as a result of the implementation of its branding strategy the Group fails to develop, maintain and enhance brand recognition and secure growth in its revenues, its business, results of operations or prospects could be materially and adversely affected.

Liquidity risk

The Group is predominantly financed through a £875 million bank financing facility provided by a consortium of banks. These facilities comprise a term loan and a multicurrency revolving credit facility and have maturities of 3 and 5 years respectively.

The Group also has in place short term shareholder loans that are secured by shareholder letters of comfort to ensure that sufficient funds are available for operations and planned growth.

On 6 February 2012, the Group raised €500 million under the programme with a 5 year bond issuance with a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was Everything Everywhere Finance plc's inaugural issue of a corporate bond under the company's Euro Medium Term Note programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

The continued volatility of worldwide financial markets may make it more difficult for the Group to raise capital externally in the future if the need arises.

Business review (continued)

Risks and uncertainties (continued)

Interest rate risk

The Group is exposed to interest rate risk arising from borrowing on a variable interest rate basis. The risk is mitigated by a treasury policy of setting a target fixed to floating ratio and by arranging interest rate swap contracts on the market.

Other financial statement risks

Further information on financial risk management is provided in note 35.

Directors' Report

The Directors present their consolidated report and the audited financial statements of the Group and Company for the year ended 31 December 2011.

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 6.

Results for the financial year, dividends and transfer to reserves

The loss after tax for the year ended 31 December 2011 was £104 million (9 months ended 31 December 2010: £84 million) on revenues of £6,784 million (9 months ended 31 December 2010: £5,298 million) and has been deducted from reserves. Detailed results for this year are shown in the consolidated income statement on page 13.

Dividends declared and paid during the year totalled £866 million (9 months ended 31 December 2010: £646 million). This was equivalent to £39.27 per share (2010: £29.30 per share).

Financial position of the Group as at 31 December 2011

The net assets of the Group decreased from £12,252 million at 31 December 2010 to £11,251 million at 31 December 2011. The decrease in net assets during the period was significantly influenced by a £866 million dividend payment.

Directors

The Directors, who held office during the year, and up to the approval of this report, are shown below:

	Appointed	Resigned
Thomas Alexander		31 August 2011
Richard Moat		31 August 2011
Guido Kerkhoff		1 April 2011
Timotheus Höttges		
Gervais Pellissier		
Olaf Swantee		
Neal Milsom	1 September 2011	
Benoit Scheen	1 September 2011	
Claudia Nemat	1 October 2011	
Roland Mahler	1 April 2011	1 October 2011

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 year of £44,709 (9 months ended 31 December 2010: £147,261).

The Group made no political donations during the year (9 months ended 31 December 2010: none).

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.

The Group has a number of financing arrangements in place that they are reliant upon to remain a going concern (see notes 26 and 36).

The Directors have made enquiries of the Group's investors FT and DT to confirm their intention to support the business as a going concern. Following the positive confirmations of continued support received from FT and DT, 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 12 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. Supplier payment days at the year end was 45 days (31 December 2010: 34 days).

Events since the balance sheet date

On 11 January 2012, Everything Everywhere Finance plc set up a £3,000 million Euro Medium Term Note programme which is guaranteed by Everything Everywhere Limited to enable it to issue debt securities in the form of corporate bonds to the capital markets.

On 6 February 2012, the Group raised €500 million under the programme with a 5 year bond issuance with a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was Everything Everywhere Finance plc's inaugural issue of a corporate bond under the company's Euro Medium Term Note programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

On 29 February 2012, the £374 million Eurobond loan with the Shareholders was repaid completing the Eurobond agreement.

Employee involvement

Everything Everywhere ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during 2011, 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 2011, comprehensive consultative arrangements were operated throughout the organisations. These comprised 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.

Equal opportunities and disabled employees

Everything Everywhere strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race, ethnic or national origin, colour, nationality, gender, gender reassignment, disability, marriage and civil partnership, sexual orientation, pregnancy and maternity, political belief, age, religion or belief.

Directors' Report (continued)

Equal opportunities and disabled employees (continued)

Everything Everywhere 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.

Everything Everywhere 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 Group.

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 auditor is 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 auditor is aware of that information.

Appointment of the auditor

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

Neal Milsom

Director

2 March 2012

Group 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 Group 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. 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 year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the related notes 1 to 36. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- 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.

Other matter

We have reported separately on the parent company financial statements of Everything Everywhere Limited for the year ended 31 December 2011.

Ernst & Young LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst &Young LLP, Statutory Auditor
London
2 March 2012

Everything Everywhere Limited

Consolidated income statement

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Revenue	7	**6,784**	**5,298**
External purchases	8	(4,724)	(3,731)
Other operating income	10	25	14
Other operating expense	10	(360)	(286)
Staff costs	11	(479)	(387)
Amortisation and depreciation	17, 18	(1,239)	(878)
Restructuring expenses	13	(75)	(70)
Group operating loss		**(68)**	**(40)**
Finance income	14	3	14
Finance expense	15	(48)	(46)
Loss before tax		**(113)**	**(72)**
Income tax	16	9	(12)
Loss for the year attributable to the equity holders of the parent		**(104)**	**(84)**

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Loss for the year attributable to the equity holders of the parent		**(104)**	**(84)**
Other comprehensive income			
Actuarial (loss) / gain on defined benefit pension scheme	30	(21)	84
Deferred tax relating to defined benefit pension scheme	16	6	(23)
Cash flow hedges			
- (Loss) / gain recycled through profit and loss in the year	28	(2)	-
- Fair value (loss) / gain arising in the year	28	(18)	2
Deferred tax relating to cash flow hedges	16	4	-
Other comprehensive (loss) / income for the year		**(31)**	**63**
Total comprehensive loss for the year attributable to the equity holders of the parent		**(135)**	**(21)**

Everything Everywhere Limited

Consolidated statement of financial position

As at 31 December 2011

Company number: 2382161

	Notes	31 December 2011 £m	31 December 2010 £m
Non current assets			
Intangible assets	17	11,249	11,990
Property, plant and equipment	18	2,058	1,999
Associates and joint ventures	19	12	12
Loans receivable	21	91	60
Deferred tax asset	16	113	150
Other non current assets	24	48	59
Total non current assets		**13,571**	**14,270**
Current assets			
Inventories	20	130	144
Trade receivables	22	880	819
Other assets and prepaid expenses	24	391	441
Other financial assets	23	-	5
Cash and cash equivalents	25	290	523
Total current assets		**1,691**	**1,932**
Total assets		**15,262**	**16,202**
Current liabilities			
Trade payables	26	(1,598)	(1,306)
Other liabilities and deferred income	27	(503)	(678)
Provisions	29	(192)	(137)
Other financial liabilities	26	(392)	(1,253)
Current income tax liability		(7)	(12)
Total current liabilities		**(2,692)**	**(3,386)**
Non current liabilities			
Provisions	29	(363)	(483)
Borrowings	26	(870)	-
Pension liability	30	(52)	(43)
Other non current liabilities	27	(34)	(38)
Total non current liabilities		**(1,319)**	**(564)**
Total liabilities		**(4,011)**	**(3,950)**
Total net assets		**11,251**	**12,252**

Consolidated statement of financial position (continued)
As at 31 December 2011

	Notes	31 December 2011 £m	31 December 2010 £m
Capital and reserves			
Share capital	31	22	22
Share premium account		1,638	1,638
Capital contribution reserve		196	196
Cash flow hedge reserve		(14)	2
Retained earnings		(1,654)	(669)
New basis reserve		11,063	11,063
Total equity		**11,251**	**12,252**

These consolidated financial statements were approved by the board of Directors on 2 March 2012 and were signed on its behalf by

Neal Milsom
Director

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Share capital	Share premium account	Capital contribution reserve	New basis reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2010	**22**	**1,638**	**196**	**11,063**	**-**	**-**	**12,919**
Loss for the period	-	-	-	-	(84)	-	(84)
Other income recognised in equity	-	-	-	-	61	-	61
Net gain / (loss) on cash flow hedges	-	-	-	-	-	2	2
	22	1,638	196	11,063	(23)	2	12,898
Dividends declared and paid	-	-	-	-	(646)	-	(646)
At 31 December 2010	**22**	**1,638**	**196**	**11,063**	**(669)**	**2**	**12,252**
Loss for the year	-	-	-	-	(104)	-	(104)
Other income recognised in equity	-	-	-	-	(15)	-	(15)
Net gain / (loss) on cash flow hedges	-	-	-	-	-	(16)	(16)
	22	1,638	196	11,063	(788)	(14)	12,117
Dividends declared and paid	-	-	-	-	(866)	-	(866)
At 31 December 2011	**22**	**1,638**	**196**	**11,063**	**(1,654)**	**(14)**	**11,251**

Consolidated statement of cash flows

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Operating activities			
Loss for the year		(104)	(84)
Adjustments to reconcile the loss for the year to cash generated from operations			
Depreciation and amortisation	17, 18	1,239	878
Change in other provisions (excluding discount unwind)	29	(83)	28
Share of profits of associates	19	-	-
Difference between pension contributions and amounts recognised in the income statement		(12)	(4)
Income tax	16	(9)	12
Interest income and expense	14, 15	45	36
Derivatives		-	(3)
Change in inventories, trade receivables and trade payables			
Decrease / (increase) in inventories	20	14	(32)
Decrease / (increase) accounts receivable	22	(61)	(100)
Increase / (decrease) in trade accounts payable	26	238	95
Other changes in working capital requirements			
Decrease / (increase) in other receivables	24	47	5
Increase / (decrease) in other payables	27	(181)	139
Interest income received		6	3
Foreign exchange received / (paid)		1	(12)
Interest paid and interest rates effects on derivatives		(29)	(36)
Income tax received		51	39
Net cash provided by operating activities		**1,162**	**964**
Investing activities			
Purchases of property, plant and equipment and intangible assets		(503)	(329)
Decrease in other long-term assets	24	11	10
Increase in non-current loans receivable	21	(31)	-
Net cash used in investing activities		**(523)**	**(319)**

Consolidated statement of cash flows (continued)
For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Financing activities			
Proceeds from new borrowings			
Non-current borrowings	26	875	(7)
Transaction costs paid		(5)	-
Redemptions and repayments			
Decrease in short term borrowings		(876)	(4)
Dividends paid	32	(866)	(646)
Net cash used in financing activities		**(872)**	**(657)**
Net change in cash and cash equivalents	25	**(233)**	**(12)**
Cash and cash equivalents at the beginning of the year	25	523	535
Cash and cash equivalents at the end of the year	25	**290**	**523**

Notes to the consolidated financial statements (continued)

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 2 March 2012. The consolidated statement of financial position was signed on behalf of the board by Neal Milsom. 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), as adopted by the European Union.

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.

The Group has elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards. These are presented on pages 70 to 101, and the accounting policies in respect of the Company are set out on pages 76 to 82.

The Group was formed on 1 April 2010 and the first reporting period was 9 months. Therefore the comparatives for the period ended 31 December 2010 are not entirely comparable.

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.

The Group has a number of financing arrangements in place that they are reliant upon to remain a going concern (see notes 26 and 36).

The Directors have made enquiries of the Group's investors FT and DT to confirm their intention to support the business as a going concern. Following the positive confirmations of continued support received from FT and DT, 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 12 months Group annual financial statements.

New basis reserve

The Group was formed on 1 April 2010 as a joint venture between Deutsche Telekom A.G. ("DT") and France Telecom S.A. ("FT"). Each participant contributed a number of subsidiaries to the venture including T-Mobile (UK) Limited which became the parent company of the joint venture and in July 2010 was renamed as Everything Everywhere Limited.

Notes to the consolidated financial statements (continued)

2.1 Basis of preparation (continued)

New basis reserve (continued)

Although the arrangement involved Everything Everywhere Limited acquiring shares in other companies, the arrangement was not within the scope of IFRS 3 as it involved the formation of a joint venture. Moreover, it was not possible to identify an acquiring or an acquired entity. The Directors concluded that it was appropriate to prepare the financial statements on the assumption that, on the formation of the Group, an entirely new reporting entity was formed. The Group prepared its consolidated statement of financial position as at the date of the combination on this basis including all of its assets and liabilities at fair value together with goodwill arising. The fair value was determined based on what a market participant would pay for the Group once formed. The valuation therefore included 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.

The reserve that arose on consolidation which was termed "New basis reserve" consists of all the previously recognised retained earnings of the subsidiaries contributed to the Group, as well as the fair value adjustments made to all assets and all liabilities on the formation of the new reporting entity as at 1 April 2010.

Under new basis accounting, fair values were 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 of the consolidated statement of financial position at 1 April 2010, the principles applied to prepare the financial statements relating to the reporting period ending 31 December 2011 are based upon all standards endorsed by the European Union, and interpretations compulsory as at 31 December 2011.

Notes to the consolidated financial statements (continued)

2.1 Basis of preparation (continued)

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 2011 may subsequently be changed. The following are the most critical judgements, estimates and assumptions.

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.

As disclosed in note 29, the Group's provisions principally relate to obligations arising from property rationalisation programmes (network and retail), asset retirement obligations ("ARO") and restructuring.

Under the property rationalisation programme there is an onerous lease provision. This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties, measured at the net present value. Network provisions relate to restructuring obligations on historic network share agreements prior to the Joint Venture and other disputes with other network operators. The ARO provision represents liabilities on sites due to be decommissioned as part of the rationalisation programme, and longer term liabilities for sites retained by the Group. Restructuring costs mainly relate to redundancy costs.

The network, retail and ARO provisions are primarily calculated at net present value using a discounted cash flow model. Discount rates based on rates used by the Groups actuaries and these are updated annually. Due to the uncertainties of timing and amounts that will be actually paid/realised, the outflows of resources may differ from the amounts initially recognised. Accordingly if there are material changes in forecast outflows and/or changes in the discount factor this could have material impact on the value of these provisions in future years.

Deferred tax assets

The carrying amount of the deferred 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 tax asset to be utilised. Unrecognised deferred 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.

Goodwill impairment

Goodwill is subject to an annual impairment test which takes into account projected future cash flows and an appropriate discount rate and is therefore subject to management judgement. For further details refer to note 17 where sensitivities to the assumptions used are also discussed.

Notes to the consolidated financial statements (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Everything Everywhere Limited and its subsidiaries as at 31 December 2011.

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.

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.

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 subsidiary businesses that formed the Group (refer to section 2.1). 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 profit and is never reversed subsequently.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

a) Goodwill and business combinations (continued)

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

(ii) revenue and EBITDA for comparable transactions.

In the absence of appropriate market information the Group will used alternate valuation methods such as;

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

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, licence 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) Cash generating unit ("CGU")

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. The Group has determined that it has one CGU and therefore this is the lowest level within the entity at which goodwill is monitored by internal management.

c) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method whereby an equity investment is initially recorded at cost and subsequently adjusted to reflect the Group's share of the net assets.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

d) 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 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.

e) Foreign currency translation

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

Both for transactions qualifying for fair value hedge accounting and for economic hedging, changes in fair value of 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, changes in fair value are booked in equity to the extent that the hedge is effective and reclassified to the consolidated income statement when the hedged item affects the consolidated income statement.

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*.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

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. 00-81 'Accounting for Revenue Arrangements with Multiple Deliverables' (EITF 00-81) 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 into 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.

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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

Revenue share arrangements (continued)

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.

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 be 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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

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 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.

g) 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.

h) 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

i) Operating and finance leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are recognised as a reduction of the rental expense over the lease term

Assets acquired under leases that transfer the risks and rewards of ownership to the Company (finance leases) are recorded as assets and an obligation in the same amount is recorded in liabilities.

j) 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 acquired subsequent to the formation of the Group are initially recognised at cost.

Customer relationships

The fair values applied to customer relationships at the date of the combination were based upon the excess earnings valuation method. This approach identified the discounted cash flows that would 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
- Mobile Virtual Network Operator relationships ("MVNO") — 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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

j) Intangible assets (continued)

Spectrum

The fair value applied to the spectrum to operate mobile telephone networks at the date of combination was based upon the greenfield valuation method which is a derivation of the income approach. This approach assumed 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 ensured 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.

Other - 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 considered 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.

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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

j) Intangible assets (continued)

Other - development costs (continued)

Capitalised costs are amortised on a straight-line basis over its expected useful life which does not exceed 5 years.

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.

Other - Licences

Purchased licences are capitalised as intangibles at cost. They are then amortised over the licence period.

Other – rights to use

Where the Group enters into a supplier service contract which entitles the Group to a 'right of use' to certain assets, relevant payments are capitalised as intangibles. These costs are amortised on a straight life basis over the life of the contract.

k) 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 considered 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.

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 a network share arrangement by both the Group and Hutchison, 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. For further information see note 18.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

k) Property, plant and equipment (continued)

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:	Not depreciated
• 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.

l) 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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

m) 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.

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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

m) Financial assets and liabilities (continued)

Financial liabilities at amortised cost (continued)

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.

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 from equity to the income statement when the hedged item affects profit or loss.

Hedge accounting can be terminated in the following circumstances:

- hedged item derecognition: amounts booked in equity are reclassified to the income statement;
- voluntary revocation: amounts booked in equity are reclassified in the income statement of the forecast transaction is no longer expected to occur. Otherwise the amounts previously taken to equity remain in equity until the transaction occurs.

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

n) 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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

o) 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 or a sufficiently specific current statement. 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.

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

- possible 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.

p) 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 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 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 scheme offset by the expected return on plan assets of the scheme, 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.

q) Share capital

Ordinary shares are classified as equity.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

r) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax 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.

s) Deferred taxes

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

- where the deferred 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.

Deferred 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 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 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 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 tax asset to be utilised. Unrecognised deferred 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 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 tax relating to items recognised directly in equity is recognised in the consolidated statement of comprehensive income or the consolidated statement of changes in equity.

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

2.3 Summary of significant accounting policies (continued)

t) 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. New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IAS 24 Related Party Disclosures (revised)
- IAS 32 Financial Instruments: Presentation - Classification of Rights Issue (Amendment)
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to International Financial Reporting Standards (Issued 2010)

4. New and revised IFRSs that have been issued but are not yet effective

Amendments to IFRS 7 - Disclosures re Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011)

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

IFRS 9 Financial Instruments (Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted)

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. It is not expected to have a material impact on the financial statements of the Group.

Consolidation

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

Notes to the consolidated financial statements (continued)

4. New and revised IFRSs that have been issued but are not yet effective (continued)

Consolidation (continued)

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

The application of these five standards is not expected to change how the Group defines or consolidates its joint ventures, associates or subsidiaries in the consolidated financial statements. However it is expected that further disclosure will be made.

IFRS 13 Fair Value Measurement (Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted).

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The Directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012)

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

Notes to the consolidated financial statements (continued)

4. New and revised IFRSs that have been issued but are not yet effective (continued)

IAS 19 (as revised in 2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions).

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The Directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. No material impact is expected given that the corridor approach is not currently used and actuarial gains/losses are already recognised in other comprehensive income.

5. 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 operating segments for which financial information can be presented.

6. EBITDA

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Loss before tax	(113)	(72)
Add back:		
Net finance costs	45	32
Amortisation and depreciation	1,239	878
EBITDA	1,171	838
Add back:		
Management and brand fees	170	115
Restructuring costs	75	70
Adjusted EBITDA	1,416	1,023

EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. EBITDA is provided as additional information only and should not be considered as a substitute for operating income or net cash provided by operating activities.

Notes to the consolidated financial statements (continued)

6. EBITDA (continued)

Therefore, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation, remeasurement resulting from business combinations, reclassification of cumulative translation adjustment from liquidated entities and share of profits (losses) of associates) is one of the key measures of operating profitability used to i) implement investments and resource-allocation strategy, and ii) assess the performance of the Executive Management. The Group's management believes that EBITDA is meaningful for investors because it provides an analysis of operating results and profitability using the same measure used by management. As a consequence, EBITDA is presented in addition to operating income.

7. Revenue

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Mobile service revenue	6,167	4,748
Other	617	550
Total revenue	6,784	5,298

8. 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.

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Commercial expenses	2,392	1,867
Service fees and inter-operator costs	1,536	1,219
Other network charges, IT charges	309	239
Other external purchases	487	406
Total external purchases	4,724	3,731

Notes to the consolidated financial statements (continued)

9. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

	Year ended 31 December 2011 £000	9 months ended 31 December 2010 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	1,610	1,943
Fees payable to the company's auditor and its associates for other services:		
- the audit of the company's subsidiaries pursuant to legislation	-	200
- half year review	125	191
- other assurance services	59	10
	1,794	2,344

10. Other operating income / expense

Other operating income	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Other operating income	18	14
Foreign exchange gains on trade payables	7	-
Total other operating income	25	14

Other operating expense	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Property rates	52	70
Spectrum fees	40	30
Bad debt expense	98	56
Management and brand fees	170	115
Other charges	-	15
Total other operating expense	360	286

Notes to the consolidated financial statements (continued)

11. Employees

The average number of staff (including Directors) employed under contracts of service during the year is as follows:

	Year ended 31 December 2011 No.	9 months ended 31 December 2010 No.
Operations	1,734	2,098
Selling and distribution	4,726	4,984
Customer care and administration	8,144	9,362
	14,604	16,444

The costs incurred in respect of these employees are:

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Wages and salaries	476	406
Social security costs	56	47
Pension costs		
- Defined benefit	12	11
- Defined contribution	17	13
Own work capitalised (development costs)	(48)	(40)
Total employee cost	513	437

These costs include employee costs in relation to restructuring (see note 13).

12. Directors emoluments

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

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Remuneration	2,258	2,235
Pension costs	46	47
Amounts accrued under long term incentive schemes	253	-
	2,557	2,282

During the year payments of £1,967,000 (31 December 2010: £603,000) were made in respect of compensation for loss of office.

Notes to the consolidated financial statements (continued)

12. Directors emoluments (continued)

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

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Total emoluments	936	884
Pension costs	-	-
	936	884

Gervais Pellissier and Benoit Scheen represent France Telecom S.A. on the board and do not receive any emoluments for their services as non-executive Directors. Timotheus Höttges, Claudia Nemat and Guido Kerkhoff represent(ed) Deutsche Telekom A.G. on the board and also do not receive any emoluments for their services as non-executive Directors. Olaf Swantee represented France Telecom S.A. as a non-executive director until 1 September 2011 when he became an executive and started receiving emoluments for his services.

No retirement benefits in the form of defined benefit schemes are accruing for Directors at 31 December 2011 (31 December 2010: one). Retirement benefits in the form of defined contributions schemes are accruing for one director at 31 December 2011 (31 December 2010: one).

13. Restructuring expenses

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Lease exit costs	30	9
Employee costs	34	50
Other	11	11
Total restructuring expenses	75	70

14. Finance income

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Finance income on loans and receivables measured at amortised cost	1	12
Fair value movements of derivative financial instruments classified at fair value through consolidated income statement	1	2
Foreign exchange gains	1	-
Total finance income	3	14

Notes to the consolidated financial statements (continued)

15. Finance expense

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Finance costs (calculated using effective interest rate) on financial liabilities measured at amortised cost	30	32
Unwinding of discount	18	4
Foreign exchange losses	-	10
Total finance expense	48	46

16. Taxation

(a) Income tax charged in the consolidated income statement

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Current income tax:		
UK corporation tax	1	(32)
Adjustments in respect of previous periods	(57)	(12)
Total current income tax income	(56)	(44)
Deferred tax:		
Origination and reversal of temporary differences	17	43
Impact of tax rate change on deferred tax asset	10	6
Adjustments in respect of previous periods	20	7
Total deferred tax expense	47	56
Income tax (income) / expense in the consolidated income statement	(9)	12

Adjustments in respect of previous periods relate to (i) items accounted for in the individual companies prior to the formation of the Group, and (ii) additional consortium relief surrendered to shareholders relating to the 9 months ended 31 December 2010 (2010: items accounted for in the individual companies prior to the formation of the Group).

Notes to the consolidated financial statements (continued)

16. Taxation (continued)

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

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Deferred tax related to items charged or credited directly to the consolidated statement of comprehensive income:		
Deferred tax on actuarial gains on pension liability	(6)	23
Deferred tax on cash flow hedges	(4)	-
Deferred tax (income) / expense in the consolidated statement of comprehensive income	(10)	23

(c) Reconciliation of the total income tax expense

The income tax expense for the year differs from the average standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are reconciled below:

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Accounting loss before income tax	(113)	(72)
Accounting loss multiplied by the UK average standard rate of corporation tax of 26.5% (2010: 28%)	(30)	(20)
Non-deductible expenses	48	31
Impact of tax rate change on the deferred tax asset	10	6
Current income tax adjustments in respect of previous periods	(57)	(12)
Deferred tax adjustments in respect of previous periods	20	7
Total income tax (income) / expense at the effective tax rate of 8.0% (2010: negative 16.7%)	(9)	12

(d) Change in Corporation Tax rate

Announcements were made during 2010 and 2011 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, effective 1 April 2011, from 28% to 26% was substantively enacted in two steps, initially to 27% on 20 July 2010, and then subsequently to 26% on 29 March 2011. A reduction to 25%, effective 1 April 2012, was substantively enacted on 5 July 2011. The further reductions to 23%, expected to be at a rate of 1% per annum, have been announced but not substantively enacted at the consolidated statement of financial position date.

The tax rate reduction to 27%, substantively enacted during 2010, resulted in a decrease in the Group's net deferred tax asset of £6 million all of which was reported in the 2010 consolidated income statement. The further reductions to 26% and 25%, both substantively enacted during 2011, resulted in a further decrease in the Group's net deferred tax asset of £10 million all of which has been reported in the 2011 consolidated income statement. The Group estimates that the future tax rate reductions to 23% would result in an additional £9 million decrease in the net deferred tax asset.

Notes to the consolidated financial statements (continued)

16. Taxation (continued)

(e) Deferred tax asset / (liability)

The deferred tax in the consolidated statement of financial position, calculated at a tax rate of 25% (31 December 2010: 27%, 1 April 2010: 28%), is as follows:

	31 December 2011 £m	31 December 2010 £m	1 April 2010 £m
Deferred tax liability			
Accelerated tax depreciation	(421)	(503)	(407)
	(421)	(503)	(407)
Deferred tax asset			
Trading tax losses	450	554	504
Pension scheme liabilities	13	12	37
Provisions deductible on a paid basis	67	87	95
Cash flow hedges	4	-	-
	534	653	636
Disclosed in the consolidated statement of financial position			
Net deferred tax asset	113	150	229

The Group offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off current income tax assets and current income 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.

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Opening balance at 1 January / 1 April	150	229
Deferred tax (expense) / income in the consolidated income statement		
Accelerated tax depreciation	82	(96)
Trading tax losses	(104)	50
Pension scheme liabilities	(5)	(2)
Provisions deductible on a paid basis	(20)	(8)
Deferred tax (expense) / income in the consolidated statement of comprehensive income		
Pension scheme liabilities	6	(23)
Cash flow hedges	4	-
Closing balance at 31 December	113	150

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

Although the Group was loss making in the year ended 31 December 2011, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

Notes to the consolidated financial statements (continued)

16. Taxation (continued)

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

At 31 December 2010 there were unrecognised tax losses not yet agreed with the tax authorities. These tax losses related, 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. During 2011, the Group agreed with HMRC that it would withdraw its claims for these tax losses, and as a result, at 31 December 2011 no longer has any unrecognised deferred tax. As no deferred tax asset had been recognised for the uncertain tax losses, the withdrawal of the claim has had no impact on the consolidated statement of financial position.

There are no income tax consequences attached to the payment of dividends in the year ended 31 December 2011 or period ended 31 December 2010 by the Group to its shareholders.

17. 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
Additions	-	-	-	138	138
At 31 December 2011	5,692	2,600	3,682	800	12,774
Amortisation:					
At 1 April 2010	-	-	-	-	-
Charge during the period	-	(277)	(251)	(118)	(646)
At 31 December 2010	-	(277)	(251)	(118)	(646)
Charge during the year	-	(369)	(335)	(175)	(879)
At 31 December 2011	-	(646)	(586)	(293)	(1,525)
Net book value at 31 December 2011	5,692	1,954	3,096	507	11,249
Net book value at 31 December 2010	5,692	2,323	3,431	544	11,990

Goodwill

Goodwill arose upon the combination of the 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.

Notes to the consolidated financial statements (continued)

17. Intangible assets (continued)

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 2011, and resulted in no impairment to the carrying value of Goodwill.

As disclosed in note 2.3 Significant Accounting Policies, the Group has determined that the business comprises a single operating segment to which all the Goodwill is allocated. The 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% (2010: 1%), and a post tax discount rate of 7.58% (2010: 8.56%). The discount rate used was based upon an estimated cost of capital (calculated using the capital asset pricing model) for a willing purchaser, taking into account relevant sector information.

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 following the formation of the Group in 2010, the development of the UK market and the market size, the Group's share of the market, customer revenues, operating margins and capital expenditure.

The Group also applied the following sensitivities to the calculation:

- an increase in the discount rate by 1% to 8.58%
- a reduction in the long term growth rate by 1% to 0%.

In each case, no indication of impairment was identified.

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 existing businesses.

The customer relationship assets that resulted from the fair value assessment were 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

On formation of the Group, the frequency spectrum available to the Group under the existing 2G and 3G licence agreements held by the existing businesses was recognised at fair value.

The valuation of the spectrum considered the frequencies used for both 2G and 3G, the terms of the related licences, and the impact of capacity that was 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.

Notes to the consolidated financial statements (continued)

17. Intangible assets (continued)

Other

During the year the Group entered into a new 7 year outsourcing contract with T-Systems Limited, for Information Communication and Telecommunications services. Transformation costs of £51 million were capitalised as intangibles, representing a 'right to use'. These costs are being amortised on a straight life basis over the life of the contract.

Other intangible assets mainly consist of software licences and development costs (including certain website costs). These assets are ascribed appropriate useful economic lives and amortised accordingly.

18. Property, plant and equipment

	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
Additions	-	12	399	8	419
Disposals	-	(1)	(33)	(3)	(37)
At 31 December 2011	53	121	2,321	96	2,591
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)
Charge during the year	(1)	(13)	(326)	(20)	(360)
Disposals	-	1	33	3	37
At 31 December 2011	(2)	(20)	(481)	(30)	(533)
Net book value at 31 December 2011	51	101	1,840	66	2,058
Net book value at 31 December 2010	52	102	1,767	78	1,999

On formation of the Group, tangible fixed assets were recognised at their fair value, after considering the impact of the planned network rationalisation programme. Residual economic lives were assessed for all assets in use, within the framework of the useful economic lives applied to additions.

Notes to the consolidated financial statements (continued)

18. Property, plant and equipment (continued)

Network Assets

Network includes assets held under finance leases with a net book value of £16 million at 31 December 2011 (31 December 2010: £19 million). Fixtures, fittings and equipment include assets held under finance leases with a net book value of £3 million at 31 December 2011 (31 December 2010: £1 million).

Network Share Arrangement

As part of a shared network agreement (see note 19), selected network assets are jointly controlled with Hutchison. At the commencement of this agreement, both parties contributed selected network assets of equal value. 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. The fair value of the assets held by Hutchison could not be reliably determined; therefore Hutchison's cost of the shared assets is deemed to be based on the fair value of the Group's assets shared. Network assets acquired jointly with Hutchison following the joint venture agreement are treated as jointly controlled assets. As part of the formation of the Group, under new basis accounting, these assets were fair valued.

The Group's share of the jointly controlled assets is £658 million at 31 December 2011 (31 December 2010: £689 million) and is shown within network assets.

Additionally, the Group is recognising cost of £111 million (31 December 2010: £66 million) as its share of jointly controlled network assets in the course of construction.

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 T-Mobile business from prior to the formation of the Group. 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 2011 was £21 million (31 December 2010: £22 million).

Fully depreciated assets

Included above are fully depreciated assets with an original cost of £68 million (2010: £nil) which are still in use.

19. Principal subsidiaries, associates and joint venture investments

a) Interests in subsidiaries

During the year, a new entity, Everything Everywhere Finance Plc ("EEF") was incorporated. EE has a 100% shareholding in EEF. The new entity is used as a financing entity for the Group and on 30th November it received a loan of £875 million from a number of financial institutions which it then subsequently loaned to EE. See note 26 for further details.

Notes to the consolidated financial statements (continued)

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

a) Interests in subsidiaries (continued)

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

Name	Country of incorporation	Year 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%
Everything Everywhere Pension Trustee Limited	UK	31 December	Pension Trustee	100%
Orange Pension Trustees Limited	UK	5 April	Pension Trustee	100%
Orange FURBS Trustees Limited	UK	31 December	Pension Trustee	100%
Everything Everywhere Finance Plc	UK	31 December	Finance Company	100%

All subsidiaries have share capital consisting of ordinary shares. The subsidiaries with non coterminous 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.

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	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Investment at start of year	12	12
Share of profit and loss for the year	-	-
Dividends received	-	-
	12	12

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

Notes to the consolidated financial statements (continued)

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

Associates

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

Name	Year 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 2011 and 31 December 2010 was in aggregate £1 million. In consequence, there is no significant share of profits to be recorded.

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

Joint venture

The Group and Hutchison (together "the Companies") each have a 50% share in the joint venture company, Mobile Broadband Network Limited ("MBNL"). MBNL's ongoing purpose is 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 2G network. The Group is committed to incurring 50% of costs in respect of restructuring the Shared Network.

Guarantees for the joint venture are given by DT and Hutchison Whampoa Limited. DT and FT have agreed between them to manage any potential liability by arrangements between themselves.

The Group's share as at	31 December 2011 £m	31 December 2010 £m
Revenue	18	10
Profit on ordinary activities before tax	-	-
Tax on profit on ordinary activities	-	-
Profit for the financial year	-	-
Fixed assets	126	77
Current assets	10	6
Creditors: amounts falling due within one year	(35)	(12)
Creditors: amounts falling due after more than one year	(90)	(60)
Net assets	11	11

Notes to the consolidated financial statements (continued)

20. Inventories

	31 December 2011 £m	31 December 2010 £m
Inventories of handsets	153	168
Gross value	153	168
Provision for obsolescence	(23)	(24)
Total inventories at the lower of cost and net realisable value	130	144

The amount of inventory included within external purchases was £1,226 million (9 months ended 2010: 993 million). This includes write downs on new inventory of £6 million (2010: £5 million).

21. Non-current loans

	31 December 2011 £m	31 December 2010 £m
Non-current loans		
- Joint ventures	90	60
- Franchises	1	-
Total non-current loans	91	60

Non-current loans to joint ventures of £90 million (31 December 2010: £60 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.

22. Trade receivables

	31 December 2011 £m	31 December 2010 £m
Trade receivables	880	819

Included within trade receivables is £4 million (31 December 2010: £9 million) due from joint ventures. These trading balances are unsecured, interest free and have no fixed date of repayment. The remaining balance relates to receivables that 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 2011, trade receivables at nominal value of £135 million (31 December 2010: £174 million) were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for.

Notes to the consolidated financial statements (continued)

22. Trade receivables (continued)

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

	31 December 2011 £m	31 December 2010 £m
Opening balance	174	184
Decrease in provision	(39)	(10)
Closing balance	135	174

The analysis of trade receivables that were past due but not impaired is as follows:

	31 December 2011 £m	31 December 2010 £m
Neither past due nor impaired	809	765
Past due but not impaired		
30 days	20	9
60 days	51	45
	880	819

The carrying amounts for loans and trade receivables approximate their fair value.

23. Financial assets at fair value through consolidated income statement

	31 December 2011 £m	31 December 2010 £m
Current:		
Other financial assets at fair value through consolidated income statement	-	5

24. Other assets and prepaid expenses

	31 December 2011 £m	31 December 2010 £m
Current:		
Prepaid external purchases	369	367
Shareholder account	-	54
Other assets and prepaid operating expenses	16	11
Accrued interest	6	9
Total other current assets and prepaid expenses	391	441

	31 December 2011 £m	31 December 2010 £m
Non-current:		
Prepayments	48	59

25. Cash and cash equivalents

	31 December 2011 £m	31 December 2010 £m
Cash at bank	55	76
Cash pooling	235	492
Bank overdraft	-	(45)
	290	523

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.

26. Financial liabilities and net financial debt

	31 December 2011 £m	31 December 2010 £m
Current:		
Financial liabilities at amortised cost	374	1,250
Derivative financial liabilities (see note 28)	18	3
Total financial liabilities	392	1,253
Trade payables	1,598	1,306
	1,990	2,559

On 4 October 2011 the Group and Arqiva, its network provider, settled the litigation between them and have mutually agreed the Group's network evolution plans.

Notes to the consolidated financial statements (continued)

26. Financial liabilities and net financial debt (continued)

	31 December 2011 £m	31 December 2010 £m
Non - current:		
Financial liabilities at amortised cost	870	-
	870	-

The carrying amounts for financial liabilities approximate their fair value.

On 16 November 2011, the Group entered into a bank financing facility of £875 million provided by a consortium of banks. The facilities were drawn down on 30 November 2011 and comprise:

- a £437.5 million term loan with a maturity of 3 years and accrues interest at LIBOR plus 1.3%;
- a £437.5 million multicurrency revolving credit facility with a maturity of 5 years and accrues interest at LIBOR plus 1.05%.

The loans are unsecured.

Also on 30 November 2011, the Group repaid £876 million of the £1,250 million loan granted as a long term Eurobond listed on the Channel Islands Stock Exchange. The Eurobond, which consisted of 1,250 £1 million loan notes, was originally issued to Atlas Services Belgium SA (a subsidiary of France Telecom S.A.) and Deutsche Telekom A.G. through a private offer. The remaining balance of £374 million has a revised redemption date of 16 November 2012 and has interest payable at Libor plus 0. 6%. The Eurobond is unsecured. A guarantee fee is payable to FT of 0.25% of the loan per annum.

In addition, the Group has signed an amendment to its treasury borrowing facility with FT and DT, increasing the facility to £450 million. Under this facility each of FT and DT have agreed to fund the Group with up to £225 million each. The treasury borrowing facility will continue for the period up to and including 14 November 2012 and thereafter the term will be tacitly renewed each time for successive periods of 12 months.

Net financial debt

Net financial debt used by the Group is defined within the Group's bank covenant agreements. It corresponds to financial liabilities excluding operating payables (translated at the year-end closing rate), less:

i. cash collateral paid on derivative instruments;
ii. cash and cash equivalents and financial assets at fair value;

	31 December 2011 £m	31 December 2010 £m
Amounts due to France Telecom S.A.	187	625
Amounts due to Deutsche Telekom A.G.	187	625
Finance lease liability	3	1
Bank overdrafts	-	45
Loans payable (nominal amount)	875	-
Financial liabilities	1,252	1,296
Cash & cash collateral	(290)	(568)
Net financial debt	962	728

Notes to the consolidated financial statements (continued)

27. Other liabilities and deferred income

	31 December 2011 £m	31 December 2010 £m
Current:		
VAT payable	168	142
Other taxes	6	27
Employee related payables	40	28
Deferred income	250	278
Interest payable	2	-
Other	37	203
	503	678

	31 December 2011 £m	31 December 2010 £m
Non-current:		
Other	34	38
	34	38

During the year, a non-recurring operating gain of £35 million arose from the settlement of certain historical operational accruals.

28. Derivative financial instruments

	31 December 2011 £m	31 December 2010 £m
Forward foreign currency contracts		
- Asset	-	5
- Liability	(18)	(3)
Total contracts	(18)	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	505	2012	Forward FX contracts	Purchases in Euros
USD	43	2012	Forward FX contracts	Purchases in Dollars

Notes to the consolidated financial statements (continued)

28. Derivative financial instruments (continued)

	31 December 2011 £m	31 December 2010 £m
(Loss) / gain recognised in equity during the year	(20)	2
Deferred tax impact on loss	4	-
Total (loss) / gain recognised in equity during the year	(16)	2
(Finance costs, net) / ineffectiveness	(3)	2

29. Provisions

	Restructuring Provision	Onerous Leases	ARO / WEEE / dilaps	Network share and other network	Total
At 31 December 2010	89	102	274	155	620
Increase in year	32	-	-	69	101
Decrease in year	-	(4)	(44)	-	(48)
Transfer in from accruals	-	-	-	13	13
Impact of change in discount rate	-	(5)	1	14	10
Utilisation	(94)	(3)	(32)	(30)	(159)
Discount unwind	-	3	10	5	18
At 31 December 2011	27	93	209	226	555

Analysis of provisions by maturity:					
At 31 December 2011					
Short term	27	25	17	123	192
Long term	-	68	192	103	363
	27	93	209	226	555
At 31 December 2010					
Short term	89	12	28	8	137
Long term	-	90	246	147	483
	89	102	274	155	620

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. Provisions for restructuring costs are recognised only when restructuring has been announced and the Group has started to implement a detailed formal plan.

Notes to the consolidated financial statements (continued)

29. Provisions (continued)

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 relates to the period up to 2015 and has been provided for at its net present value.

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

The Group is also 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.

Given the long term nature of this provision discount rates are based upon rates provided by the Group's actuaries and inflation is based assumptions based upon RPI. These costs are expected to be incurred over a period of up to 20 years.

Network share and other network

This represents the liabilities arising from restructuring obligations relating to historic network share agreements, prior to the combination of the T-Mobile and Orange businesses.

The major assumptions used for estimating the restructuring provision for the network share arrangements with Hutchison 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, costs in relation to vacant site rentals will now continue to be incurred until 2024.

The provision also includes an amount to cover ongoing disputes with other network operators.

30. Pensions

Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Group, amounted to £17 million (9 months ended 31 December 2010: £13 million). Included in other creditors is £3 million (31 December 2010: £3 million) in respect of contributions payable to the scheme.

Notes to the consolidated financial statements (continued)

30. Pensions (continued)

Defined benefit pension scheme

The following summarises the movement in the Everything Everywhere Pension Trustee Limited pension scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2011. The DB pension scheme was established on 1 March 2000 with benefits 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 2011 by actuaries AON Hewitt Associates Limited.

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

	31 December 2011 %	31 December 2010 %
Inflation assumptions - RPI	3.1	3.4
Inflation assumptions - CPI	2.1	2.6
Expected return on plan assets	5.8	6.6
Rate of increase in salaries	4.1	4.4
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.0	3.2
Rate of increase for pensions in payment – accrued post 6 April 2006	2.1	2.2
Discount rate	4.9	5.4

The mortality assumptions used were as follows:

	31 December 2011 Years	31 December 2010 Years
Longevity at age 65 for current pensioners:		
- Men	22.3	22.1
- Women	23.1	23.0
Longevity at age 65 for future pensioners:		
- Men	24.1	24.0
- Women	25.0	24.9

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 2011 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:

30. Pensions (continued)

	31 December 2011 Long-term rate of return expected % p.a.	31 December 2011 Value £m	31 December 2010 Long-term rate of return expected % p.a.	31 December 2010 Value £m
UK equity and unit trusts	7.2	119	8.1	103
Property	7.2	50	8.1	47
Hedge funds	8.9	21	8.0	21
Index linked gilts	2.8	79	4.1	34
Bonds	4.9	75	5.2	83
Cash / net current assets	n/a	12	n/a	34
Fair value of the scheme assets		356		322
Present value of scheme obligations		(408)		(365)
Liability in the consolidated statement of financial position		(52)		(43)

Reconciliation of present value of scheme obligations:

	31 December 2011 £m	31 December 2010 £m
At 1 January	365	404
Current service cost	16	18
Interest cost	20	24
Benefits paid	(5)	(7)
Actuarial loss / (gain)	16	(73)
Curtailments	(4)	(1)
At 31 December	408	365

Reconciliation of fair value of scheme assets:

	31 December 2011 £m	31 December 2010 £m
At 1 January	322	274
Expected return on pension scheme assets	22	20
Actuarial (loss) / gain	(5)	11
Benefits paid	(5)	(7)
Contributions	22	24
At 31 December	356	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.

Notes to the consolidated financial statements (continued)

30. Pensions (continued)

The following amounts were recognised in the Group's performance statements:

	12 months ended 31 December 2011 £m	12 months ended 31 December 2010 £m
Operating loss		
Current service cost	16	18
Gain on curtailment	(4)	(1)
Pension costs	12	17
Other income / (expense)		
Expected return on pension scheme assets	22	20
Interest on pension scheme liabilities	(20)	(24)
Net return	2	(4)

The actual return on plan assets was a £17 million gain (2010: £31 million gain).

Movement in the deficit in the year:

	31 December 2011	31 December 2010
Opening deficit in the scheme at 1 January	(43)	(130)
Current year service cost	(16)	(18)
Contributions	22	24
Other finance income / (loss)	2	(4)
Curtailments	4	1
Actuarial (loss) / gain	(21)	84
Closing deficit in scheme at 31 December	(52)	(43)

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

	31 December 2011 £m	31 December 2010 £m
Actual return less expected return on pension scheme assets	(5)	11
Experience gains and losses arising on the scheme liabilities	(1)	50
Changes in assumptions underlying the present value of the scheme liabilities	(15)	23
Actuarial gain recognised in the consolidated statement of comprehensive income	(21)	84

The cumulative amount of actuarial gains recognised in the consolidated statement of changes in equity, is £9 million gain (2010: £30 million gain).

Notes to the consolidated financial statements (continued)

30. Pensions (continued)

Under the current schedule of contributions the Group is expected to contribute £25 million to the scheme in the twelve months to 31 December 2012.

The effect of a 0.1% movement in the discount rate used of 4.9% would be as follows:

Discount rate	4.8% £m	5.0% £m
Deficit in scheme at end of year	(64)	(41)

The effect of a 0.1% movement in the inflation rate (RPI) assumption of 3.1% would be to as follows:

Inflation rate	3.0% £m	3.2% £m
Deficit in scheme at end of year	(47)	(58)

The effect of a 0.1% movement in the inflation rate (CPI) assumption of 2.1% would be to as follows:

Inflation rate	2.0% £m	2.2% £m
Deficit in scheme at end of year	(47)	(58)

A deferred tax liability in respect of cumulative actuarial losses has been recognised in the consolidated statement of financial position. See Note 16.

31. Share capital and reserves

Movement in reserves is shown in the consolidated statement of changes in equity

Share capital

	31 December 2011 £m	31 December 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

Notes to the consolidated financial statements (continued)

31. Share capital and 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 the subsidiaries contributed to the Group as well the fair value adjustments made on formation of the new reporting entity as at 1 April 2010.

Cash flow hedge reserve

The Group uses hedge accounting for its foreign currency transactions. The effective part of the hedged item is taken to the cash flow hedge reserve.

32. Dividends paid

	Year ended 31 December 2011 £m	9 months ended 31 December 2010 £m
Dividends declared and paid	866	646
Dividend per share (£ / share)	£39.27	£29.30

33. 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 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 year totalled £18 million (9 months ended 31 December 2010: £8 million).The Group recharged MBNL for certain costs including staff and commitment fees. Charges to MBNL during the period totalled £nil (9 months ended 31 December 2010: £nil).

At 31 December 2011 MBNL was holding £10 million (31 December 2010: £2 million) of restricted cash on behalf of the Group. The net amount owed to The Group at the end of the year was £4 million (31 December 2010 £9 million). Formal loan funding was provided by the Group to MBNL. As at 31 December 2011 the outstanding balance receivable in respect of this loan amounted to £90 million (31 December 2010: £60 million), there was additional accrued interest of £nil (31 December 2010: £nil). The loan was provided on an arms length basis and attracts interest at a rate of LIBOR plus 1.75%. Interest paid in the year totalled £2 million (9 months ended 31 December 2010 £nil).

Related party transactions with companies within the France Telecom SA group

FT charges the Group for a series of services including IT&N 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 for the year amounted to £141 million (9 months ended 31 December 2010: £111 million), and the balance outstanding at 31 December 2011 was £30 million (31 December 2010: £66 million).

Notes to the consolidated financial statements (continued)

33. Related party transactions (continued)

Related party transactions with companies within the France Telecom SA group (continued)

FT provided a loan to the Group through its subsidiary, Atlas Services Belgium. The outstanding balance at 31 December 2011 was £187 million (31 December 2010: £625 million), during the year £438 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £12 million (9 months ended 31 December 2011: £14 million) and the outstanding interest balance payable was £nil (31 December 2010 – £nil).

Working capital funds deposited with FT totalled £117 million at 31 December 2011 (31 December 2010: £246 million). Interest is received on an arm's length basis and totalled £nil for the year (2010: £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 AG group

DT charges the Group for a series of services including ICT outsource fees (see note 17, the Group entered into a new ICT contract in 2012 with T-Systems Limited), IT&N 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 £215 million (9 months ended 31 December 2010 £156 million), and the balance outstanding at 31 December 2011 was £97 million (31 December 2010: £112 million). Included within the outstanding balance of £97 million was £60 million relating to transition and transformation costs due to T-Systems Limited.

DT provided a loan to the Group. The outstanding balance at 31 December 2011 was £187 million (31 December 2010: £625 million), during the year £438 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £12 million (9 months ended 31 December 2011: £14 million) and the outstanding interest balance payable was £nil (31 December 2010 – £nil).

Working capital funds deposited with DT totalled £117 million at 31 December 2011 (31 December 2010: £246 million. Interest is received on an arm's length basis and totalled £nil for the year (2010: £1 million).

DT undertook a series of foreign exchange trades on behalf of the Group. These were conducted as arm's length transactions.

Key management personnel

The Directors of the Group are considered to be key management personnel. Disclosure of their compensation is given in note 12. During the year employer's National Insurance of £543,000 was paid (31 December 2010: £283,000).

Defined benefit pension scheme

Transactions with the defined benefit scheme Everything Everywhere Pension Trustee Limited are disclosed in note 30.

There were no material transactions with any other related parties.

Notes to the consolidated financial statements (continued)

34. Capital and financial commitments

Finance leases

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

	31 December 2011 £m	31 December 2010 £m
Not later than one year	1	1
After one year but not more than five years	2	-
After five years	-	-
	3	1
Less finance charges allocated to future periods	-	-
Present value of minimum lease payments	3	1

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

	31 December 2011 £m	31 December 2011 £m
Not later than one year	1	1
After one year but not more than five years	2	-
After five years	-	-
Present value of minimum lease payments	3	1

Operating leases

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

	31 December 2011 £m	31 December 2010 £m
Not later than one year	248	271
After one year but not more than five years	907	783
After five years	479	605
	1,634	1,659

Operating leases primarily relate to mast sites, office space and retail shops.

Minimum lease payments for operating leases expensed in the year was £300 million (9 months ended 31 December 2010: £226 million).

Capital commitments

The Group has £161 million of capital commitments at 31 December 2011 (31 December 2010: £159 million). The Group has £222 million of handset commitments (31 December 2010: £125 million).

Notes to the consolidated financial statements (continued)

34. Capital and financial commitments (continued)

Contingent liabilities

The Group had no significant contingent liabilities at 31 December 2011 (31 December 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 (31 December 2010: £nil). In addition, the Group's share of the MBNL joint venture's capital commitments is £7 million (31 December 2010: £13 million).

35. 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 2011 and 31 December 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 2011 and 31 December 2010.

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 2011, and 31 December 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 2011 for the effects of the assumed changes in the underlying items.

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 is financed through a combination of short term loans from its shareholders and long term loans from financial institutions. The interest charged on these loans is linked to LIBOR. The Group also has cash assets and loans receivables from joint ventures which are charged at a variable rate. 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:

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

Interest rate risk (continued)

	Change in interest rate	Effect on loss before tax £m	Effect on equity £m
31 December 2011	+1%	(13)	-
	-1%	13	-
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 19 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 28 and in the liquidity table below.

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 2011 £m	31 December 2010 £m
Trade and other receivables	880	819
Cash at bank and in hand	290	523
Current loans	-	54
Non current loans	91	60

The disclosure regarding financial assets that are past due or impaired is given in note 22.

Notes to the consolidated financial statements (continued)

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

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 through a combination of sourcing current funding requirements from its shareholders and obtaining long term financing from financial institutions in a manner to ensure the Group has sufficient funds for operations and planned growth.

The table below summarises the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments. Interest rates on variable rate loans have been based on the rates in effect at the year end.

At 31 December 2011

	On demand £m	Less than 12 months £m	1 to 3 years £m	3 to 5 years £m
Bank overdrafts	-	-	-	-
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G.	-	380	-	-
Loans from financial institutions	-	15	473	460
Derivative financial instruments	-	18	-	-
Payments under onerous contracts	-	18	36	11
Trade payables and other	-	1,676	-	-
	-	2,107	509	471

At 31 December 2010

	On demand £m	Less than 12 months £m	1 to 3 years £m	3 to 5 years £m
Bank overdrafts	45	-	-	-
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G.	-	1,269	-	-
Loans from financial institutions	-	-	-	-
Derivative financial instruments	-	3	-	-
Payments under onerous contracts	-	8	38	30
Trade payables and other	-	1,537	-	-
	45	2,817	38	30

Notes to the consolidated financial statements (continued)

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

Capital management

The Group's capital comprises share capital, share premium, capital contributions and the new basis reserve less retained losses.

The Group has obtained £875 million in bank loans in Q4 2011, the proceeds of which were used to partly repay existing loans from FT and DT. Subsequent to year end, the Group has also established a Euro Medium Term Note programme and seeks to diversify its sources of funding. The Group has established a financial policy aiming to achieve, in the medium term, a leverage ratio of below 1.75 - 2.0 times Net Debt to EBITDA. The leverage ratio was 0.8 at 31 December 2011. The Group's general dividend distribution policy is to pay to its shareholders 90% of free cash flow. The Group has paid dividends amounting to more than 90% of free cash flow and during the third quarter of 2011 the Group paid an additional dividend of £125 million to its shareholders.

Hedges

Details of the Group's cash flow hedging arrangements are included in note 28.

36. Events after the balance sheet date

On 11 January 2012, EEF set up a £3,000 million Euro Medium Term Note programme which is guaranteed by Everything Everywhere Limited to enable it to issue debt securities in the form of corporate bonds to the capital markets.

On 6 February 2012, the Group raised €500 million under the programme with a 5 year bond issuance with a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was EEF's inaugural issue of a corporate bond under the Group's Euro Medium Term Note programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

On 29 February 2012, the £374 million Eurobond loan with the Shareholders was repaid completing the Eurobond agreement.

Everything Everywhere Limited

UK GAAP financial statements

Year ended 31 December 2011

Company 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.

Company independent auditor's 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 2011 which comprise the Company balance sheet, the 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 71, 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; and the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- 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 auditor's 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.

Other matter

We have reported separately on the Group financial statements of Everything Everywhere Limited for the year ended 31 December 2011.

Ernst & Young LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
2 March 2012

Everything Everywhere Limited

Company balance sheet
As at 31 December 2011

Company number: 2382161

	Notes	31 December 2011 £m	31 December 2010 £m
Fixed assets			
Intangible assets	4	4,380	4,809
Tangible fixed assets	5	2,631	2,912
Investments	6	10	10
		7,021	7,731
Current assets			
Stock	7	130	144
Debtors amounts falling due within one year	8	1,268	1,314
Debtors amounts falling due after more than one year	9	140	119
Deferred tax asset	3	408	496
Cash at bank and in hand		290	523
		2,236	2,596
Creditors amounts falling due within one year	10	(3,368)	(3,311)
Net current liabilities		(1,132)	(715)
Total assets less current liabilities		5,889	7,016
Creditors amounts falling due after more than one year	11	(18)	(27)
Provisions for liabilities	12	(555)	(620)
Net assets excluding pension deficit		5,316	6,369
Pension deficit	16	(39)	(31)
Net assets including pension deficit		**5,277**	**6,338**
Capital and reserves			
Called up share capital	13	22	22
Share premium account	14	1,638	1,638
Capital contribution	14	196	196
Profit and loss reserve	14	3,421	4,482
Total shareholders' funds		**5,277**	**6,338**

These financial statements were approved by the Board of Directors on 2 March 2012 and were signed on its behalf by

Neal Milsom
Director

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
(Loss) / profit for the financial year		(180)	2,609
Actuarial (losses) / gains on the Company's pension scheme during the year	16	(21)	84
Deferred tax on actuarial gains / (losses) on the company's pension scheme	16	6	(8)
Policy alignment – licence policy		-	(517)
Deferred tax on licence policy alignment		-	140
Share capital increase		-	11
Share premium increase		-	1638
Dividend payment		(866)	(646)
Net change in shareholders' funds		(1,061)	3,311
Opening shareholders' funds		6,338	3,027
Closing shareholders' funds		**5,277**	**6,338**

Notes to the Company financial statements

1. Accounting policies

1.1 Basis of preparation

The financial statements of the Company were approved for issue on 2 March 2012, 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.

The 2010 balance sheet has been restated to re-classify short term provisions previously presented within creditors due in less than one year to provisions. Refer to note 10 for further detail.

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 Group's business review.

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

The Company has a number of financing arrangements in place that they are reliant upon to remain a going concern (see notes 10 and 19).

The Directors have made enquiries of the Company's investors FT and DT to confirm their intention to support the business as a going concern. Following the positive confirmations of continued support received from FT and DT, 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 12 months Company annual financial statements.

1.2 Turnover

Turnover 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 profit and loss as calls are made.

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.2 Turnover (continued)

Turnover 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 turnover. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognised as expenses.

Turnover from the Company's activities are recognised and presented as follows, in accordance with FRS 5 Application Note G: Revenue Recognition.

Separable components of packaged and bundled offers

Numerous service offers by the Company 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 Company evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting.

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).

Separable components of packaged and bundled offers (continued)

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, turnover 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 into identifiable components, turnover is 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.

Equipment sales

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

Equipment rental

Equipment for which a right of use is granted is analysed in accordance with SSAP 21: Accounting for leases and hire purchase contracts.

Equipment lease income is 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.

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.2 Turnover (continued)

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 income must be recognised on a gross or a net basis, an analysis is performed using the following criteria:

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

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

- gross when the Company 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, income from the sale or supply of content (audio, video, games, etc.) via the Company's various communications systems (mobile, PC, etc.) are recognised:

- gross when the Company 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 Company 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 income

Income from telephone service and internet access subscription fees as well as income from the wholesale access is recognised on a straight-line basis over the subscription period.

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

Business contracts

The Company 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 turnover based upon the specific terms of each contract.

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

Promotional offers

Turnover is 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 turnover generated under the contract is spread over the fixed, non-cancellable period.

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.2 Turnover (continued)

Penalties

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

If the Company 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 turnover. Such penalties are recorded when it becomes probable that they will be 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 income: this profit-sharing is expensed when the related income 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 turnover is allocated 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.

1.3 Cost of sales

Cost of sales comprises the cost of network operations (including interconnect cost), the cost of equipment sold through intermediaries or directly to customers and customer acquisition and retention costs, which include the commission costs and other incremental costs of acquiring and retaining subscribers.

Customer acquisition costs

The difference between the purchase costs of handsets to the Company and the amount recoverable from sales to intermediaries, if any, together with any additional commission payments or bonuses related to the acquisition of the customer are recorded as customer acquisition costs. These costs are expensed as they are incurred.

1.4 Advertising costs

All advertising costs are charged to selling and distribution costs in the profit and loss account as incurred.

1.5 Operating and finance leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease, are similarly spread on a straight-line basis over the lease term, except where the period to the review date, at which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Assets acquired under leases that transfer the risks and rewards of ownership to the Company (finance leases) are recorded as assets and an obligation in the same amount is recorded in liabilities.

1.6 Derivative instruments

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

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.6 Derivative instruments (continued)

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.

1.7 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 a period of 17 to 18 years.

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.

Other intangibles represent an Information Communication and Telecommunications outsourcing contract with T-Systems Limited. Transition costs have been capitalised representing a 'right to use' and are being amortised over a period of 7 years.

1.8 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 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
• Computer software and development costs	3 to 5 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.

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.9 Investments

Investments, including subsidiaries, associates and jointly controlled entities are stated individually at cost less any provision for impairment, which is determined as the higher of net realisable value and value in use.

1.10 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.

1.11 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.

1.12 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.

1.13 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.

1.14 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.

1.15 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.

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.15 Pensions (continued)

Defined Benefit Scheme (continued)

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.

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.

1.16 Taxation

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

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

1.17 Network share assets

Certain assets have been contributed to the network share arrangement by both the Company and Hutchison 3G UK Limited ("Hutchison"), 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.

1.18 Grants

The company 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.

2. (Loss) / profit attributable to the Company

The loss dealt with in the financial statements of the Company is £180 million (2010: profit £2,609 million).

Notes to the Company financial statements (continued)

3. Taxation

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

	31 December 2011 £m	31 December 2010 £m
Current tax		
Current tax (expense) / income for the year	(1)	31
Current tax (expense) / income for previous years	57	(1)
	56	30
Deferred tax		
Origination and reversal of timing differences	(58)	69
Recognition of deferred tax previously treated as irrecoverable	-	408
Impact of tax rate change on deferred tax	(35)	(14)
	(93)	463
Tax income / (expense) on profit on ordinary activities	**(37)**	**493**

(b)Tax included directly in shareholders' funds

	31 December 2011 £m	31 December 2010 £m
Deferred tax		
Origination and reversal of timing differences	6	122
Recognition of deferred tax previously treated as irrecoverable	-	15
Impact of tax rate change on deferred tax	-	(5)
Tax income included directly in shareholders' funds	6	**132**

(c) Factors affecting the current tax credit

The tax assessed for the year was lower (2010 - lower) than the average standard rate of corporation tax in the UK applicable to the Company of 26.5% (2010: 28%). The differences are explained below:

Notes to the Company financial statements (continued)
3. Taxation (continued)
(c) Factors affecting the current tax credit (continued)

	31 December 2011 £m	31 December 2010 £m
Profit / (loss) on ordinary activities before tax	(143)	2,116
Profit / (loss) on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 26.5% (2010: 28%)	38	(593)
Effects of:		
Expenses not deductible for tax purposes	(76)	(103)
Non taxable UK dividend income	-	801
Investment impairments not deductible for tax purposes	-	(3)
Capital allowances in excess of depreciation	(44)	(38)
Other timing differences	19	(20)
Tax losses utilised / (carried forward)	62	(13)
Adjustment in respect of previous years	57	(1)
Current tax income for the year	**56**	**30**

(d) Factors that may affect future tax charges

Announcements were made during 2010 and 2011 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, effective 1 April 2011, from 28% to 26% was substantively enacted in two steps, initially to 27% on 20 July 2010 and then subsequently to 26% on 29 March 2011. A reduction to 25%, effective 1 April 2012, was substantively enacted on 5 July 2011. The further reductions to 23%, expected to be at a rate of 1% per annum, have been announced but not substantively enacted at the balance sheet date.

During 2010, the tax rate reduction to 27% 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 £5m was expensed directly to shareholders' funds. During 2011, the reductions to 26% and 25% resulted in a further decrease in the Company's net deferred tax asset of £35 million all of which has been expensed through the profit and loss account. The Company estimates that the future tax rate reductions to 23% would result in up to an additional £34 million decrease in the net deferred tax asset.

Notes to the Company financial statements (continued)
3. Taxation (continued)
(e) Deferred tax

The Company's gross deferred tax assets and (liabilities), measured on a non-discounted basis using a tax rate of 25% (2010: 27%), are analysed as follows:

	Accelerated depreciation	Other timing differences	Tax losses	Total
	£m	£m	£m	£m
At 1 January 2011 – recognised	(145)	99	554	508
Deferred tax (expense) / income in the profit and loss account	37	(26)	(104)	(93)
Deferred tax income recognised directly in shareholders' funds	-	6	-	6
At 31 December 2011 - recognised	(108)	79	450	421

The deferred tax in the balance sheet is as follows:	Accelerated depreciation	Other timing differences	Tax losses	Total
	£m	£m	£m	£m
Deferred tax asset	(145)	87	554	496
Included within pension deficit (note 16)	-	12	-	12
At 31 December 2010 – recognised	(145)	99	554	508
Deferred tax asset	(108)	66	450	408
Included within pension deficit (note 16)	-	13	-	13
At 31 December 2011 - recognised	(108)	79	450	421

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

Although the Company was loss making in the year ended 31 December 2011, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

At 31 December 2010 there were unrecognised tax losses not yet agreed with the tax authorities. These tax losses related, 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. During 2011, the Company agreed with HMRC that it would withdraw its claims for these tax losses, and as a result, at 31 December 2011 it no longer has any unrecognised deferred tax. As no deferred tax asset had been recognised for the uncertain tax losses, the withdrawal of the claim has had no impact on the results of the Company.

Notes to the Company financial statements (continued)

4. Intangible fixed assets

	Licence	Goodwill	Other intangibles	Total
	£m	£m	£m	£m
Cost				
At 1 January 2011	8,101	2,729	-	10,830
Additions	-	-	51	51
At 31 December 2011	8,101	2,729	51	10,881
Accumulated amortisation				
At 1 January 2011	(4,035)	(1,986)	-	(6,021)
Charge for the year	(370)	(106)	(4)	(480)
At 31 December 2011	(4,405)	(2,092)	(4)	(6,501)
Net book value				
At 31 December 2011	3,696	637	47	4,380
At 31 December 2010	4,066	743	-	4,809

During the year the Company entered into a new 7 year outsourcing contract with T-Systems Limited, for Information Communication and Telecommunications services. Transformation costs of £51 million were capitalised as intangibles, representing a 'right to use'. These costs are being amortised on a straight life basis over the life of the contract.

5. Tangible fixed assets

	Land & buildings	Fixtures & fittings	Computer & software development costs	Network assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2011	250	153	1,599	8,027	10,029
Additions	12	5	20	362	399
Disposals	(3)	(17)	(8)	(277)	(305)
At 31 December 2011	259	141	1,611	8,112	10,123
Accumulated depreciation					
At 1 January 2011	(129)	(111)	(1,204)	(5,673)	(7,117)
Charge for the year	(18)	(9)	(98)	(555)	(680)
Disposals	3	17	8	277	305
At 31 December 2011	(144)	(103)	(1,294)	(5,951)	(7,492)
Net book value					
At 31 December 2011	115	38	317	2,161	2,631
At 31 December 2010	121	42	395	2,354	2,912

a) The net book value of land and buildings includes £39 million (2010: £41 million) of freehold land and buildings and £76 million (2010: £80 million) of short leaseholds.

Notes to the Company financial statements (continued)

5. Tangible fixed assets (continued)

b) As part of a shared network agreement, selected network assets are jointly controlled with Hutchison. At the commencement of this agreement, both parties contributed selected network assets of equal value. 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. The fair value of the assets held by Hutchison could not be reliably determined; therefore Hutchison's cost of the shared assets is deemed to be based on the fair value of the Company's assets shared. Network assets acquired jointly with Hutchison following the joint venture agreement are treated as jointly controlled assets.

The Company's share of the jointly controlled assets is £796 million at 31 December 2011 (31 December 2010: £896 million) and is shown within network assets.

Additionally, the Company is recognising cost of £111 million (31 December 2010: £66 million) as its share of jointly controlled network assets in the course of construction.

c) 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 £21 million (2010: £25 million).

d) Included above are fully depreciated assets with an original cost of £4,579 million (2010: £3,963 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 2011 is £163 million (2010: £183 million).

6. Investments

	Shares in subsidiaries and joint ventures
	£m
Cost	
At 1 January 2011	21
Additions	-
At 31 December 2011	21
Impairment	
At 1 January 2011	(11)
Charge for the year	-
At 31 December 2011	(11)
Net book value	
Net book value at 31 December 2011	10
Net book value at 31 December 2010	10

Notes to the Company financial statements (continued)

6. Investments (continued)

Subsidiary undertakings

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

Name	Country of incorporation	Principal activities	Percentage shareholding
Subsidiaries			
Everything Everywhere Pension Trustee Limited	UK	Pension trustee	100%
Orange Jersey Limited	Jersey	Dormant	100%
Everything Everywhere Finance Plc	UK	Finance Company	100%
Joint venture			
Mobile Broadband Network Limited	UK	Network communications	50%

During the year, a new entity, Everything Everywhere Finance Plc ("EEF") was incorporated. EE has a 100% shareholding in EEF. The new entity is used as a financing entity for the Company and on 30th November it received a loan of £875 million from a number of financial institutions which it then subsequently loaned to EE.

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 Hutchison.

7. Stocks

	31 December 2011 £m	31 December 2010 £m
Equipment for sale to customers	130	144

8. Debtors amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Trade debtors	866	711
Amounts due from group undertakings	12	103
Amounts due from joint ventures	4	12
Other debtors	28	13
Prepayments and accrued income	358	475
	1,268	1,314

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.

Notes to the Company financial statements (continued)

9. Debtors amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Amounts due from joint ventures	90	60
Prepayments and accrued income	50	59
	140	119

Amounts due from joint ventures 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.

10. Creditors amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Trade creditors	756	392
Amounts owed to group undertakings	4	177
Tax and social security	191	169
Other creditors	17	27
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G.	374	1,250
Loan payable to subsidiary	875	-
Corporation tax	7	12
Accruals and deferred income	1,144	1,284
	3,368	3,311

In the financial statements for the period ended 31 December 2010, £137 million of provisions falling due within one year was included as accruals and deferred income. For the purposes of these financial statements, these have been reclassified to provisions (see note 12).

On 16 November 2011, a newly formed 100% owned subsidiary company Everything Everywhere Finance Plc ("EEF") entered into a bank financing facility of £875 million provided by a consortium of banks. The funds were drawn down on 30 November 2011 and comprise a term loan and a multicurrency revolving credit facility with maturities of 3 and 5 years respectively. The Company has guaranteed this loan. EEF then loaned these funds to the Company. The Company has classified this loan as short term as there is no agreement in place between the Company and EEF. However the funds are expected to be repaid in line with the borrowings external to the Group. The funds, along with other funds were then used to pay back £876 million of the £1,250 million Eurobond loan issued to EE by FT and DT which matured on 30 November 2011.

The remainder of the Eurobond loan £374 million remained in place with FT and DT with a revised redemption date of 16 November 2012. In addition, the Company has signed an amendment to its treasury borrowing facility with FT and DT, increasing the facility to £450 million. Under this facility each of FT and DT have agreed to fund the Company with up to £225 million each. The treasury borrowing facility will continue for the period up to and including 14 November 2012 and thereafter the term will be tacitly renewed each time for successive periods of 12 months.

During the year, a non-recurring operating gain of £35 million arose from the settlement of certain historical operational accruals.

On 4 October 2011 the Company and Arqiva, its network provider, settled the litigation between them and have mutually agreed the Company's network evolution plans.

Notes to the Company financial statements (continued)

11. Creditors amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Other creditors	18	27
	18	27

The maturity profile of creditors falling due in more than one year is analysed as follows:

	31 December 2011 £m	31 December 2010 £m
In more than one year but not more than two years	2	27
In more than two years but not more than five years	7	-
In more than five years	9	-
	18	27

12. Provisions for liabilities

	Restructuring Provision	Onerous Leases	ARO / WEEE / dilaps	Network share and other network	Total
At 31 December 2010	89	102	274	155	620
Increase in year	32	-	-	69	101
Decrease in year	-	(4)	(44)	-	(48)
Transfer in from accruals	-	-	-	13	13
Impact of change in discount rate	-	(5)	1	14	10
Utilisation	(94)	(3)	(32)	(30)	(159)
Discount unwind	-	3	10	5	18
At 31 December 2011	27	93	209	226	555
Analysis of provisions by maturity:					
At 31 December 2011					
Short term	27	25	17	123	192
Long term	-	68	192	103	363
	27	93	209	226	555
At 31 December 2010					
Short term	89	12	28	8	137
Long term	-	90	246	147	483
	89	102	274	155	620

In the financial statements for the period ended 31 December 2010, £137 million of provisions falling due within one year was presented within creditors due in less than one year. For the purposes of these financial statements, these have been reclassified to provisions.

Notes to the Company financial statements (continued)

12. Provisions for liabilities (continued)

Restructuring provision

This relates to the costs of employee redundancy or one off costs following restructuring within the Company. These costs are expected to be incurred within 12 months of recognition of the provision. Provisions for restructuring costs are recognised only when restructuring has been announced and the Company has started to implement a detailed formal plan.

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 relates to the period up to 2015 and has been provided for at its net present value.

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (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 Company believes that its obligations principally involve equipment used for its own needs (network equipment, information systems equipment, etc.) In accordance with this Directive, the Company 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 Company and have therefore not been accrued for.

The Company is also 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.

Given the long term nature of this provision discount rates are based upon rates provided by the Company's actuaries and inflation is based assumptions based upon RPI. These costs are expected to be incurred over a period of up to 20 years.

Network share and other network

This represents the liabilities arising from restructuring obligations relating to historic network share agreements, prior to the combination of the T-Mobile and Orange businesses.

The major assumptions used for estimating the restructuring provision for the network share arrangements with Hutchison 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, costs in relation to vacant site rentals will now continue to be incurred until 2024.

The provision also includes an amount to cover ongoing disputes with other network operators.

Notes to the Company financial statements (continued)

13. Called up share capital

	31 December 2011 £m	31 December 2010 £m
Allotted 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

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 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 £m	Share premium account £m	Profit and loss account £m
At 1 January 2010	**196**	**5,143**	**(2,323)**
Profit for the financial year	-	-	2,609
Actuarial loss on pension schemes net of taxes	-	-	76
Policy alignment net of taxes	-	-	(377)
Dividends declared and paid	-	-	
Share premium reduction	-	(5,143)	5,143
Share premium on issue of shares	-	1,638	
Dividends declared and paid	-	-	(646)
At 31 December 2010	**196**	**1,638**	**4,482**
Loss for the financial year	-	-	(180)
Actuarial loss on pension schemes net of taxes	-	-	(15)
Dividends declared and paid	-	-	(866)
At 31 December 2011	**196**	**1,638**	**3,421**

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 Company financial statements (continued)

15. Capital and financial commitments

Annual commitments under non cancellable operating leases are as follows:

	Land & building		Other	
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	31 December 2010 £m
Expiring within 1 year	11	12	1	2
Expiring between 2 to 5 years	52	43	19	50
Expiring in over 5 years	170	111	5	41
	233	166	25	93

The net obligation under finance leases is analysed as follows:

	31 December 2011 £m	31 December 2011 £m
Not later than one year	1	1
After one year but not more than five years	2	-
After five years	-	-
Present value of minimum lease payments	3	1

Capital commitments

The Group has £161 million of capital commitments at 31 December 2011 (31 December 2010: £159 million). The Group has £222 million of handset commitments (31 December 2010: £125 million).

Other

The Company has no guarantees or contingent liabilities at 31 December 2011 (2010; £nil).

The Company's share of MBNL's annual financial commitments under operating leases is £nil (2010: £nil). In addition the company's share of MBNL's capital commitments is £7 million (2010: £13 million).

16. Pension commitments

Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Company, amounted to £12 million during the year (2010: £17 million). Included in other creditors is £3 million (31 December 2010: £3 million) in respect of contributions payable to the scheme.

Defined benefit pension scheme

The following summarises the movement in the Everything Everywhere Pension Trustee Limited pension scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2011. 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 2011 by actuaries AON Hewitt Associates Limited.

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

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

	31 December 2011 %	31 December 2010 %
Inflation assumptions - RPI	3.1	3.4
Inflation assumptions - CPI	2.1	2.6
Expected return on plan assets	5.8	6.6
Rate of increase in salaries	4.1	4.4
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.0	3.2
Rate of increase for pensions in payment – accrued post 6 April 2006	2.1	2.2
Discount rate	4.9	5.4

The mortality assumptions used were as follows:

	31 December 2011 Years	31 December 2010 Years
Longevity at age 65 for current pensioners:		
- Men	22.3	22.1
- Women	23.1	23.0
Longevity at age 65 for future pensioners:		
- Men	24.1	24.0
- Women	25.0	24.9

The Company 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 2011 rounded to the nearest 0.1% per annum.

Notes to the Company financial statements (continued)
16. Pension commitments (continued)

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

	31 December 2011		31 December 2010	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	% p.a.	£m	% p.a.	£m
UK equity and unit trusts	7.2	119	8.1	103
Property	7.2	50	8.1	47
Hedge funds	8.9	21	8.0	21
Index linked gilts	2.8	79	4.1	34
Bonds	4.9	75	5.2	83
Cash / net current assets	n/a	12	n/a	34
Fair value of the scheme assets		356		322
Present value of scheme obligations		(408)		(365)
Deficit in the scheme		(52)		(43)
Related deferred tax asset (see note 3)		13		12
		(39)		(31)

Reconciliation of present value of scheme obligations:

	31 December 2011 £m	31 December 2010 £m
At 1 January	365	404
Current service cost	16	18
Interest cost	20	24
Benefits paid	(5)	(7)
Actuarial loss / (gain)	16	(73)
Curtailments	(4)	(1)
At 31 December	408	365

Reconciliation of fair value of scheme assets:

	31 December 2011 £m	31 December 2010 £m
At 1 January	322	274
Expected return on pension scheme assets	22	20
Actuarial (loss) / gain	(5)	11
Benefits paid	(5)	(7)
Contributions	22	24
At 31 December	356	322

Notes to the Company financial statements (continued)

16. 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 following amounts were recognised in the Company's performance statements:

	31 December 2011 £m	31 December 2010 £m
Operating loss		
Current service cost	16	18
Gain on curtailment	(4)	(1)
Pension costs	12	17
Other income / (expense)		
Expected return on pension scheme assets	22	20
Interest on pension scheme liabilities	(20)	(24)
Net return	2	(4)

The actual return on plan assets was a £17 million gain (2010: £31 million gain).

Movement in the deficit in the year:

	31 December 2011	31 December 2010
Opening deficit in the scheme at 1 January	(43)	(130)
Current year service cost	(16)	(18)
Contributions	22	24
Other finance income / (loss)	2	(4)
Curtailments	4	1
Actuarial (loss) / gain	(21)	84
Closing deficit in scheme at 31 December	(52)	(43)

Notes to the Company financial statements (continued)
16. Pension commitments (continued)

Analysis of the amounts that are recognised in the statement of total gains and losses:

	31 December 2011 £m	31 December 2010 £m
Actual return less expected return on pension scheme assets	(5)	11
Experience gains and losses arising on the scheme liabilities	(1)	50
Changes in assumptions underlying the present value of the scheme liabilities	(15)	23
Actuarial gain recognised in the statement of gains and losses	(21)	84
Less: deferred tax impact	6	(8)
Total amount recognised in statement of gains and losses	(15)	76

The cumulative amount of actuarial gains recognised in shareholder funds is a £9 million gain (2010: £30 million gain).

Under the current schedule of contributions the Company is expected to contribute £25 million to the schemes in the twelve months to 31 December 2012.

The effect of a 0.1% movement in the discount rate used of 4.9% would be as follows:

Discount rate	4.8% £m	5.0% £m
Deficit in scheme at end of year	(64)	(41)

The effect of a 0.1% movement in the inflation rate (RPI) assumption of 3.1% would be to as follows:

Inflation rate	3.0% £m	3.2% £m
Deficit in scheme at end of year	(47)	(58)

The effect of a 0.1% movement in the inflation rate (CPI) assumption of 2.1% would be to as follows:

Inflation rate	2.1% £m	2.2% £m
Deficit in scheme at end of year	(47)	(58)

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

History of gains and losses in the scheme

	2011	2010	2009	2008	2007
Defined benefit obligations (£m)	(408)	(365)	(404)	(327)	(320)
Plan assets (£m)	356	322	274	312	227
Deficit (£m)	(52)	(43)	(130)	(15)	(93)
Difference between the expected and actual return on scheme assets:					
Amount (£m)	(5)	11	(82)	47	(7)
Percentage of scheme assets	(1.4)%	3.4%	(29.9)%	14.9%	(2.9)%
Experience gains and losses on scheme liabilities:					
Amount (£m)	(1)	50	7	3	(1)
Percentage of the present value of the scheme liabilities	(0.2)%	13.7%	1.8%	1.0%	(0.4)%
Total amount recognised in shareholders' funds:					
Amount (£m)	(21)	84	(121)	84	34
Percentage of the present value of the scheme liabilities	(5.1)%	23.0%	(30.0)%	25.8%	10.6%

Assets values are at bid prices except for the year ended 2007.

17. Derivative financial instruments

Derivatives are held on the balance sheet at cost. The fair value of these derivatives is as follows:

	31 December 2011 £m	31 December 2010 £m
Forward foreign currency contracts	(18)	2
Total contracts	(18)	2

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

Currency	*Hedged nominal amount (£m)*	*Maturity date of hedged item*	*Hedging instrument*	*Hedged risk*
EUR	505	2012	Forward FX contracts	Purchases in Euros
USD	43	2012	Forward FX contracts	Purchases in Dollars

Notes to the Company financial statements (continued)

18. Related Party Transactions

Under *FRS8; 'Related Party Disclosures'*, 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 £18 million (2010: £10 million).The Company recharged MBNL for certain costs including staff and commitment fees. Charges to MBNL during the period totalled £nil (2010: £nil).

At 31 December 2011 MBNL was holding £10 million (2010: £2 million) of restricted cash on behalf of the Company. The net amount owed to the Company at the end of the year was £4 million (2010: £9 million). Formal loan funding was provided by the Company to MBNL. As at 31 December 2011 the outstanding balance receivable in respect of this loan amounted to £90 million (2010: £60 million), there was additional accrued interest of £nil (2010: £nil). The loan was provided on an arms length basis and attracts interest at a rate of LIBOR plus1.75%. Interest paid in the year totalled £2 million (2010: £nil).

Related party transactions with companies within the France Telecom SA Company

FT charges the Company for a series of services including IT&N 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 for the year amounted to £141 million (2010: £149 million), and the balance outstanding at 31 December 2011 was £30 million (31 December 2010: £66 million).

FT provided a loan to the Company through its subsidiary, Atlas Services Belgium. The outstanding balance at 31 December 2011 was £187 million (31 December 2010: £625 million), during the year £438 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £12 million (2010: £14 million) and the outstanding interest balance payable was £nil (31 December 2010 – £nil). A guarantee fee was payable to FT of 0.25% of the loan per annum.

Working capital funds deposited with FT totalled £117 million at 31 December 2011 (31 December 2010: £246 million). Interest is received at overnight LIBOR minus 0.15% and totalled £nil for the year (2010: £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 AG Group

DT charges the Company for a series of services including ICT outsource fees, IT&N 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 £215 million (2010: £195 million), and the balance outstanding at 31 December 2011 was £97 million (2010: £112 million). Included within the outstanding balance of £97 million was £60 million relating to transition and transformation costs due to T-Systems Limited.

DT provided a loan to the Company. The outstanding balance at 31 December 2011 was £187 million (31 December 2010: £625 million), during the year £438 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £12 million (2011: £14 million) and the outstanding interest balance payable was £nil (31 December 2010 – £nil). A guarantee fee was payable to FT of 0.25% of the loan per annum.

Working capital funds deposited with DT totalled £117million at 31 December 2011 (31 December 2010: £246 million). Interest is received at overnight LIBOR minus 0.15% and totalled £nil for the year (2010: £1 million).

DT undertook a series of foreign exchange trades on behalf of the Company. These were conducted as arm's length transactions.

Defined benefit pension scheme

Transactions with the defined benefit scheme Everything Everywhere Pension Trustee Limited are disclosed in note 16.

Notes to the Company financial statements (continued)

18. Related Party Transactions (continued)

Key management personnel

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

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Remuneration	2,258	2,235
Pension costs	46	47
Amounts accrued under long term incentive schemes	253	-
	2,557	2,282

During the year payments of £1,967,000 (31 December 2010: £603,000) were made in respect of compensation for loss of office.

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

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Total emoluments	936	884
Pension costs	-	-
	936	884

Gervais Pellissier and Benoit Scheen represent France Telecom S.A. on the board and do not receive any emoluments for their services as Directors. Timotheus Höttges, Claudia Nemat and Guido Kerkhoff represent(ed) Deutsche Telekom A.G. on the board and also do not receive any emoluments for their services as Directors. Olaf Swantee represented France Telecom S.A. as a non-executive director until 1 September 2011 when he became an executive and started receiving emoluments for his services.

No retirement benefits in the form of defined benefit schemes are accruing for Directors at 31 December 2011 (31 December 2010: one). Retirement benefits in the form of defined contributions schemes are accruing for one director at 31 December 2011 (31 December 2010: one)

Other

There were no material transactions with any other related parties.

19. Post Balance Sheet Events

On 11 January 2012, EEF set up a £3,000 million Euro Medium Term Note programme to enable it to issue debt securities in the form of corporate bonds to the capital markets. This programme is guaranteed by the Company.

On 6 February 2012, EEF raised €500 million under the programme with a 5 year bond issuance with a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was EEF's inaugural issue of a corporate bond under the Company's Euro Medium Term Note programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

On 29 February 2012, the £374 million Eurobond loan with the Shareholders was repaid completing the Eurobond agreement.

Notes to the Company financial statements (continued)

20. Ultimate Parent Shareholders

At 31 December 2011 the Company's immediate shareholders each with a 50% shareholding were:

T-Mobile Holdings 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.