BASE PROSPECTUS

Everything Everywhere Finance PLC

(incorporated as a public limited company in England and Wales under the Companies Act 2006 with registered number 7844526)

Guaranteed by Everything Everywhere Limited

(incorporated as a private limited company in England and Wales under the Companies Act 1985 with registered number 02382161)

£3,000,000,000 Euro Medium Term Note Programme

On 11 January 2012, Everything Everywhere Finance PLC (the "**Issuer**") entered into a £3,000,000,000 Euro Medium Term Note Programme (the "**Programme**").

Under the terms of the Programme, the Issuer subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer. The Notes will be issued with the benefit of an unconditional and irrevocable guarantee from Everything Everywhere Limited (the "**Guarantor**"). Please note that T-Mobile UK Limited (''**TMUK**'') was renamed as Everything Everywhere Limited on 1 July 2010. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement subject to increase as described herein. Payments in respect of the Notes will be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of the Issuer to the extent described in the section headed "*Terms and Conditions of the Notes—Condition 8 Taxation*". If any such withholding or deduction is required by law, the Issuer or the Guarantor (as the case may be) will pay additional amounts, subject to the exceptions described in the section headed "*Terms and Conditions of the Notes — Condition 8 Taxation*".

In certain circumstances another entity may be substituted for or acquire the rights and obligations of the Issuer under the Notes. In such case, payments in respect of the Notes will be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of such entity.

The Notes may be issued on a continuing basis to one or more of the Dealers specified in the section headed "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list maintained by the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

In relation to any Tranche, the aggregate nominal amount of the Notes of such Tranche, the interest (if any) payable in respect of the Notes of such Tranche, the issue price and any other terms and conditions not contained herein which are applicable to such Tranche will be set out in a final terms document ("**Final Terms**") which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche. In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area ("**EEA**") or offered to the public in a member state of the EEA in circumstances which require the publication of a prospectus under Directive 2003/71/EC (the "**Prospectus Directive**") the minimum specified denomination shall be €100,000 (or its equivalent in another currency as at the date of issue of the Notes).

The Issuer may agree with any Dealer and HSBC Corporate Trustee Company (UK) Limited (the "**Trustee**") that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes admitted to the Official List only) a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of such risks, see "Risk Factors" below.

The Guarantor has a long term debt rating of "Baa2" from Moody's Investors Service Espana, S.A. ("**Moody's**") and "BBB-" from Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"). The Programme has been given a provisional rating of "(P)Baa2" by Moody's and a rating of "BBB-" by Standard & Poor's. Each of Moody's and Standard & Poor's is established in the European Union and has received registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes will initially be represented by a temporary Global Note, without interest coupons, which will be deposited with a Common Safekeeper on behalf of Euroclear, and Clearstream, Luxembourg. On the Exchange Date, interests in the temporary Global Note may be exchanged for interests in a permanent Global Note. Permanent Global Notes will be exchangeable for Definitive Notes in certain limited circumstances – see "*Summary of Provisions Relating to the Notes While in Global Form*".

Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. federal income tax law requirements. The Notes may not be offered or sold or, in the case of Bearer Notes, delivered in the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

Arranger
Barclays Capital

Dealers

Barclays Capital
HSBC
J.P. Morgan
Lloyds Bank Corporate Markets
Mitsubishi UFJ Securities
Morgan Stanley
The Royal Bank of Scotland

The date of this Prospectus is 11 January 2012

This Prospectus constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor and the Guarantor and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Guarantor and the Group.

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

For the purposes of Prospectus Rule 5.5.4R(2)(f) Ernst & Young LLP are responsible for their report reproduced on page 189 as part of this Prospectus and declare that they have taken all reasonable care to ensure that the information contained in their report is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Relevant third party information has been extracted from sources as specified in this Prospectus. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading

None of the Dealers or the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made (to the fullest extent permitted by law) and no responsibility or liability is accepted by any of the Dealers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the Programme. No Dealer or the Trustee accepts any liability whether arising in tort or contract or otherwise (save as referred to above) in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Guarantor, any of the Dealers or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or the Guarantor, any of the Dealers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial and business condition and affairs, and its own appraisal of the creditworthiness, of each of the Issuer and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained herein concerning the Issuer or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The distribution of this Prospectus and any Final Terms and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantor, the Dealers and the Trustee represents that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Final Terms, no action has been taken by the Issuer, the Guarantor, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. No Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United Kingdom, the United States, the European Economic Area and Japan (see "*Subscription and Sale*").

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

This Prospectus has been prepared on the basis that any offer of the Notes in any member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by Final Terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Guarantor nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

U.S. INFORMATION

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. FEDERAL INCOME TAX LAW REQUIREMENTS. THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THE NOTES ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S.

BEARER NOTES ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR ITS POSSESSIONS OR TO UNITED STATES PERSONS, EXCEPT IN CERTAIN TRANSACTIONS PERMITTED BY U.S. TREASURY REGULATIONS. TERMS USED IN THIS PARAGRAPH HAVE THE MEANINGS GIVEN TO THEM BY THE U.S. INTERNAL REVENUE CODE OF 1986 AND THE REGULATIONS PROMULGATED THEREUNDER.

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES

AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

In connection with the issue of any Tranche, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)**") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Prospectus or incorporated by reference or any applicable supplementary prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such Notes may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

All references in this document to “U.S. dollars” and “U.S.$” refer to the currency of the United States of America, to “Sterling”, “pence” and “£” refer to the currency of the United Kingdom and to “euro” and “€” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

Table of Contents

Overview of the Programme

The following is a brief overview only and should be read in conjunction with the rest of this Prospectus, including "Risk Factors", for a discussion of certain factors to be considered in connection with an investment in the Notes and, in relation to any Notes, in conjunction with the relevant Final Terms, and, to the extent applicable, the "Terms and Conditions of the Instruments" set out herein.

Words and expressions defined in "Summary of Provisions Relating to the Notes While in Global Form", "Terms and Conditions of the Notes" or elsewhere in this Prospectus shall have the same meanings in this summary.

Issuer:	Everything Everywhere Finance PLC
Guarantor:	Everything Everywhere Limited
Description of the Issuer and the Guarantor:	The Issuer was incorporated as a public limited company in England and Wales on 11 November 2011 under the Companies Act 2006 with registration number 7844526. The registered office of the Issuer is at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW and its telephone number is 01707 315000. The Guarantor was incorporated as a private limited company in England and Wales on 10 May 1989 under the Companies Act 1985 with registration number 02382161. The registered office of the Guarantor is at Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW and its telephone number is 01707 315000.
Business of the Issuer and the Guarantor:	The Guarantor, which operates exclusively in the UK, is the UK's largest mobile communications provider with c.27 million customers and mobile subscriber market share of approximately 35 per cent. as at 30 June 2011, according to Ofcom. The Guarantor offers mobile services (consisting of voice, messaging and data services) and fixed broadband services to both retail and wholesale consumers through multiple telecommunications technologies and across the UK's largest mobile network. The Issuer acts as a financing vehicle for the Group and has no other operations or subsidiaries.
Risk Factors:	There are certain factors that may affect the Issuer's and the Guarantor's ability to fulfil their respective obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These include the following: (i) adverse macroeconomic conditions, which could impact on the Group's results of operations; (ii) the continued volatility of worldwide financial markets, which may make it more difficult for the Group to raise capital externally which could have a negative impact on the Group's access to finance; (iii) regulatory decisions and changes in the regulatory environment, which could adversely affect the Group's business; (iv) failure to obtain additional spectrum, which could adversely affect the Group's business; (v) intense competition in all areas of the Group's business, which could lead to reduced prices for its products and services and a decrease in market share in certain service areas; (vi) delays in the development of handsets and network compatibility and components, which may hinder the deployment of new technologies; (vii) a potential decline in revenue or profitability notwithstanding the Group's efforts to increase revenue from the introduction of new services; (viii) failure of the Group to realise the expected level of demand for its products and services, or the expected level or timing of revenues generated by its products and

	services, as a result of lack of market acceptance, technological change or delays from suppliers; (ix) failure to realise the expected benefits from cost reduction initiatives; (x) changes in assumptions underlying the carrying value of certain Group assets, which could result in impairment; (xi) participation in joint ventures, which exposes the Group to operational and financial risk; (xii) failure to realise expected benefits from investment in networks, licences and new technology; (xiii) impairment of the Group's business by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment; (xiv) impairment of the Group's business by the non-supply of equipment and support services by a major supplier; (xv) impairment of the Group's business by the termination of one or more of its MVNO arrangements; (xvi) impairment of the Group's business by disruptions to its telecommunications networks; (xvii) introduction of new taxes or levies or increases in the rates of existing taxes, which may adversely impact the Group's business; (xviii) failure by the Group to comply with payment card industry standards on data security; (xviv) exposure to the loss of customer data and the inherent risk to reputation and customer trust; (xx) the Issuer's status as a special purpose financing vehicle which is reliant on the Guarantor for funding; (xxi) risks related to the structure of a particular issue of Notes; (xxii) risks related to Notes generally; and (xxiii) risks related to the market generally.
Description of the Programme:	Euro Medium Term Note Programme
Arranger:	Barclays Bank PLC
Dealers:	Barclays Bank PLC
	HSBC Bank plc
	J.P. Morgan Securities Ltd.
	Lloyds TSB Bank plc
	Mitsubishi UFJ Securities International plc
	Morgan Stanley & Co. International plc
	The Royal Bank of Scotland plc
	The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers in accordance with the Dealer Agreement.
Trustee:	HSBC Corporate Trustee Company (UK) Limited
Issuing and Paying Agent, Registrar and Transfer Agent:	HSBC Bank plc
Certain Restrictions:	Unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 (or its equivalent in other currencies).
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant

	Dealer.
Initial Programme Size:	Up to £3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may change the amount of the Programme in accordance with the terms of the Dealer Agreement.
Use of Proceeds:	The Issuer intends to use the net proceeds from each issue of Notes for general corporate purposes, including the refinancing of current indebtedness. If in respect of any particular issue of Notes there is a particular use of the proceeds, this will be stated in the applicable Final Terms.
Maturities:	Subject to any applicable laws, any maturity as specified in the applicable Final Terms.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue on the Notes at a fixed or floating rate and may vary during the lifetime of the relevant Series of Notes.
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined separately for each Series as follows: i. on the same basis at the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or ii. on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or iii. on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be specified in the applicable Final Terms for each Series of Floating Rate Notes.
Index Linked Notes:	Payment of interest in respect of Index-Linked Interest Notes will be calculated by reference to such index/formula/other variable as specified in the applicable Final Terms.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as specified in the applicable Final Terms.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments,

if applicable, or for taxation reasons or following an event of default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions*".

Other Notes: Terms applicable to any other type of Note that the Issuer and any Dealer(s) may agree to issue under the Programme will be set out in the applicable Final Terms.

Denomination of Notes: Note will be issued in such denominations as may be specified in the relevant Final Terms (subject to compliance with all applicable legal and/or regulatory and/or central bank requirements), save that:

i. in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and

ii. unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum denomination of £100,000 (or its equivalent in other currencies as at the date of issue of the Notes).

Taxation: All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of the Issuer or the Guarantor to the extent described under "*Terms and Conditions of the Notes – Condition 8 Taxation.*"

If any such withholding or deduction is required by law, the Issuer or the Guarantor, as the case may be, will pay additional amounts, subject to the exceptions described in "*Terms and Conditions of the Notes – Condition 8 Taxation*."

In certain circumstances another entity may be substituted for or acquire the rights and obligations of the Issuer or the Guarantor under the Notes or the Guarantee. In such case, payments in respect of the Notes or under the Guarantee will be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of such entity unless the withholding or deduction is required by law, in which case the substituted entity will pay additional amounts, subject to certain exceptions.

Negative Pledge: The Notes will contain a negative pledge in the form described in the section headed "*Terms and Conditions of the Notes*".

Events of Default: The terms of the Notes will contain, amongst others, the following events of default:

- default in payment of any principal or interest due in respect of the Notes, continuing for the respective periods of time specified in Condition 10(a);
- non-performance or non-compliance by the Issuer or the Guarantor of any of its other obligations under the Notes or the Trust Deed continuing for the period of time, and in the circumstances, specified in Condition 10(b);
- a cross-default provision in respect of indebtedness for borrowed money of the Issuer as further described in Condition 10(c); and
- certain events relating to the insolvency or winding up of the Issuer, the Guarantor, or any Material Subsidiary of the Guarantor.

Status of the Notes and the Guarantee: The Notes and the Receipts and Coupons will constitute direct, unconditional and (subject to "*Terms and Conditions of the Notes – Condition 4 Negative Pledge*") unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The Guarantee will constitute a direct, unconditional and (subject to "*Terms and Conditions of the Notes – Condition 4 Negative Pledge*") unsecured obligation of the Guarantor.

The payment obligations of the Issuer under the Notes and the Receipts and the Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to "*Terms and Conditions of the Notes – Condition 4 Negative Pledge*" at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.

Listing and Admission to Trading: Application has been made to the UK Listing Authority for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as agreed between the Issuer and the relevant Dealer(s).

Notes which are not listed or admitted to trading on any market may also be issued.

Governing Law: The Notes, Trust Deed and Agency Agreement and all non-contractual obligations arising out of or in connection with the Notes will be governed by English law.

Distribution: Notes may be distributed on a syndicated or non-syndicated basis.

Form of Notes: The Notes may be issued as Bearer Notes or Registered Notes. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

Each Tranche of Bearer Notes having an initial maturity of more than one year will initially be represented on issue by a temporary global note in bearer form and any other such Tranche will be represented by a permanent global note in bearer form. Global Notes may be deposited on the Issue Date (i) if the Global Notes are intended to be issued in NGN form or to be held under the NSS, as stated in the applicable Final Terms, with a Common Safekeeper on behalf of Euroclear and Clearstream, Luxembourg; and (ii) if the Global Notes are not intended to be issued in NGN form and are not held under the NSS, with a Common Depositary on behalf of Euroclear or Clearstream, Luxembourg. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

Each Tranche of Registered Notes will be represented by registered Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Tranche.

Individual definitive Certificates will only be available in certain limited circumstances as described in "*Summary of Provisions Relating to the Notes While in Global Form*".

Clearing Systems: Euroclear, Clearstream, Luxembourg and/or any other clearing system as may be specified in the relevant Final Terms.

Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom and elsewhere see the section headed "*Subscription and Sale*".

Ratings: Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Terms and Conditions: Final Terms will be prepared in respect of each Tranche of Notes, a copy of which, in the case of Notes to be listed on the Official List, will be delivered to the U.K. Listing Authority on or before the date of issue (the closing date) of such Notes. The terms and conditions applicable to each Note will be those set out herein under "*Terms and Conditions of the Notes*" as supplemented, modified or replaced by the relevant Final Terms.

Risk Factors

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme or under the Guarantee, as applicable. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons which may not be considered significant risks by the Issuer and the Guarantor based on information currently available to each of them or which they may not currently be able to anticipate, and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's and the Guarantor's abilities to fulfil their respective obligations under Notes issued under the Programme or under the Guarantee, as applicable

Adverse macroeconomic conditions could impact the Group's results of operations

The Group's business is influenced by general economic conditions in the UK and elsewhere. The UK economy was impacted by the global downturn at the end of 2008 and the subsequent recovery paused towards the end of 2010. UK growth is projected to remain weak in 2012 (source: Office for Budget Responsibility – Economic and Fiscal Outlook November 2011). Continued exchange rate and financial market volatility, pressure on private consumption owing to high unemployment and the dangers arising from high levels of UK national debt present risks for the economic environment.

If the UK economy resumes the economic deterioration experienced in 2008 and 2009, or if growth remains at low levels as the recovery weakens or if there is deterioration in the economies or confidence in the currency within the Eurozone which in turn has an adverse effect on the UK economy and on business and consumer confidence in the UK, the level of demand by the Group's individual customers for its products and services and the willingness of the Group's business customers to invest in the Group's products and services may weaken. In difficult economic conditions, consumers may seek to reduce discretionary spending by reducing their use of the Group's products and services, including data services, or by switching to lower-cost alternatives offered by the Group's competitors. Similarly, under these conditions, the business customers that the Group serves may delay purchasing decisions, delay full implementation of service offerings or reduce their use of the Group's services. This could, in turn, negatively impact on the Group's revenue development, including in the future growth areas on which it plans to focus, and jeopardise the attainment of the Group's growth targets, such as those relating to data services in mobile telecommunications, or those relating to broadband products and services.

In addition, adverse economic conditions may lead to an increased number of the Group's consumer and business customers that are unable to pay for existing or additional services. The occurrence of such events could have a material adverse effect on the Group's business and operations.

The continued volatility of worldwide financial markets may make it more difficult for the Group to raise capital externally which could have a negative impact on the Group's access to finance

The Group's key sources of liquidity in the foreseeable future are likely to be cash generated from operations and borrowings through long-term and short-term issuances in the capital markets as well as committed bank facilities. Due to volatility experienced in capital and credit markets around the world, new issuances of debt securities may experience decreased demand. Adverse changes in credit markets or the Group's credit ratings could increase the cost of borrowing and banks may be unwilling to extend or renew credit facilities on existing terms. Any of these factors could have a negative impact on the Group's access to finance and, indirectly, its business and operations.

Regulatory decisions and changes in the regulatory environment could adversely affect the Group's business

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

In addition, other changes in the regulatory environment concerning the use of mobile phones may lead to a reduction in the usage of mobile phones or otherwise adversely affect the Group. The Group expects a tightening of regulatory control in the area of mobile telecommunications, with a probable negative effect on pricing and revenues, for example as a result of further reductions in international roaming charges for the wholesale and retail voice market, international data and Short Message Service ("**SMS**") roaming markets and wholesale domestic call termination charges. In the UK, the Office of Communications ("**Ofcom**") as well as various EU bodies have the power to regulate based on market investigations or reviews although other principles, such as completion of an internal EU market, are also used as a basis of regulation.

In respect of international roaming charges, the European Commission is currently planning new measures to be included in a new regulation amending the existing roaming regulations to be implemented from mid 2012 with significantly lower price ceilings, an inclusion of retail data tariff ceilings and structural measures to foster increased competition. This expansion of the existing regulation may have a negative effect on the Group's 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. 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. A consolidated appeal against Ofcom's decision is currently being considered by the Competition Commission. This combines the appeals by Vodafone, the Guarantor, Hutchison 3G UK Limited ("**Hutchison**") and BT Managed Services Limited ("**BT**"), and the interventions by O2 and each of the appellants in each of the appeals. An adverse final decision for the Group by the Competition Commission, in relation to a new call termination charging ceiling or an acceleration in implementation of such termination charges, 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.

Failure to obtain additional spectrum could adversely affect the Group's business

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 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, either at the end of 2012 or the beginning of 2013. The exact timing of the auction is still to be determined by Ofcom.

As part of the clearance from the European Commission to form the Group, the Guarantor 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 and is currently planning to do so. Ofcom is currently consulting on the rules for the auction as well as conducting 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 or new entrants in to the mobile market 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.

The Group also expects that the basis of the fees it pays for the use of the current 1800 Mhz spectrum will change as a result of the Wireless Telegraphy Act 2006 (Directions to OFCOM) Order 2010, which requires Ofcom to ensure that spectrum fees payable on the 900 Mhz spectrum and 1800 Mhz spectrum should reflect their full market value taking into account the results of the forthcoming spectrum auction. As a result of such review by Ofcom, the Group may be required to pay substantially increased spectrum usage charges for its current spectrum.

The Group faces intense competition in all areas of its business, which could lead to reduced prices for its products and services and a decrease in market share in certain service areas

Competition in the UK mobile telecommunications market is intense and is expected to increase in the future. Growing competition results from, among other things, the market entry of alternative and lower cost carriers (such as mobile virtual network operators ("**MVNO**"), technology shifts (such as Voice over Internet Protocol ("**VoIP**")) and from market consolidation. In particular, technologies such as VoIP and so called "over the top" platforms (where services are accessible to the Group's customers via its mobile telecommunications devices but are provided by third parties, such as Google and Facebook), which can be used with existing hardware and platforms, could drive voice and/or data traffic from mobile networks, which could lead to significant price and revenue reductions.

Increased competition has led to declines in the prices the Group charges for its mobile services and is expected to lead to further price declines in the future. Competition could also lead to a reduction in the rate at which the Group adds new customers, a decrease in the size of the Group's market share and a decline in the Group's service revenue as customers choose to receive telecommunications services or other competing services from other competing providers.

In addition, as European markets have become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention, and increasing the value generated by existing customers. The rate of deactivations (the process by which a subscriber leaves the recognised active base) by the Group's customers is measured by the Group's "churn" rate. For the pay monthly ("**PAYM**") customer base, the churn rate is calculated by reference to the number of subscribers leaving the active base through voluntarily or involuntary measures, divided by the active base of PAYM customers. For the pay as you go ("**PAYG**") customer base, churn is based on those customers that have been inactive for more than 90 days, where inactivity is defined as the customer having received fewer than 4 incoming calls and having made 1 or fewer outgoing calls during the period. There can be no assurance that the Group will not experience increases in churn rates, particularly as competition intensifies. An increase in churn rates could adversely affect profitability because the Group would experience lower revenue and additional selling costs to replace customers or recapture lost revenue.

The Group's ability to continue to compete effectively will depend upon, among other things, network quality, capacity and coverage, pricing of services and equipment, quality of customer service, development of new and enhanced products and services in response to customer demands and changing technology, reach and quality of sales and distribution channels and capital resources.

Delays in the development of handsets and network compatibility and components may hinder the deployment of new technologies

The Group's operations depend in part upon the successful deployment of continuously evolving telecommunications technologies. The Group uses technologies from a number of vendors and makes significant capital expenditures in connection with the deployment of such technologies. There can be no assurance that common standards and specifications will be achieved, that there will be inter-operability across the Group's and other networks, that technologies will be developed according to anticipated schedules, that they will perform according to expectations or that they will achieve commercial acceptance. The introduction of software and other network components may also be delayed. The failure of vendor performance or technology performance to meet the Group's expectations or the failure of a technology to achieve commercial acceptance could result in additional capital expenditures by the Group or a reduction in profitability.

The Group may experience a decline in revenue or profitability notwithstanding its efforts to increase revenue from the introduction of new services

As part of its strategy, the Group will continue to offer new services to its existing customers and seek to increase mobile non-voice service revenue (including but not limited to such services as SMS, multimedia message service ("**MMS**"), mobile data, machine to machine, telemetry, mobile advertising, mobile payments and mobile content such as smartphone applications) as a percentage of total service revenue. However the Group may not be able to introduce these new services commercially or may experience significant delays due to problems such as the availability of new mobile handsets, higher than anticipated prices of new handsets or availability of new content services. In addition, even if these services are introduced in accordance with expected time schedules, there is no assurance that revenue from such services will increase service revenue or maintain profit margins.

The Group may realise neither the expected level of demand for its products and services, nor the expected level or timing of revenues generated by those products and services, as a result of lack of market acceptance, technological change or delays from suppliers

There is a risk that the Group will not succeed in making customers sufficiently aware of existing and future value-added services or in creating customer acceptance of these services at the prices the Group would want to charge. There is also a risk that the Group will not identify trends correctly, or that the Group will not be able to bring new services to market as quickly or price-competitively as its competitors. These risks exist with respect to both the Group's anticipated future growth drivers in the mobile telecommunications area (such as mobile data services or other advanced technologies which are supported by advanced "smartphone" products) as well as in the non-mobile telecommunications areas (such as mobile payment services based on contactless technology), and fixed line communications) where there is a risk that differences in regulatory treatment of different operators based on their choice of technology could put the Group at a competitive disadvantage.

Further, as a result of rapid technological progress and the trend towards technological convergence, there is a danger that new and established information and telecommunications technologies or products may not only fail to complement one another but in some cases, may even become a substitute for one another. An example of this is the risk that over the top services (being those which are provided by a third party to the end user device), develop substitutes for the Group's own products and services. Another example of this is VoIP, a technology that is already established in the business customer market and which has now reached the consumer market. The introduction of mobile handsets with VoIP functionality may adversely affect the Group's pricing structures and market share in its mobile voice telephony business. If the Group does not appropriately anticipate the demand for new technologies, and adapt its strategies, service offering and cost structures accordingly, the Group may be unable to compete effectively, which may have an adverse effect on the Group's business and operations.

Expected benefits from cost reduction initiatives may not be realised

The Group has identified significant potential synergies deriving from the combination of the UK businesses of the Guarantor and Orange, with a total net present value which, according to the Guarantor's estimates, amounts to more than £3.5 billion. However there is no assurance that the full extent of the anticipated benefits will be realised in the timeline envisaged or at all.

Changes in assumptions underlying the carrying value of certain Group assets could result in impairment

The Group conducts a review of the carrying value of its assets annually or more frequently where the circumstances require, to assess whether those carrying values can be supported by the net present value of future cash flows derived from such assets. This review examines the continued appropriateness of the assumptions in respect of highly uncertain matters upon which the valuations supporting carrying values of certain of the Group's assets are based. This includes an assessment of discount rates and long-term growth rates, future technological developments and timing and quantum of future capital expenditure as well as several factors which may affect revenue and profitability identified within the other risk factors in this section such as intensifying competition, pricing pressures, regulatory changes and the timing for introducing new products or services. Discount rates are in part derived from yields on government bonds, the level of which may change substantially period to period and which may be affected by political, economic and legal developments which are beyond the Group's control. Due to the Group's substantial carrying value of goodwill under International Financial Reporting Standards, the revision of any of these assumptions to reflect current or anticipated changes in operations or the financial condition of the Group could lead to an impairment in the carrying value of certain assets in the Group.

The Group's participation in joint ventures exposes the Group to operational and financial risk

The Group has a joint venture arrangement with Hutchison, which, by its nature, the Group does not fully control. Hutchison may have economic or business interests or goals that are inconsistent with the Group's, exercise its rights under the joint venture agreement in a way that prohibits the Group from acting in a manner it would like or may be unable or unwilling to fulfil its obligations under the joint venture agreement or other related agreements.

The Group may enter into similar arrangements in future in order to pursue additional opportunities. Although the Group has not been materially constrained by its participation in joint ventures to date, no assurance can be given that the actions or decisions of its joint venture partners will not affect its joint ventures in a way that hinders its corporate objectives or reduces any anticipated cost savings or revenue enhancement resulting from these ventures.

Expected benefits from investment in networks, licences and new technology may not be realised

The Group has made substantial investments in the acquisition of licences and in its mobile networks, including the roll out of 3G networks. The Group expects to continue to make significant investments in its mobile networks due to increased usage and the need to offer new services and greater functionality afforded by new or evolving telecommunications technologies. It may acquire new spectrum licences with coverage obligations and has obligations to increase its 3G network coverage. Accordingly, the rate of the Group's capital expenditures in future years could increase and exceed that which the Group has experienced to date.

There can be no assurance that the introduction of new services will proceed according to anticipated schedules or that the level of demand for new services will justify the cost of setting up and providing new services (in particular, the cost of new network spectrum licences and network infrastructure (e.g. for 4G services). Failure or a delay in the completion of networks and the launch of new services, or increases in the associated costs, could have an adverse effect on the Group's business and operations and could result in significant write downs of the value of network spectrum or other licences or other network-related investments.

Should the Group face a continuously deteriorating economic climate, the Group may decide, or be required, to scale back capital expenditures. The Group believes that it has flexibility in terms of the amount and timing of its capital expenditure programme, but a lasting reduction in capital expenditure levels below certain thresholds could affect its ability to invest in its mobile telecommunications network (including additional spectrum), new technology and its other businesses and therefore could have an adverse effect on its future growth.

The Group's business may be impaired by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment

Media reports have suggested that radio frequency emissions from wireless mobile devices and mobile telecommunications sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organisation has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below internationally recognised health and safety standards. However, the Group cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude that there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices, thereby impairing the Group's ability to retain customers and attract new customers, and may result in restrictions on the location and operation of mobile communications sites by the Group and the usage of the Group's wireless technology. Such concerns could also lead to litigation against the Group. Any restrictions on use or litigation could have an adverse effect on the Group's business and operations.

The Group's business would be adversely affected by the non-supply of equipment and support services by a major supplier

The Group cooperates with a wide range of different suppliers for technical components and assemblies, as well as for software and other goods and information important to the conduct of the Group's business. Although the Group does not believe that it is materially dependent on any single supplier, its contractors may want to extend delivery times, raise prices and limit supply due to their own shortages or changing business and product strategies. Especially in times of economic turmoil, supply chains, credit access and financial stability of the Group's vendors may be negatively affected. In addition, natural disasters, acts of terrorism or other disruptive and unforeseen events could adversely affect the ability of suppliers to provide supplies of goods and services to the Group. If the Group's commercial partners fail to deliver quality products and services in a timely manner, the ensuing disruptions in the Group's supply chain could adversely affect the Group's business and operations. Whilst the Group takes a variety of measures to shelter itself from these risks, it cannot be sure that these measures will be effective under all circumstances.

The Group's business could be adversely affected by the termination of one or more of its MVNO arrangements

The Group provides MVNO services to various operators in the mobile telecommunications market, including Virgin Mobile Telecoms Limited ("**Virgin Mobile**"), which do not have their own mobile telecommunications infrastructure. The Group's MVNO services permit these operators to use the Group's network to route calls to and from their customers. The provision of MVNO services are a significant source of income for the Group, and if one or more of the Group's MVNO customers terminated its MVNO arrangements with the Group or was otherwise unable or unwilling to continue to purchase such services from the Group, this could have an adverse effect on the Group's business and operations.

The Group's business could be adversely affected by disruptions to its telecommunications networks

The Group is dependent on the secure operation of its telecommunications networks and attacks on critical infrastructure, or disruption of its networks caused by other factors beyond its control, pose a threat. As the importance of mobile and fixed communication in everyday life, as well as during times of crisis, increases and the volume of personal and business data being communicated and stored by network operators grows, organisations and individuals look to the Group to maintain service and protect sensitive information.

The Group attempts to mitigate these risks by employing a large number of measures, including a comprehensive monitoring of its telecommunications networks, backup systems and protective systems such as firewalls, virus scanners, and building security. The Group cannot, however, be certain that these measures will be effective under all circumstances and that disruption or damage will not occur. Disruption or damage to the Group's infrastructure or any significant interruption in the Group's services or in its ability to protect sensitive information may result in reduced user traffic and revenues, increased costs, and damage to the Group's reputation.

Introduction of new taxes or levies or increases in the rates of existing taxes may adversely impact the Group's business

A number of European countries have recently imposed sector-specific taxes and levies. The introduction of sector-specific taxes and levies in the UK may adversely affect the Group's financial return on its business and operations, as may any increases in existing corporate taxes and levies which are applied by the UK government (although note in this regard that the current UK government is committed to a programme of corporation tax rate reductions and, should there be any corporation tax increases, the Group has substantial tax losses which could be used to mitigate their impact on cashflows in the short to medium term).

In addition, the introduction of or increase in the rates of existing taxes or levies on personal income or consumption (for example, income tax or value added tax) may increase the cost of the Group's products and services to consumers or make consumers less able to afford the Group's products and services, which in each case may adversely affect the Group's business and operations.

The Group may not comply with payment card industry standards on data security

The payment card issuers VISA, MasterCard, JCB, American Express and Discover have issued a set of security standards – Payment Card Industry Data Security Standards (the "**PCI-DSS**"). These standards are designed to make companies (merchants) maintain systems and processes that protect payment card holder data. All merchants were required to be compliant with the PCI-DSS by June 2007, from this date fines can be imposed by the card issuers and acquirers for lack of compliance.

Payments processed for products and services through the Guarantor under the T-Mobile brand have been PCI-DSS compliant since Q1 2010. However, payments processed for products and services through the Guarantor under the Orange brand are currently not PCI-DSS compliant.

The target date for payments under the Orange brand to be PCI-DSS compliant is 31 December 2014. At this time the Group will comply with that standard. However, this relies on third parties, with the support of in-house teams, to implement the necessary security standards within a number of diverse payment processing systems. There is no guarantee that this will be achieved by the target date, in which case there is a risk of fines and the withdrawing of payment card processing for Orange products and services by HSBC and Barclays Merchant Services.

The Group may be exposed to the loss of customer data and the inherent risk to reputation and customer trust

Increasing public concern at the ability of large companies to keep customer information secure has resulted in an increase in the amount of reputational damage that could be incurred if the Group were required to notify the Office of the Information Commissioner and customers of a data security breach. Following a series of high profile security breaches by British companies and public authorities since 2007, consumers, journalists and regulators are viewing information security breaches and data losses with increasing concern. As the business increasingly shares resources, security breaches in one brand are likely to affect the reputation of both the Orange and T-Mobile brands.

The Information Commissioner can now impose fines of up to £500,000 when businesses “knew or ought to have known that there was a risk that the contravention would occur, and that such a contravention would be of a kind likely to cause substantial distress or damage, but failed to take reasonable steps to prevent the contravention”. Whilst steps are taken to protect the data held within the Group, any material loss, theft or unauthorised disclosure of customer data may adversely affect the Group’s reputation in the eyes of its customers, which may adversely affect the business and operations of the Group.

The Group faces risks of a fine as a result of Ofcom’s current investigation into allegations of mis-selling of mobile services

On 28 September 2011 Ofcom launched an investigation into alleged mis-selling of mobile services since February 2011 by the Orange mobile brand. The aim of the investigation, which the Group anticipates will last for 6 months, is to establish whether there has been a breach of general condition 23 (selling and marketing of mobile telephony services) of the general conditions of entitlement. The Group is in the process of responding to initial requests for information from Ofcom, whilst also conducting an internal audit. If Ofcom finds that there has been a failure to comply with the general conditions of entitlement, it has the power to impose of fine of up to 10 per cent. of the relevant turnover. However, relevant benchmarks indicate that a fine for a serious breach of a similar provision is below £5 million.

The Group may be exposed to a loss of customers, market share and revenue if it fails to maintain and enhance the recognition and value of its brands

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.

The Issuer is a special purpose vehicle

The Issuer is a special purpose financing entity. Other than the proceeds of the issuance of the Notes, the Issuer’s principal source of funds (if any) will be derived from the Guarantor and the Group. The terms of the Notes do not restrict the ability of the Issuer or the Guarantor to incur further liabilities. Therefore, the Issuer is subject to all the risks relating to income and expenses to which the Guarantor and the Group are subject. Such risks could limit funds available to the Guarantor and the Group, which would in turn affect the financing of the Issuer.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain of such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of such Notes is generally unlikely to rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. The quorum at any such meeting for passing an Extraordinary Resolution will generally be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented. The quorum at any such meeting for passing an Extraordinary Resolution where the business of the meeting includes the consideration of certain key features of the Notes, including to reduce the amount of principal or interest which is payable, to amend the dates for payment of principal and interest, to modify the provisions of the Terms and Conditions of the Notes relating to Extraordinary Resolutions or to modify the terms of, or to cancel, the Guarantee, will be two or more persons holding or representing not less than 75 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons holding or representing not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. These provisions permit defined majorities to bind all Noteholders and Couponholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders or Couponholders, agree to: (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error; or (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

In addition, the Trustee may, subject to such amendments to the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders, agree to the substitution of another company (being the Issuer's successor in business, any subsidiary of the Issuer or its successor in business, the Guarantor or its successor in business, any subsidiary of the Guarantor or its successor in business or any previous substituted company) as principal debtor under any Notes or the Guarantee (as applicable) in place of the Issuer or the Guarantor (as applicable), in the circumstances described in Condition 11(c) of the Terms and Conditions of the Notes. In such case, payments in respect of the relevant Notes and the Guarantee will be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of the entity substituted as principal debtor under the relevant Notes or the Guarantee (as applicable) unless the withholding or deduction is required by law, in which case the substituted entity will pay additional amounts, subject to certain exceptions.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state, or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a member state which has opted for a withholding system under the Directive and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a member state that is not obliged to withhold or deduct tax pursuant to the Directive.

Integral multiples of less than EUR100,000 (or equivalent)

Although Notes which are admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area are required under the Programme to have a minimum Specified Denomination of EUR100,000 (or its equivalent in any other currency), it is possible that the Notes may be traded in the clearing systems in amounts in excess of EUR100,000 (or its equivalent) that are not integral multiples of EUR100,000 (or its equivalent). In such a case, should Definitive Notes be required to be issued, Noteholders who, as a result of trading such amounts, hold Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Notes such that their holding is equal to or an integral multiple of a Specified Denomination, otherwise such Noteholders may not receive all of their entitlements in the form of Definitive Notes.

Change of law

The Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Loss of investment

If, in the case of any particular Tranche of Notes, the relevant Final Terms specifies that the Notes are Index Linked, there is a risk that any investor may lose the value of their entire investment or part of it if it is possible for such loss to be incurred in accordance with the Conditions of such Tranche of Notes.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Investors to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer and the Guarantor

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes and Global Certificates may be deposited with a common depositary or, if the Global Notes are NGNs or the Global Certificates will be held under the NSS, a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes or (as the case may be)

Global Certificates. While the Notes are represented by one or more Global Notes, or (as the case may be) Global Certificates, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes or (as the case may be) Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary or, for Global Notes that are NGNs or Global Certificates which are held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Summary of Provisions Relating to the Notes While in Global Form

1. Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in new global note ("**NGN**") form or to be held under the new safekeeping structure ("**NSS**") (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global notes which are issued in classic global note (''**CGN**'') form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3. Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Permanent Global Certificates

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

4. Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 7(h) (Non-Business Days).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder’s holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 Issuer’s Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent for notation. Where the Global Note is a NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 NGN nominal amount

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.10 Events of Default

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Issuing and Paying Agent the nominal amount of such Global Note that is becoming due and repayable.

4.11 Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

5. Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

Form of Final Terms

Final Terms dated [●]

Everything Everywhere Finance PLC
Issue of **[Aggregate Nominal Amount of Tranche] [Title of Notes]**
Guaranteed by **Everything Everywhere Limited**
under the **£3,000,000,000**
[Euro Medium Term Note Programme]

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 11 January 2012 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the Prospectus Directive). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) contained in the Trust Deed dated [**original date**] and set forth in the Prospectus dated [**original date**] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated [**current date**] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus] are available for viewing at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1.	(i)	Issuer:	Everything Everywhere Finance PLC
	(ii)	Guarantor:	Everything Everywhere Limited
2.	[(i)	Series Number:	[●]]
	[(ii)	Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]		

3.	Specified Currency or Currencies:	[●]
4.	Aggregate Nominal Amount of Notes:	[●]
	[(i) Series:	[●]]
	[(ii) Tranche:	[●]]
5.	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	(i) Specified Denominations:	[●] [€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000.] *Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*
	(ii) Calculation Amount:	[●]
7.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[*specify reference rate*] +/– [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)] [*(N.B. If the Final Redemption Amount is other than 100% of the nominal value, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004*

		will apply and the Issuer will prepare and publish a supplement to the Prospectus.)]
11.	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*]
12.	Put/Call Options:	[Put Option] [Call Option] (further particulars specified below)
13.	Date [Board] approval for issuance of Notes and Guarantee obtained:	[●] and [●], respectively *(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iii)	Fixed Coupon Amount(s):	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360 / 360/360 / Bond Basis / Actual/Actual / Actual/Actual - ISDA / Actual/365 (Fixed) / Actual/360 / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual-ICMA other]
	(vi)	Determination Dates:	[●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]

16.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	First Interest Payment Date:	[●]
	(iv)	Interest Period Date:	[●] (Not applicable unless different from Interest Payment Date)
	(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vi)	Business Centre(s):	[●]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[●]
	(ix)	Screen Rate Determination:	
		– Reference Rate:	[●]
		– Interest Determination Date(s):	[●]
		– Relevant Screen Page:	[●]
	(x)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Reset Date:	[●]
		– ISDA Definitions:	2006
	(xi)	Margin(s):	[+/-][●] per cent. per annum
	(xii)	Minimum Rate of Interest:	[●] per cent. per annum

	(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiv)	Day Count Fraction:	[●]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortisation Yield:	[●] per cent. per annum
	(ii)	Any other formula/basis of determining amount payable:	[●]
18.	**Index-Linked Interest Note/other variable-linked interest Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula/other variable:	[*give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[●]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Interest Determination Date(s):	[●]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	Interest Period(s):	[●]
	(vii)	Specified Interest Payment Dates:	[●]
	(viii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day

			Convention/Preceding Business Day Convention/other (*give details*)]
	(ix)	Business Centre(s):	[●]
	(x)	Minimum Rate of Interest:	[●] per cent. per annum
	(xi)	Maximum Rate of Interest:	[●] per cent. per annum
	(xii)	Day Count Fraction:	[●]
19.	**Dual Currency Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the Calculation Agent):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[[●]per Calculation Amount][See Sterling Make Whole Optional Redemption Amount]
	(iii)	Sterling Make Whole Optional Redemption Amount:	[●] per Calculation Amount/Not Applicable] (*If not applicable, delete sub-paragraphs (iv) and (v) of this paragraph*)
	[(iv)	Make Whole Margin:	[●]

	(v)	Benchmark Stock:	[●]]
	(vi)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(vii)	Notice period:	[●]
21.	**Put Option**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	Notice period:	[●]
22.	**Final Redemption Amount of each Note** In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		[●] per Calculation Amount *If the Final Redemption Amount is linked to an underlying reference or security, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus which shall constitute a supplementary prospectus pursuant to Prospectus Rule 3-4 and Section 87G of the FSMA.*
	(i)	Index/Formula/variable:	*[give or annex details]*
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent):	[●]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Determination Date(s):	[●]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable	[●]

		is impossible or impracticable or otherwise disrupted:	
	(vi)	Payment Date:	[●]
	(vii)	Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[●] per Calculation Amount
23.	**Early Redemption Amount**		
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):		[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	**Form of Notes:**	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] *If the Temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof* [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** Global Certificate (U.S.$/€/£ [●] nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)
25.	New Global Note:	[Yes] [No]
26.	Financial Centre(s) or other special provisions	[Not Applicable/*give details. Note that this paragraph relates to the date and place of payment, and not interest period end*

	relating to payment dates:	*dates, to which sub-paragraphs 15(ii), 16(v) and (vi) and 18(ix) relate*]
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
29.	Details relating to Instalment Notes: amount of each instalment (Instalment Amount), date on which each payment is to be made (Instalment Date):	[Not Applicable/*give details*]
30.	Consolidation provisions:	[Not Applicable/The provisions in Condition [15] apply]
31.	Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

32.	(i)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
33.	If non-syndicated, name of Dealer:		[Not Applicable/*give name*]
34.	U.S. Selling Restrictions:		[Reg. S Compliance Category; TEFRA C/ TEFRA D/ TEFRA not applicable]
35.	Additional selling restrictions:		[Not Applicable/*give details*]

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Notes described herein pursuant to the £3,000,000,000 [Euro Medium Term Note Programme] of Everything Everywhere Finance PLC.]

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [(*Relevant third party information*) has been extracted from (*specify source*). Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Everything Everywhere Finance PLC:

By: ....
Duly authorised

Signed on behalf of Everything Everywhere Limited:

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING

(i)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Not Applicable.] *(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
(ii)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [ ]]

[Moody's: [ ]]

[[Fitch: [ ]]

[[Other]: [ ]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.) Insert one (or more) of the following options, as applicable:

Option 1: CRA is <u>(i) established in the EU and (ii) registered under the CRA Regulation</u>:

*[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No 1060/2009, as amended by Regulation (EU) No.513/2011 (the "**CRA Regulation**").*

Option 2: CRA is <u>(i) established in the EU, (ii) not registered under the CRA Regulation; but (iii) has applied for registration</u>:

*[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and has applied for registration under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"), although notification of the registration decision*

has not yet been provided.

Option 3: CRA is <u>(i) established in the EU; and (ii) has not applied for registration is not registered under the CRA Regulation</u>:

*[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and is neither registered nor has it applied for registration under Regulation (EC) No 1060/2009 (the "**CRA Regulation**").*

Option 4: CRA is <u>not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulation</u>:

*[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the [Notes] is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**").*

Option 5: CRA is not established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified under the CRA Regulation:

*[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the "**CRA Regulation**").*

Option 6: CRA is <u>neither established in the EU nor certified under the CRA Regulation and the relevant rating is not endorsed under the CRA Regulation</u>:

*[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the "**CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EU and registered under the CRA Regulation.*

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under

Article 16 of the Prospectus Directive.)

4. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)	Reasons for the offer:	[●] *(See "Use of Proceeds" wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*
[(ii)	Estimated net proceeds:	[●] *(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]*
[(iii)	Estimated total expenses:	[●] *([If the Notes are derivative securities for which Annex XII of the Prospectus Directive Regulation applies it is] only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]*

5. [Fixed Rate Notes only – YIELD

Indication of yield:	[●] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. [Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.

(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].]

7. [Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.

(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of

the Prospectus Directive.)]

8. OPERATIONAL INFORMATION

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)* [*and address(es)*]]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No] [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][*include this text for registered notes*]] and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][*include this text if “yes” selected in which case bearer Notes must be issued in NGN form*]

Terms and Conditions of the Notes

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the **"Issue Date"**), the **"Trust Deed"**) dated 11 January 2012 between Everything Everywhere Finance PLC (the **"Issuer"**), Everything Everywhere Limited (the **"Guarantor"**) and HSBC Corporate Trustee Company (UK) Limited (the **"Trustee"**), which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the **"Conditions"**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the **"Agency Agreement"**) dated 11 January 2012 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, HSBC Bank plc as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **"Issuing and Paying Agent"**, the **"Paying Agents"** (which expression shall include the Issuing and Paying Agent), the **"Registrar"**, the **"Transfer Agents"** (which expression shall include the Registrar) and the **"Calculation Agent(s)"**. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the **"Coupons"**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **"Talons"**) (the **"Couponholders"**) and the holders of the receipts for the payment of instalments of principal (the **"Receipts"**) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **"Tranche"** means Notes which are identical in all respects.

1. Form, Denomination and Title

The Notes are issued in bearer form (**"Bearer Notes"**) or in registered form (**"Registered Notes"**) in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (**"Certificates"**) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **"Register"**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **"Noteholder"** means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), **"holder"** (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be provided by the Issuer to the Transfer Agent and the Registrar and shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Guarantee and Status

(a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. Its obligations in that respect (the "Guarantee") are contained in the Trust Deed.

(b) **Status of Notes and Guarantee:** The Notes and the Receipts and Coupons constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.

4. Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Guarantor will ensure that its Material Subsidiaries shall not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

In these Conditions:

(i) **"Guarantor's Group"** means the Guarantor and its Subsidiaries.

(ii) **"Material Subsidiary"** means any Subsidiary of the Guarantor:

(a) whose turnover (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 15 per cent. of the consolidated turnover, or, as the case may be, the consolidated total assets of the Guarantor's Group taken as a whole, all as calculated respectively by reference to the latest financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated financial statements of the Guarantor; provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Guarantor relate for the purpose of applying each of the foregoing tests, the reference to the Guarantor's latest audited consolidated financial statements shall be deemed to be a reference to such financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant financial statements, adjusted as deemed appropriate by the statutory auditors of the Guarantor for the time being after consultation with the Guarantor; or

(b) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary of the Guarantor which immediately prior to such transfer is a Material Subsidiary, whereupon (a) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (b) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (a) above; except that

(c) the following companies shall not be considered to be Material Subsidiaries of the Guarantor regardless of whether they satisfy the conditions set out in (a) or (b) above: Everything Everywhere Pension Trustee Limited, Orange FURBS Trustees Limited and Orange Pension Trustees Limited.

A report by two of the directors of the Guarantor that in their opinion (making such adjustments (if any) as they shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error or fraud, be conclusive and binding on the Guarantor, the Trustee and the Noteholders.

(iii) **"Permitted Securitisation"** means any transaction or series of transactions where financial indebtedness is incurred by the Guarantor or any of its Material Subsidiaries in connection with a securitisation of receivables where the recourse of the providers of that financial indebtedness is limited to: (i) those receivables and any defined or identifiable cash flows or assets arising out of the securitisation of such receivables or (ii) if those receivables and any such defined or identifiable cash flows or associated assets comprise all or substantially all of the business of the company incurring such financial indebtedness, the shareholding or other interest of the Guarantor or any of its Material Subsidiaries in such company.

(iv) **"Relevant Indebtedness"** means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be, or are in a legal form which would be capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, save for any such indebtedness which (i) is incurred in relation to a Permitted Securitisation or (ii) which has a maturity of less than one calendar year.

(v) **"Subsidiary"** has the meaning ascribed to it in section 1159 of the Companies Act 2006.

5. Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **"ISDA Rate"** for an Interest Accrual Period means a rate equal to the Floating

Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), **"Floating Rate"**, **"Calculation Agent"**, **"Floating Rate Option"**, **"Designated Maturity"**, **"Reset Date"** and **"Swap Transaction"** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon;

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) Rate of Interest for Index Linked Interest Notes: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee or the agent so appointed by the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "TARGET Business Day") and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "Calculation Period"):

(i) if **"Actual/Actual"** or **"Actual/Actual - ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if **"30/360", "360/360"** or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(v) if **"30E/360"** or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vi) if **"30E/360 (ISDA)"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

(vii) if **"Actual/Actual-ICMA"** is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"Determination Date" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"Interest Amount" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon.

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"Interest Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon.

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"Reference Rate" means the rate specified as such hereon.

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon.

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(l) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) Zero Coupon Notes:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders and the Trustee shall not be responsible for any loss occasioned by acting on such certificate.

(d) **Redemption at the Option of the Issuer:**

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' (or such other notice period as may be specified hereon) notice to the Trustee and the Issuing and Paying Agent and to Noteholders in accordance with Condition 16 (which notice shall be irrevocable and shall specify the date fixed for redemption) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon or, if so specified hereon, shall be at the Sterling Make Whole Optional Redemption Amount, in each case, together with interest accrued up to (but excluding) the Optional Redemption Date. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as the Trustee may approve, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

The **"Sterling Make Whole Optional Redemption Amount"** shall be the higher of (a) the principal amount outstanding of the Notes and (b) the principal amount outstanding of the Notes multiplied by the price (as reported in writing to the Issuer, the Guarantor and the Trustee by an independent and internationally recognised financial adviser appointed by the Issuer and the Guarantor and approved by the Trustee) at which the Gross Redemption Yield on the Notes on the Calculation Date is equal to the Gross Redemption Yield at 11.00 a.m. (London time) on the Calculation Date of the Benchmark Stock specified hereon (or, where such financial adviser advises the Issuer, the Guarantor and the Trustee that, for reasons of illiquidity or otherwise, such Benchmark Stock is not appropriate for such purpose, such other United Kingdom government stock as such financial adviser may recommend) plus the Make Whole Margin specified hereon. For such purposes, **"Calculation Date"** means the date which is the second Business Day in London prior to the Optional Redemption Date and **"Gross Redemption Yield"** means a yield calculated in accordance with generally accepted market practice at such time, as advised to Issuer, the Guarantor and the Trustee by such financial adviser.

(e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the

Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise the Put Option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and the Put Option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) **Purchases:** Each of the Issuer, the Guarantor and their Subsidiaries as defined in the Trust Deed may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7. Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank. **"Bank"** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the

"Record Date"). Payments of interest on each Registered Note shall be made in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Laws:** All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “business day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Financial Centres” hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon or any payment under the Guarantee:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note, Receipt or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day; or

(c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, **"Relevant Date"** in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **"principal"** shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Sterling Make Whole Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) **"interest"** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) **"principal"** and/or **"interest"** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events (**"Events of Default"**) occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) **Non-Payment:** default is made for more than 30 days (in the case of interest) or 15 days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which non-performance or non-compliance is incapable of remedy or, if in the reasonable opinion of the Trustee such non-performance or non-compliance is capable of remedy, is not in the reasonable opinion of the Trustee remedied within 30 days after notice of such non-performance or non-compliance shall have been given to the Issuer or the Guarantor by the Trustee; or

(c) **Cross-Default:** (A) any other present or future indebtedness of the Issuer or the Guarantor or any Subsidiary of the Guarantor for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer or the Guarantor or any Subsidiary of the Guarantor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided, in each case, that (i) the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds £50,000,000 or its equivalent in the relevant currency (as determined by the Trustee) and (ii) no event mentioned above in this Condition 10(c) shall be deemed to have occurred so long as the Issuer or the Guarantor satisfies the Trustee that the Issuer, Guarantor or relevant Subsidiary is contesting in good faith whether the relevant indebtedness, guarantee or indemnity has become due and payable and, in respect of which, the Trustee shall be entitled to rely on a certificate signed by two directors of the Guarantor; or

(d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any Material Subsidiary of the Guarantor and is not discharged or stayed within 90 days or such longer period as the Trustee may in its discretion approve; or

(e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any Material Subsidiary of the Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person) unless proceedings relating to such enforcement are discharged or stayed within 90 days or such longer period as the Trustee may in its discretion approve; or

(f) **Insolvency:** any of the Issuer or the Guarantor or any Material Subsidiary of the Guarantor is (or is deemed within the meaning of section 123(1)(e) or (2) of the Insolvency Act 1986 to be) insolvent or bankrupt or unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or a material part of the debts of the Issuer, the Guarantor or any Material Subsidiary of the Guarantor; or

(g) **Winding-up:** an administrator is appointed an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any Material Subsidiary of the

Guarantor, or the Issuer or the Guarantor or any Material Subsidiary of the Guarantor shall apply or petition for a winding-up or administration order in respect of itself or shall cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor or another Subsidiary of the Guarantor; or

(h) **Ownership:** the Issuer ceases to be wholly-owned and controlled by the Guarantor; or

(i) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in either of paragraphs (f) or (g); or

(j) **Guarantee:** the Guarantee is not (or is claimed by or on behalf of the Guarantor not to be) in full force and effect,

provided that in the case of paragraphs (b), (d), (e) (and, in relation to a Material Subsidiary only, paragraphs (f) and (g), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, or (viii) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed and/or the Agency Agreement that is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and/or the Agency Agreement that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary as defined in the Trust Deed of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings or take any step or action against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction in respect of all costs, claims, expenses and liabilities to or for which it may, in its opinion, become liable. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including relieving it from responsibility for taking proceedings or taking any step or action unless it has been indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

14. Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the Financial Times). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, any Notes, Receipts, Coupons or Talons or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, any Notes, Receipts, Coupons or Talons or the Guarantee (**"Proceedings"**) may be brought in such courts. Each of the Issuer and the Guarantor have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

Use of Proceeds

The Issuer intends to use the net proceeds from each issue of Notes for general corporate purposes of the Group, including but not limited to, the repayment of indebtedness.

Description of the Issuer and the Group

Background

The Issuer was incorporated as a public limited company in England and Wales on 11 November 2011 under the Companies Act 2006 with registration number 7844526. The registered office of the Issuer is at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW and its telephone number is 01707 315000.

The Issuer is a wholly owned subsidiary of the Guarantor, which was incorporated as a private limited company in England and Wales on 10 May 1989 under the Companies Act 1985 with registration number 02382161. The registered office of the Guarantor is at Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW and its telephone number is 01707 315000.

The Guarantor, together with its subsidiary undertakings (including the Issuer), joint ventures, associated undertakings and investments, are collectively referred to as the "**Group**". The Guarantor is, directly or indirectly, the holding company of all the companies in the Group as well as being the Group's principal operating company. The Issuer acts as a financing vehicle for the Group and has no other operations or subsidiaries.

The Group was formed following the announcement in September 2009 by France Telecom S.A. ("**FT**") and Deutsche Telekom A.G. ("**DT**") that they had agreed to combine their respective UK mobile businesses, which operate under the brand names Orange and T-Mobile.

With European Commission merger clearance achieved in March 2010, the joint venture completed on 1 April 2010, with the Guarantor as its parent company. European Commission merger clearance was conditional upon:

- the amendment of the Guarantor's joint venture agreement with Hutchison; and

- the divestment of one quarter of the combined network spectrum of the Orange and T-Mobile businesses in the 1800 MHz frequency band (one of the three frequency bands used in UK mobile telecommunications) prior to the auction and release of new spectrum by Ofcom,

as discussed further below.

On 1 July 2010, TMUK was renamed Everything Everywhere Limited and all of the assets, liabilities, undertaking and employees of FT's and DT's UK mobile businesses were, to the extent not already transferred, transferred to the Guarantor. The Guarantor continues to trade under the brand names Orange and T-Mobile. As at 30 June 2011, the Group employed 15,620 people.

The shares in the Guarantor are indirectly owned 50 per cent. by DT and 50 per cent. by FT, subject to the provisions of a joint venture agreement in place between DT and FT. The joint venture agreement provides for each shareholder to have the right to appoint directors to the board of the Guarantor and that the Group's business activities, corporate structure and financing arrangements cannot be materially amended without the consent of both shareholders. It also includes dispute resolution provisions which would apply where the shareholders were unable to agree on a material matter, under which the matter would be considered by senior management within each shareholder and, if agreement could not be reached, would be escalated to the Chief Executive Officers of the shareholders. Whilst the joint venture agreement contains provisions dealing with the disposal by either or both shareholders of their interest in the Group, the Group is not aware of any current intention to activate those arrangements, or any other similar arrangements between the shareholders, the operation of which may result in a change in control of the Issuer.

Introduction to Principal Activities

The Group, which operates exclusively in the UK, is the UK's largest mobile communications provider with c.27 million customers and mobile subscriber market share of approximately 35 per cent. as at 30 June 2011, according to Ofcom. The Group offers mobile services (consisting of voice, messaging and data services) and fixed broadband services to both retail and wholesale consumers through multiple telecommunications technologies and across the UK's largest mobile network. The Issuer acts as a financing vehicle for the Group and has no other operations or subsidiaries.

The Group's total revenues in the first half of 2011 were £3.4 billion (source: H1 2011 unaudited interim financial statements), of which its mobile service revenues were £3.1 billion (source: H1 2011 results announcement). This includes the impact of the reduction in mobile termination rates ("**MTR**") as a result of Ofcom's decision on 15 March 2011, which provided for a staged reduction in MTRs. The current charge ceiling for MTRs of 3.015 pence per minute is expected to be reduced, in stages, to 0.859 pence per minute between 1 April 2014 and 31 March 2015. However, Ofcom's decision is currently under appeal, which is expected to last until March 2012. Including the impact of the reduction in mobile termination rates following Ofcom's decision, the Group's mobile service revenues were down 1.1 per cent. in the first half of 2011 as compared to the first half of 2010. Adjusted EBITDA in the first half of 2011 was £682 million and the adjusted EBITDA profit margin was 20.3 per cent (source: H1 2011 results announcement).

Business overview

Competitive landscape

The Group operates exclusively in the UK, which is the world's sixth largest economy and the third largest in Europe, behind Germany and France (source: the World Bank GDP Ranking Table).

According to the Ofcom Communications Market Report, August 2011 (the "**Communications Market Report**") published by Ofcom, as at the end of 2010, the UK's mobile phone market was the third largest in Western Europe with around 81 million subscribers and wireless penetration (i.e. the number of active Subscriber Identity Module ("**SIM**") cards compared to the UK population) of around 130 per cent. (the seventh highest in Europe). According to that report the market has proved relatively resilient through the economic downturn, with mobile revenue growing by 2.8 per cent. compound average growth rates ("**CAGR**") in the five years to 2010 (notwithstanding a 3.3 per cent. decline in 2009).

The UK mobile telecommunications industry has invested significantly in 3G and 3.5G mobile networks. According to the Communications Market Report the number of active 3G mobile connections represented about 53 per cent. of the UK population as a whole, as at the end of 2010, up from 7.6 per cent. in 2005. Demand for data-based services is growing strongly as voice and text services have been complemented by other multimedia and high speed content services.

The volume of digital data being transmitted is increasing significantly as a result of the take up of 3G mobile services, smart phone devices and the use of social networks. A key technological challenge for market participants is to upgrade their networks to support increasing demand and improve upload and download speeds.

Recent market trends have seen key participants entering agreements to share networks as a means to reduce costs, maximise utilisation of network assets, improve geographical/population coverage and jointly invest in services to exploit new technologies. The Guarantor and Hutchison announced such a network sharing agreement in December 2007, designed to extend high speed wireless broadband coverage to the whole of the UK, further details of which are set out below.

The Group has made good progress since April 2010 towards achieving the £3.5 billion net present value of the planned synergies it announced at the time of its formation, as discussed further below.

The first major customer proposition of the Group after its formation was launched in October 2010, with the introduction of 2G national roaming across both brands' networks. This allowed customers to utilise the network coverage of either the Orange or T-Mobile brands.

Mobile services

The Group's mobile services are sold under two types of arrangements: PAYG services, which typically involve the customer purchasing equipment (such as handsets) from the Group (at minimal or no discount) at the point of connection and then pre-paying for products and services which are charged at different rates, and PAYM services, where customers typically sign a fixed term contract for the use of products, services and equipment with line rental charges being billed monthly in advance and additional services not included in the tariff bundle being billed monthly in arrear. In return for the contractual commitment the customer receives a discounted device and a bundle of included voice call minutes, text messages and a data allowance.

As at 30 June 2011, the Group had 14.5 million PAYG subscribers and 12.3 million PAYM subscribers, with average monthly revenues per customer of £6 and £34 respectively. The Group has been focusing on increasing customer retention and achieved reduced customer "churn" across all customer segments in the first half of 2011. "Churn" is the number of customers leaving the customer base divided by the average customer base. Total monthly churn fell from 3.2 per cent. at the end of 2010 to 2.4 per cent. at the end of the first half of 2011. PAYM services generally generate higher revenues and have lower churn. Therefore, the Group has an ongoing strategy of incentivising PAYG customers to move to PAYM subscriptions. The Group added net 0.4 million PAYM customers in the first half of 2011 (source: H1 2011 results announcement).

The Group offers a broad device portfolio to the customers of both the Orange and T-Mobile brands. The range includes handsets, mobile broadband and wireless internet access devices, tablet computers and other computer products from 14 of the world's leading manufacturers. Many devices are specifically tailored to the Orange and T-Mobile brands to deliver enhanced performance of the device, network and service, thereby optimising customer experience and maximising revenue-generation potential. The device portfolio is complemented by a wide range of accessories to support customers' requirements.

The Group's business to business services made up circa 10 per cent. of the Group's customer base as at 30 June 2011 and generated circa 14 per cent. of its revenue. In the period 1 January to 30 June 2011, the total number of business subscribers grew to approximately 2.6 million and the Group's retention of business customers improved significantly.

The Group markets to small businesses via both the T-Mobile and Orange brands and markets to larger enterprises exclusively via the Orange brand.

Mobile virtual networks

The Group's network provides mobile services to additional subscribers by making its network available to a number of MVNOs. Under the Group's arrangements with MVNOs, the Group permits other mobile telecommunications operators to use the Group's network to route calls to and from their customers. The Group has the UK's largest MVNO portfolio by number of subscribers, which currently enables 20 MVNO brands.

Among the Group's MVNO partners is the largest MVNO in the UK market, Virgin Mobile. The Group's MVNO arrangements with Virgin Mobile have been in place since 2004 and the exclusive provision of such services was extended on a long term basis on 30 December 2010. Virgin Mobile purchases a fixed bundle of voice call, text message and data capability from the Group as well as using the Group's retail billing services. The number of active Virgin Mobile customers (being those that have made a telephone call in the last 30 days) as at June 2011 was around 3 million.

Fixed broadband

The Group's fixed broadband service is marketed under the Orange brand. The Group has made a considerable investment in the fixed broadband business and is aiming to increase its market share. The Group has outsourced the operation and management of the IT and network functions for fixed broadband to a third party.

As at 30 June 2011, the Group's home broadband service had c.716,000 subscribers and in the first half of 2011 the service was rated in the top four home broadband providers by JD Power (JD Power and Associates 2011 UK Mobile Broadband ISP Customer Satisfaction Study). The service was also rated first in Ofcom's independent broadband customer satisfaction survey in July 2011.

Other business areas

The Group also participates in other areas of the mobile telecommunications and personal technology sector, such as automated machine to machine communications, targeted marketing by text message or other mobile media and mobile transactions such as contactless payment services. These are all areas where the Group intends to increase its market share. Recent developments include:

- the launch of the UK's first "near field communications" mobile transactions service for Orange customers called "Quicktap";
- the launch of the UK's first contactless mobile payments service for customers, in partnership with Barclaycard. The service uses secure SIM-based payments in order to ensure purchase protection for consumers; and
- the announcement of the intention to create a joint venture with O2 and Vodafone (subject to competition clearance) to participate in the mobile marketing and mobile transactions market in the UK.

Retail stores and customer service

The Group currently operates approximately 715 stores across the UK under the T-Mobile and Orange brands and is in the process of rolling out 30 new Everything Everywhere branded stores which will market products and services from both the T-Mobile and Orange brands.

The Group also has a significant online presence, with approximately 10 per cent. of sales made online through its branded web stores. Online customer service is also a key customer service capability with customers able to self-serve via personalised portals.

The Group employs over 7,000 people in its customer services and telesales organisation and operates its centres domestically in Darlington, North Tyneside, Plymouth, Doxford, Greenock and Merthyr Tydfil. The company also partners with recognised specialist companies in the provision of customer service onshore and internationally.

Both the Orange and T-Mobile brands are also sold through indirect channels, including by telecommunications specialists such as The Carphone Warehouse and Phones4U as well as general retail outlets such as Tesco, ASDA and Argos.

Branding

The Group has completed a review of its branding strategy for the future, and has considered a range of options. At this time, the Group will continue to maintain and invest in both of its existing brands, Orange and T-Mobile. The development of an additional or new brand is an option under consideration, which may be complementary to or in substitution for one or both of the existing brands of T-Mobile and Orange. The Group is continuing to assess such an option.

Network information

The Group has the UK's biggest mobile network with around 28,000 base stations in the UK, which includes both 2G and 3G masts from the Orange and T-Mobile brands. The UK is one of the most advanced mobile data markets in Europe with data usage growing almost forty fold in the period from the final quarter of 2007 to the final quarter of 2010 (Communications Market Report), as more people use mobiles devices to access the internet, use social networks and receive advertising. The Group continues to invest in its networks (both 2G and 3G) to meet this demand.

In December 2007, the Guarantor and Hutchison signed a network sharing agreement with the aim of achieving national wireless broadband coverage by sharing elements of their separate mobile networks in order to establish a shared network to be used by each of them in connection with their differentiated 3G businesses, as discussed further below.

A key element of the integration of the Orange and T-Mobile businesses is the planned integration of the two networks. Work on this continues and the integration of the network is anticipated to drive considerable cost savings as part of the Group's overall synergy plan. Since October 2010, Orange and T-Mobile customers have been able to pick up signal from either brand's 2G networks in the UK at no extra charge (so called "2G roaming"). The Group is working to provide 3G roaming between both brands across its 3G networks by the end of 2011.

On 14 April 2010, Orange Personal Communications Services Limited ("**OPCS**") entered into a 6 year non-exclusive agreement with BT to outsource to BT: (i) the provision and operation of fixed telecommunications (i.e. land line services); (ii) broadband services to Orange customers; and (iii) the migration of existing Orange broadband customers to a new broadband services platform operated by BT. In addition, BT will also acquire and decommission Orange's existing broadband Local Loop Unbundling ("**LLU**") network. The LLU network involves a regulatory process, designed to foster competition in the provision of local calling and broadband services, which allows multiple users to use a local network exchange to provide services to their own customers.

Under the terms of the agreement BT has committed to launch next generation access services, so that the Group can take advantage of the greater speed and capacity afforded by fibre optics. The agreement will enable Orange to operate a multiple brand strategy with separate services and pricing options.

This agreement was novated on 1 November 2010 to the Guarantor following the transfer of the trade and assets of OPCS to the Guarantor on 1 July 2010.

In May 2011, the Group announced its 4G Long Term Evolution ("**LTE**") trial with BT. As a result of this project, the two companies will share their fixed telecommunications and mobile technology to provide high speed wireless broadband to fixed and mobile customers in the Newquay area of Cornwall. LTE is a new technology that is anticipated to deliver vastly improved data speeds and that should allow the Guarantor to achieve further efficiencies in its networks as well as to support the development of new services.

In late 2012 or early 2013, the 800 MHz and 2.6 GHz spectrum bands will be auctioned. The 4G spectrum bands are ideally suited for wide bandwidth data services, allowing for speeds of 4Mbit/s upwards. The Guarantor plans to participate in the auction process with a view to complementing its current spectrum assets and maintaining its competitiveness.

Synergies

As a result of the formation of the Group, synergies with a net present value which, according to the Guarantor's estimates, amounts to more than £3.5 billion were identified; £203 million of recurring annual operational expenditure synergies were delivered by the end of the first half of 2011. Annualised operational and capital expenditure savings of £545 million have been identified for planned delivery by 2014, with more than 60 per cent. of these savings targeted to be achieved by the end of 2012. The key areas of cost savings identified are network costs, IT costs, distribution and marketing and other operational expenditure savings derived from the reduction of the number of suppliers and headcount restructuring plus capital expenditure.

Regulation

The Group's activities are regulated in accordance with general UK law and sector specific regulation. Broadly speaking, the regulation of communications in the UK is derived from European law and the regulatory framework was updated in May 2011.

The primary regulator is Ofcom, which is responsible for both communications and radio communications regulation, pursuant to the Communications Act 2003 and the Wireless Telegraphy Act 2006.

Ofcom's key regulatory instruments in relation to the Group's activities are: (i) significant rights to regulate the exercise of market power in relation to wholesale mobile voice termination rates; and (ii) the ability to regulate mobile spectrum licences.

The Group is also regulated by Phonepay Plus in respect of premium rate telecommunications services.

MBNL joint venture with Hutchison

In December 2007 the Guarantor established a joint venture, Mobile Network Broadband Limited ("**MBNL**"), with Hutchison pursuant to which both companies share their respective mobile 3G radio access networks. The parties are committed to a long term agreement and in February 2010 the term was extended to December 2031. The key principles of the joint venture are that:

- radio access network equipment is consolidated (i.e. one set of equipment is used to operate the two networks);
- 3G equipment and shared sites are owned (directly or indirectly) on a 50:50 basis; and
- Orange sites, retained in the course of the integration of the Orange and T-Mobile networks and owned by the Guarantor will supplement the shared network.

There is also flexibility through "unilateral deployment" to deploy future technologies and capacity upgrades on an unshared basis (at each party's own cost).

Costs are generally shared between the parties on a 50:50 basis, however, the Guarantor does pay some additional costs for its 2G radio access network. The operating costs of the network include rent, rates, electricity and annual site maintenance. However, each party bears its own costs directly attributable to any non-shared sites, of which the Guarantor has c.1,600. Transmission costs are provided on a lowest cost basis. In addition, MBNL charges the Group fees in relation to the management and use of the shared network. Charges from MBNL during the period 1 April 2010 to 31 December 2010 totalled £8 million.

MBNL does not own the network assets, other than the transmission assets and the microwave backhaul licences. MBNL holds microwave spectrum licences at 10GHz, 28GHz and 40GHz for the backhaul transmission network (being the transport network which carries traffic between the mobile base stations and the control and switching elements located deeper in the network) and there is no other commitment to acquire or deploy any spectrum on a joint basis. In 2011 MBNL's 2G network covered more than 99 per cent. of the UK population. For 3G coverage, the percentage is 96 per cent. with 99 per cent. population coverage targeted for 2014.

MBNL is a small organisation with c.60 employees which manages the legacy T-Mobile and Hutchison network estate and outsourced suppliers for the network maintenance and support. MBNL passes to the Guarantor and Hutchison substantially all network operating costs according to agreed cost sharing rules.

MBNL is funded by £20 million share capital, fully paid, and a revolving shareholder loan facility of £90 million from each of the Guarantor and Hutchison. Interest is based on LIBOR plus a margin of 1.75 per cent., paid quarterly. The facility will either be repaid on 18 December 2012 or extended for a further 5 years. The total amount currently drawn down against the Guarantor shareholder loan is £78.75 million.

DT also provides a guarantee to Hutchison to a maximum value of £750 million to guarantee the Guarantor's obligations as a shareholder in respect of any liability incurred by the Guarantor under the MBNL joint venture.

Merger clearance requirements

In February 2010, the EU required DT and FT to resolve two key issues to secure merger clearance for the Guarantor:

- a disproportionately high 1800Mhz spectrum holding. This was resolved through undertaking to divest spectrum; and

- Hutchison's assertion that the Guarantor (with control of the Orange network) might harm Hutchison's competitive viability as a fourth major UK mobile telecommunications operator by under-investing in, or trying to collapse the MBNL network and commercial framework. This was resolved through a variation agreement with Hutchison.

Thus the Guarantor secured the earliest possible date for its merger clearance (up to 18 months ahead of schedule) thereby allowing the Guarantor to proceed with integrating its operations.

Subsequently a Network Integration Agreement ("**NIA**") determined the conditions under which the Orange roaming and network integration with the MBNL network would take place. The restrictions and constraints within the NIA, and the risk of breach of the 2G roaming agreement between Orange and Hutchison as a result of the decommissioning of Orange sites, could have delayed the launch of 3G roaming. However, as a result of the conclusion of a Joint Benefit Plan Agreement, which varied the NIA by removing a number of restrictions and controls that impeded the Guarantor's integration and deployment plans and also prioritised the integration of a number of sites that were important for Hutchison, the Guarantor is now able to start rolling out 3G roaming immediately and can implement its wider network integration, including RAN integration programmes, and site decommissioning plans using the same processes as have been already used successfully by the MBNL joint venture.

IT Outsourcing Agreement with T-Systems

An agreement was signed by the Guarantor and T-Systems Ltd on 18 March 2011 for the outsourcing of the IT data centre infrastructure operations, IT design and IT management operations that support both the Orange and T-Mobile brands of the Guarantor business to T-Systems Ltd. The contract is for a total of seven years and includes a three year transformation programme of the Guarantor estate. Approximately 227 people are to transfer to T-Systems Ltd. Key licence ownership will remain with the Guarantor.

Share Capital

The Issuer

As at 11 November 2011, the issued share capital of the Issuer comprised 50,000 ordinary shares of £1.00 each, all of which are fully paid. All shares in the Issuer are held by the Guarantor. The Issuer knows of no arrangements, the operation of which may at a subsequent date result in a change of control of the Issuer.

The Guarantor

As at 31 December 2010, the issued share capital of the Guarantor comprised 11,025,153 ordinary A shares of £1.00 each, all of which are fully paid and all of which were held by T-Mobile Holdings Limited and 11,025,153 ordinary B shares of £1 each, all of which are fully paid and all of which were held by Orange Telecommunications Group Limited.

Financial and dividend policies

The Guarantor's financial policy includes aiming to achieve, in the medium term, a leverage ratio below 1.75-2.0 times Net Debt to EBITDA (based on its consolidated statutory accounts). The Guarantor's general dividend distribution policy is to pay to its shareholders, Orange Telecommunications Group Limited ("**OTGL**"), the UK subsidiary of FT, and T-Mobile Holdings Limited ("**TMHL**"), the UK subsidiary of DT, 90% of free cash flow. The Guarantor has paid dividends amounting to more than 90% of free cash flow and during the third quarter of 2011 the Guarantor paid an additional dividend of £125 million to its shareholders.

Related party transactions with FT and DT

FT and DT both charge the Group for a series of services, including IT and network support and licences, management fees, and international roaming charges. In addition, royalty fees are charged for the use of the T-Mobile and Orange brands. Total charges in the period 1 April 2010 to 31 December 2010 amounted to £214 million.

FT and DT have announced their intention to form a procurement joint venture (called Buyin) that will manage the procurement of terminals and mobile network equipment for both companies and their subsidiaries as well as the Group. The Group will contribute resources to the joint venture and expects to benefit from the purchasing scale the joint venture will achieve.

On 1 April 2010, each of FT and DT provided a loan of £625 million to the Group. On 30 June 2010, this loan was converted to a eurobond issued by the Guarantor and listed (as the £1.25bn Floating Rate Unsecured Notes due 2016) on the Channel Islands Stock Exchange, with a final redemption date of 30 June 2016. The eurobond is unsecured and, at issue, consisted of 1,250 £1 million loan notes, with an interest rate of LIBOR 6 months plus 2.5 per cent. DT and Atlas Services Belgium SA (a subsidiary of FT) were holders of the eurobond, each holding 625 Notes with a £1 million denomination.

On 30 December 2010, the maturity date of the eurobond was extended to 30 November 2011. The interest rate payable on the eurobond was also amended to 11 month LIBOR plus 0.6 per cent.

The eurobond was partly repaid by the Group on 30 November 2011 using the proceeds of committed bank financing, with the maturity of the remaining £374 million left outstanding being extended for 11 months and 2 weeks.

Material Contracts

The Guarantor has an overdraft facility provided by DT and FT which permits a maximum amount of £450 million to be drawn down at an interest rate of overnight LIBOR plus 60 bps, with each funding 50 per cent. of the facility. The facility has a 12 month period and is intended to be renewed at the end of each period for a further 12 month commitment.

Board and management of the Guarantor and the Issuer

Board and management of the Guarantor

The board of the Guarantor has been established with representatives from each of FT and DT and its own executive management function.

The members of the board of the Guarantor and their respective responsibilities are:

- Olaf Swantee, Executive Director and CEO (Guarantor executive function).
- Neal Milsom, Executive Director and CFO (Guarantor executive function).
- Timotheus Höttges, Chairman (DT).
- Claudia Nemat, Non-executive Director (DT).
- Gervais Pellissier, Non-executive Director (FT).
- Benoit Scheen, Non-executive Director (FT).

The business address of each of the members of the board of the Guarantor is Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW.

Board biographies

Olaf Swantee

Olaf Swantee is the Chief Executive Officer of the Guarantor and took over from Tom Alexander (who had served as CEO since the formation of the Group in April 2010) in September 2011. Prior to joining the Guarantor as CEO, Olaf Swantee was Executive Vice President of European activities and Sourcing for FT and a board member of the Guarantor. Olaf Swantee is an economics graduate with an MBA from the École Supérieure de Commerce de Paris – École des Affaires de Paris (ESCP-EAP). Olaf has 17 years experience in the IT industry, holding senior leadership, sales and marketing positions with HP, Compaq and DEC in Europe and the United States.

Neal Milsom

Neal Milsom is Chief Financial Officer for the Guarantor and is responsible for the financial management of the business, including procurement and supply chain. Neal was appointed Chief Financial Officer in September 2011. Prior to this, Neal was Vice President of Finance for the Guarantor, having previously held the same role at Orange for over five years. He joined Orange in 2001.

Timotheus Höttges

Timotheus Höttges is the Chairman of the Board of the Guarantor, and has been member of the Board of Management of DT responsible for Finance and Controlling since 1 March 2009.

From December 2006 until his appointment to the Board of Management of DT, he was the Group Board of Management member responsible for the T-Home unit for DT.

Claudia Nemat

Claudia Nemat was appointed to the board of DT on 1 October 2011, and has been a member of the Board of Management of DT since that date. She is primarily responsible for DT operations in Europe (excluding Germany). Before joining DT, Claudia worked with the consultancy firm McKinsey & Company for 17 years.

Gervais Pellissier

Gervais Pellissier is a member of the board of the Guarantor and is the deputy CEO and CFO of FT. He joined FT in October 2005 to oversee the integration of FT companies in Spain and subsequently became CFO.

Prior to that he was Managing Director and Deputy CEO of the Bull Group where he held various roles including Chief Financial Officer and Deputy CEO.

Benoit Scheen

Benoit Scheen is the Executive Vice President Europe for FT. Benoit attended the University of Namur and holds a master's degree in computer science as well as a bachelor's degree in economic and social science. He has been Chief Executive Officer of Mobistar since January 2008 and prior to that was its Chief Commercial Officer, having joined the FT group in 2005.

Board Committees

The Guarantor's board of directors is advised by the following committees:

- Finance Committee (including oversight of the Treasury Committee and the Tax Steering Committee).
- Technical Advisory Committee.
- Roaming Advisory Committee.
- Brand Advisory Committee.
- HR Advisory Committee.

Senior Management

Biographies of the key senior executives of the Group are set out below.

Pippa Dunn: Chief Marketing Officer – Consumer

As Chief Marketing Officer-Consumer, Pippa Dunn is responsible for the consumer division of the business, including Orange and T-Mobile proposition development, product management and the device range. Previously Pippa was Vice President of Marketing & Propositions for the Orange Brand. Before this, she ran the pre-pay arm of the Orange business, as Director of Pay-As-You-Go. Pippa joined Orange, from her role as Product Marketing Director at NTL Incorporated in 2003.

Gerry McQuade: Chief Marketing Officer – Non-Consumer Mobile

Gerry McQuade is responsible for the business to business, wholesale, home and business development areas. Gerry joined Orange in January 2008, heading up the Development Board, ensuring that Orange UK had clearly defined and integrated priorities, while maintaining its position as the most innovative, customer-focused and cost effective business in the mobile and converged market.

Ralf Brandmeier: Chief Performance Officer

Ralf Brandmeier is responsible for serving all business functions with project management, value steering, market research, customer insight, as well as co-ordination of the Group's transformation and integration programmes. Ralf has joined the Group with a wealth of experience having, among other things, previously been Managing Director of both Hewlett Packard and Compaq in Switzerland. Most recently, he has worked as an independent consultant on a number of large telecoms industry projects.

Fotis Karonis: Chief Technology Officer

As Chief Technology Officer, Fotis Karonis is responsible for the Group's information technology and network development strategy and implementation. Prior to his role at the Guarantor, Fotis held the role of Chief Information Officer for Romtelecom. Prior to that, he worked at Athens International Airport, as Director of Information Technology and the Telecommunications Business Unit.

The business address of each of the members of the Senior Management of the Guarantor is Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW.

There are no existing or potential conflicts of interest between the duties of the members of the board of directors of the Guarantor or the senior management identified above to the company and their private interests or other duties. As at 9 January 2012, none of the directors of the Guarantor had any interests in the company's share capital.

Board and management of the Issuer

The members of the board of directors of the Issuer, whose biographies are set out above, and their respective responsibilities are:

- Olaf Swantee, Director.

- Neal Milsom, Director.

The business address of each of the members of the board of the Issuer is Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW, which is the Issuer's registered office.

There are no existing or potential conflicts of interest between the duties of the members of the board of directors of the Issuer to the company and their private interests or other duties. As at 9 January 2012, none of the directors of the Issuer had any interests in the company's share capital.

Financial Information

As discussed in the “Description of the Issuer and the Group”, the Group was formed as a joint venture in April 2010 when FT and DT combined their respective UK mobile and fixed line broadband telecommunications businesses, which operate under the brand names Orange and T-Mobile.

The only operating company in the Group is the Guarantor. The origins of the Guarantor’s current business lies in four other operating companies, being the Guarantor, OPCS, Orange Home UK Limited and Orange Retail Limited. The latter three companies are now dormant as, on 1 July 2010, the vast majority of the assets of OPCS, Orange Home UK Limited and Orange Retail Limited were transferred to the Guarantor, with their remaining assets being transferred to other FT group companies and their principal liabilities being repaid.

Prior to 1 April 2010, the Guarantor, OPCS, Orange Home UK Limited and Orange Retail Limited were not required to prepare financial statements which complied with International Accounting Standards, as adopted by Regulation (EC) No 1606/2002 (“**IFRS**”). As a result, each company produced financial statements in accordance with United Kingdom generally accepted accounting practice (“**UK GAAP**”). Following the completion of the joint venture and formation of the Group on 1 April 2010, the directors of the Guarantor resolved to prepare the company’s consolidated financial statements in accordance with IFRS.

The Issuer has not carried out any operations or prepared any financial statements since the date of its incorporation.

As a result, the financial statements included in this section comprise of the:

Please note that defined terms are used in the above financial statements which are not used elsewhere in the Prospectus. The relevant defined terms are set out at the beginning of each set of the financial statements.

Please note that the page references in the above financial statements are different from those used in such financial statements as originally produced.

Basis of preparation for the financial information

This section explains the key differences in the basis of preparation of the consolidated financial information for the Guarantor for the nine months ended 31 December 2010 prepared in accordance with IFRS and the single entity solus financial information for the Guarantor for the year ended 31 December 2010 prepared in accordance with UK GAAP.

The key differences in the basis of preparation are as follows:

1. consolidated financial information vs. single entity solus financial information;
2. accounting framework differences between IFRS and UK GAAP; and
3. fair value adjustments relating to the formation of the joint venture in the IFRS financial information.

Consolidated financial information vs. Single entity solus financial information

The single entity solus financial information for the Guarantor under UK GAAP was prepared as follows: from 1 January 2010 to 30 June 2010 the income statement represents the results of the Guarantor. On 1 July 2010 the vast majority of the assets of the Orange UK group were transferred to the Guarantor from the principal operations in the Orange UK group (being OPCS, Orange Home UK Limited and Orange Retail Limited) and therefore the income statement for the period from 1 July 2010 to 31 December 2010 represents the combined results of the Guarantor and Orange UK.

The consolidated financial information for the Guarantor under IFRS represents the consolidated results for the Guarantor and Orange UK from 1 April 2010 to 31 December 2010 and the consolidated financial position at those dates.

Accounting framework differences between IFRS and UK GAAP relevant to the Guarantor

The balance sheet for the Guarantor at 1 January 2010 was prepared under UK GAAP. Had the Guarantor adopted IFRS at that date, the following principal adjustments would have been made:

- adjustments in respect of IAS 39 “Financial Instruments: Recognition and measurement”. Under UK GAAP derivatives are not fair valued at the reporting date, whereas they are under IAS 39.

- adjustments in respect of IFRS 3 “Business combinations”. Under UK GAAP the Guarantor amortised goodwill on a straight line basis over 15 years whereas under IFRS it is held at cost less impairment.

- adjustments in respect of IAS 38 “Intangible Assets” as internally generated software assets were not recognised under UK GAAP, and the timing of the commencement of amortisation of the UMTS licence. Under UK GAAP the UMTS licence was amortised from the date of the acquisition (1999) whereas under IFRS the amortisation commenced when the first service was launched (2004).

Fair value adjustments relating to the formation of the joint venture in the IFRS financial information

A significant revaluation exercise in respect of the assets of the Orange UK group and the Guarantor was undertaken at the time of the preparing the opening balance sheet for the IFRS financial information as at 1 April 2010. This involved assessing the value of the Group’s assets on a fair value basis, determined based on what a market participant would pay for the Group once formed. The valuation therefore included the synergies attributable to the combined businesses which were recognisable for accounting purposes as well as the rationalisation costs associated with achieving those synergies. The new basis for accounting for the Group’s assets at fair value was applied to all of the assets and liabilities which the Group acquired at the time of the formation of the joint venture at 1 April 2010 as well as its existing assets and liabilities, to reflect the substance of the transaction and to avoid the imbalance created by identifying one party as acquirer and the other as the acquired.

The financial information presented under UK GAAP is at historical cost without revaluation.

1. CONSOLIDATED UNAUDITED IFRS INTERIM FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2011 TO 30 JUNE 2011

In this set of accounts the terms "EE" and the "company" refer to the Guarantor. The term "Group" has the same meaning as is used throughout the rest of the Prospectus.

Consolidated income statement

For the 6 month period ended 30 June 2011

	6 months ended 30 June 2011 £m	3 months ended 30 June 2010 £m
Revenue	**3,367**	**1,760**
External purchases	(2,356)	(1,251)
Other operating income	7	12
Other operating expense	(160)	(68)
Labour expenses	(250)	(138)
Amortisation and depreciation	(607)	(349)
Restructuring expenses	(26)	(6)
Operating loss	**(25)**	**(40)**
Finance income	1	10
Finance expense	(15)	(20)
Loss before taxation	**(39)**	**(50)**
Income tax	(11)	12
Loss for the period	**(50)**	**(38)**

Consolidated statement of comprehensive income

For the 6 month period ended 30 June 2011

	6 months ended 30 June 2011 £m	3 months ended 30 June 2010 £m
Loss for the period	**(50)**	**(38)**
Other comprehensive income		
Gain / (loss) on cash flow hedges	22	(20)
Pension: actuarial gain	-	25
Other comprehensive income for the period	**22**	**5**
Total comprehensive loss for the period	**(28)**	**(33)**
Attributable to:		
Equity holders	(28)	(33)

Consolidated statement of changes in equity

For the 6 month period ended 30 June 2011

	Share capital £m	Share premium account £m	Capital contribution reserve £m	New basis reserve £m	Retaining earnings £m	Total £m
At 1 April 2010	22	1,638	196	11,063	-	12,919
Net loss on cash flow hedges	-	-	-	-	(20)	(20)
Loss for the period	-	-	-	-	(38)	(38)
Pension: actuarial gain	-	-	-	-	25	25
At 30 June 2010	22	1,638	196	11,063	(33)	12,886

	Share capital £m	Share premium account £m	Capital contribution reserve £m	New basis reserve £m	Retaining earnings £m	Total £m
At 1 January 2011	22	1,638	196	11,063	(667)	12,252
Net gain on cash flow hedges	-	-	-	-	22	22
Loss for the period	-	-	-	-	(50)	(50)
Total comprehensive loss for the period	-	-	-	-	(28)	(28)
Dividend declared and paid	-	-	-	-	(466)	(466)
At 30 June 2011	22	1,638	196	11,063	(1,161)	11,758

Consolidated statement of financial position

As at 30 June 2011 & 31 December 2010

	30 June 2011 £m	31 December 2010 £m
Non current assets		
Intangible assets	11,442	11,990
Property, plant and equipment	2,156	1,999
Associates and joint ventures	12	12
Loans receivable	70	60
Deferred tax asset	75	150
Other non current assets	52	59
Total non current assets	**13,807**	**14,270**
Current assets		
Inventories	97	144
Trade receivables	878	819
Other assets and prepaid expenses	623	441
Other financial assets	31	5
Cash and cash equivalents	364	523
Total current assets	**1,993**	**1,932**
Total assets	**15,800**	**16,202**
Current liabilities		
Trade payables	(1,479)	(1,306)
Other liabilities and deferred income	(663)	(678)
Provisions	(26)	(137)
Other financial liabilities	(1,280)	(1,253)
Current tax liability	(10)	(12)
Total current liabilities	**(3,458)**	**(3,386)**
Non current liabilities		
Provisions	(514)	(483)
Pension liability	(43)	(43)
Other non current liabilities	(27)	(38)
Total non current liabilities	**(584)**	**(564)**
Total liabilities	**(4,042)**	**(3,950)**
Total net assets	**11,758**	**12,252**

Consolidated statement of financial position (continued)

As at 30 June 2011 & 31 December 2010

	30 June 2011 £m	31 December 2010 £m
Capital and reserves		
Share capital	22	22
Share premium account	1,638	1,638
Capital contribution reserve	196	196
Retained earnings	(1,161)	(667)
New basis reserve	11,063	11,063
Equity	**11,758**	**12,252**

These Interim financial statements were approved by the board of Directors on 10 November 2011 and were signed on its behalf by

Neal Milsom
Director
Date 15 November 2011

Consolidated statement of cash flows

For the 6 month period ended 30 June 2011

	6 months ended 30 June 2011 £m	3 months ended 30 June 2011 £m
Operating activities		
Loss for the period	(50)	(38)
Adjustments to reconcile loss for the period to funds generated from operations		
Depreciation and amortisation	607	349
Change in other provisions	(80)	(31)
Income tax	11	(12)
Interest income and expense	14	10
Change in inventories, trade receivables and trade payables		
Decrease in inventories	47	30
Increase in trade accounts receivable	(59)	(158)
Increase in trade accounts payable	173	226
Other changes in working capital requirements		
Increase in other receivables	(183)	(171)
Increase (decrease) in other payables	(26)	132
Interest income (paid) and received	3	(12)
Interest received and interest rates effects on derivatives	27	20
Income tax received	62	34
Net cash provided by operating activities	**546**	**379**
Investing activities		
Purchases of property, plant and equipment and intangible assets	(236)	(108)
Decrease in other long-term assets	7	3
Net cash used in investing activities	**(229)**	**(105)**

Consolidated statement of cash flows (continued)

For the 6 month period ended 30 June 2011

	6 months ended 30 June 2011 £m	3 months ended 30 June 2010 £m
Financing activities		
Decrease (increase) in non-current loan	(10)	2
Redemptions and repayments		
Dividends paid	(466)	-
Net cash used in financing activities	**(476)**	**2**
Net change in cash and cash equivalents	**(159)**	**276**
Cash and cash equivalents at the beginning of the period	523	535
Cash and cash equivalents at the end of the period	**364**	**811**

Notes to the interim condensed consolidated financial statements

1. General information

The interim condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006.

The interim condensed consolidated financial statements have been prepared for the period ended 30 June 2011 (six months). The comparative period for the previous year was from 1 April 2010, the date of formation of the joint venture company (referred to as “the Group”), to 30 June 2010 (three months).

The financial information for the year ended 31 December 2010 is based on the statutory accounts for that period. The auditor’s report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements are unaudited but have been reviewed by the auditors. A copy of their review report is included at the end of this report.

The interim condensed consolidated financial statements for the period ended 30 June 2011 were approved by the directors on 10 November 2011.

2. Background

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

With European Commission approval gained in March 2010, the joint venture company was legally formed on 1 April 2010. On 1 July 2010, T-Mobile UK was renamed Everything Everywhere Limited (“EE”).

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

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.

Within the 6 months to 30 June 2011 the Group has made net loss of £50 million, and has paid a dividend of £466 million in March 2011.

3. Accounting policies

The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and adopted by the European Union. The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2010.

The tax for the half year is based on the estimated effective tax rate for the year as a whole.

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS34 “Interim Financial Reporting” as issued by the International Accounting Standards Board and endorsed and adopted for use in the European Union.

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of Everything Everywhere Limited and its subsidiaries as at 30 June 2011.

The basis of consolidation is consistent with the basis applied in the consolidated financial statements for the year ended 31 December 2010.

Adoption of new and current standards

The following new standards, amendments to standards and interpretations are mandatory for the first time in the current period and have been adopted by the Group with no significant impact on its consolidated results or financial position.

International Accounting Standards (“IAS/IFRS”):
IAS 24 (revised) Related Party Disclosures
IAS 32 Amendment to IAS 32 – Classification of Rights Issues
IFRIC 14 Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs (May 2010)

Going concern

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

FT and DT have each provided letters of comfort, dated 15 September 2011, to the Group, for a period not less than 12 months from the date of approval of the annual statutory accounts for 2011. These letters provide financial support of up to £625 million each, being the amount of their respective holdings of the £1,250 million Eurobond loan issued to them, which is due to mature on 30 November 2011. The financial support would be in the form of a short term loan priced on arm’s length terms in accordance with the then current market conditions.

The Directors have made enquiries of the Group’s investors FT and DT regarding their intention to support the business as a going concern. As each of FT and DT confirmed that the financing undertakings made by each of them on 15 September 2011 remain unchanged, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

On the basis of the assessment of the Group’s financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the 6 months Group interim condensed consolidated financial statements.

4. Explanatory notes

Operating segments

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

Write-down of inventories to net realisable value and the reversal of such write-down

The amount of write-down of inventories recognised as an expense within the income statement is £16.4 million (30 June 2010: £11.7 million). Of this expense £6.7 million (30 June 2010: £5.7 million) relates to 14 day money back returns of handsets, many of which are recycled for use in the business through the Orange Care handset insurance scheme.

Acquisitions and disposals of items of property, plant, and equipment

Value of acquisitions of items of property, plant and equipment in the interim period totalled £217 million. The vast majority of this value relate to Network and IT.

The Group disposed of £21 million worth of property, plant and equipment with a net book value "nil" in the interim period.

Related party transactions

The Group's related parties are its joint ventures, companies within the France Telecom S.A. group and companies within the Deutsche Telekom A.G. group.

Related party transactions with joint ventures

Mobile Broadband Network Limited ("MBNL") charges the Group fees in relation to the management and use of the shared network. The Group recharged MBNL for certain costs including staff and commitment fees. Other transactions are: loan given by the Group which had outstanding balance of £68 million on 30 June 2011 (31 December 2010: £60 million).

Related party transactions with companies within the France Telecom S.A. group and the Deutsche Telekom A.G. group

FT and DT charge the Group for a series of services, including IT and network support and licences, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the Orange and T-Mobile brands. Charges from FT totalled £69 million (30 June 2010: £41 million) with £45 million outstanding at the period end (31 December 2010: £66 million). Charges from DT totalled £63 million (30 June 2010: £24 million) with £63 million outstanding (31 December 2010: £112 million).

Both shareholders provided a loan to the Group on 1 April 2010. The balance owing to each at 30 June 2011 was £625 million (31 December 2010: £625 million). Interest charged by each of FT and DT in the period was £9 million (30 June 2010: £5 million) and the amount outstanding is £9 million (31 December 2010: nil).

Working capital funds deposited with DT and FT totalled £328 million (£164 million each) at 30 June 2011 (31 December 2010: £246 million each).

Events or transactions that are material to an understanding of the current interim period

On 11 March 2011 the board approved a second interim dividend of £466 million (£21.13 per share) to be paid on 29 March 2011 to Orange Telecommunications Group Limited (“OTGL”), the UK subsidiary of France Telecom S.A. (“FT”) (£233 million) and T-Mobile Holdings Limited (“TMHL”), the UK subsidiary of Deutsche Telekom A.G. (“DT”) (£233 million).

On 18 March 2011 the Group signed a contract with T-Systems (DT Group company) for the management and design of IT data centres, desktop services and IT infrastructure. The service commencement date was 1 July 2011. The contractual period is seven years.

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the 29 March 2011, the tax rate reduction from 27% to 26%, with effect from 1 April 2011, was substantively enacted, which resulted in the Group writing down its net deferred tax asset by £4 million through the consolidated income statement. The further reductions in the corporation tax rate to 23% are expected to contribute to total future write downs of £8 million to the deferred tax asset.

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

Subsequent material events

On 5 July 2011, the corporation tax rate reduction from 26% to 25%, with effect from 1 April 2012, was substantively enacted. Had the substantive enactment occurred prior to the reporting date, the Group would have further written down its net deferred tax asset by £2 million.

On 27 September 2011 the board approved an interim dividend of £400 million to be paid on 29 September 2011.

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

Independent review report to the members of Everything Everywhere Limited

Introduction

We have been engaged by the company to review the interim condensed consolidated financial statements in the interim financial report for the six months ended 30 June 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, and the consolidated statement of cash flows. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

As disclosed in note 3, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed consolidated set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP
London
17 November 2011

2. STATUTORY AUDITED FINANCIAL STATEMENTS FOR EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010

(A) CONSOLIDATED AUDITED IFRS FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 APRIL 2010 TO 31 DECEMBER 2010

In this set of accounts the terms "EE" and "TMUK" refer to the Guarantor. In the notes to the accounts the term "Group" refers to the Guarantor. Aside from the notes to the accounts the term "Group" has the same meaning as is used throughout the rest of the Prospectus.

Business review

Introduction

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

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

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

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

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

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

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

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

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

Strategy

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

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

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

Operating review

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

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

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

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

Financial position of the Group as at 31 December 2010

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

Financial risk management objectives, policies and exposure

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

Risks and uncertainties

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

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

Level of competitive activity

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

Spectrum factors

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

Regulatory factors

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

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

Price risk

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

Credit risk

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

Liquidity risk

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

Foreign exchange risk

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

Business continuity risk

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

Directors' Report

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

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

Principal activities

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

Business review

A review of the Group's operations, key performance indicators, principal business risks and future developments are detailed in the Business Review on pages 94 to 97.

Results for the financial period, dividends and transfer to reserves

The loss after taxation for the 9 months ended 31 December 2010 was £84 million on a turnover of £5,298 million and has been transferred to reserves. Detailed results for this period are shown in the Consolidated Income Statement on page 105.

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

Directors

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

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

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

Research and development

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

Political and charitable donations

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

The Group made no political donations during the period.

Going concern

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

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

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

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

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

Supplier payments policy

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

Events since the balance sheet date

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

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

Employees

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

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

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

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

Employee involvement

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

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

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

Equal opportunities and disabled employees

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

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

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

Disclosure of information to the auditor

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

- so far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware; and

- they have taken all steps that they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Appointment of the auditor

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

By order of the board

Richard Moat
Director
29 March 2011

Statement of Directors' responsibilities

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

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

We have audited the Group financial statements of Everything Everywhere Limited for the period ended 31 December 2010, which comprise the Consolidated income statement, the Consolidated statement of financial position, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, the Consolidated statement of changes in equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 102, 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.

Opinion on financial statements

In our opinion:

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

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

Consolidated income statement

For the 9 months ended 31 December 2010

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

Consolidated Statement of Comprehensive Income

For the 9 months ended 31 December 2010

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

Consolidated statement of changes in equity

For the 9 months ended 31 December 2010

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

Consolidated statement of financial position

As at 1 April 2010 and 31 December 2010

	Notes	31 December 2010 £m	1 April 2010 £m
Non current assets			
Intangible assets	14	11,990	12,577
Property, plant and equipment	15	1,999	1,961
Associates and joint ventures	16	12	12
Loans receivable	18	60	53
Deferred tax asset	13	150	229
Other non current assets	20	59	69
Total non current assets		**14,270**	**14,901**
Current assets			
Inventories	17	144	112
Trade receivables	18	819	719
Other assets and prepaid expenses	20	441	437
Other financial assets	19	5	2
Cash and cash equivalents	21	523	535
Total current assets		**1,932**	**1,805**
Total assets		**16,202**	**16,706**
Current liabilities			
Trade payables	22	(1,306)	(1,212)
Other liabilities and deferred income	23	(678)	(535)
Provisions	25	(137)	(56)
Other financial liabilities	22	(1,253)	(8)
Current tax liability		(12)	(17)
Total current liabilities		**(3,386)**	**(1,828)**
Non current liabilities			
Provisions	25	(483)	(536)
Loan payable	22	-	(1,250)
Pension liability	26	(43)	(131)
Other non current liabilities	23	(38)	(42)
Total non current liabilities		**(564)**	**(1,959)**
Total liabilities		**(3,950)**	**(3,787)**
Total net assets		**12,252**	**12,919**
Capital and reserves			
Share capital	27	22	22
Share premium account	27	1,638	1,638
Capital contribution reserve	27	196	196
Retained earnings	27	(667)	-
New basis reserve	27	11,063	11,063
Equity		**12,252**	**12,919**

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

Richard Moat

Director

Consolidated statement of cash flows

For the 9 months ended 31 December 2010

	Notes	9 months ended 31 December 2010 £m
Operating activities		
Loss for the period		(84)
Adjustments to reconcile net income to funds generated from operations		
Depreciation and amortisation	14/15	878
Change in other provisions	25	28
Share of profits of associates	16	-
Difference between pension contributions and amounts recognised in the income statement		(4)
Income tax	13	12
Interest income and expense	11/12	36
Derivatives		(3)
Change in inventories, trade receivables and trade payables		
Increase in inventories (net)	17	(32)
Increase in trade accounts receivable	18	(100)
Increase in trade accounts payable	22	95
Other changes in working capital requirements		
Decrease in other receivables	20	5
Increase in other payables	23	139
Interest income received		3
Foreign exchange paid		(12)
Interest paid and interest rates effects on derivatives		(36)
Income tax received		39
Net cash provided by operating activities		**964**
Investing activities		
Purchases of property, plant and equipment and intangible assets		(329)
Decrease in other long-term assets	20	10
Net cash used in investing activities		**(319)**
Financing activities		
Issuances		
Non-current loan	18	(7)
Redemptions and repayments		
Decrease in bank overdrafts and short term borrowings		(4)
Dividends paid	28	(646)
Net cash used in financing activities		**(657)**
Net change in cash and cash equivalents	21	**(12)**
Cash and cash equivalents at the beginning of the period	21	535
Cash and cash equivalents at the end of the period	21	**523**

Notes to the consolidated financial statements

1. Corporate information

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

2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards. These are presented on pages 156 to 179, and the accounting policies in respect of the Company are set out in pages 160 to 165.

Going concern

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

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

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

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

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

Significant estimates and judgements

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

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

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

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

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

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

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

Provisions

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

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

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

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

Deferred tax assets

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

2.2 Basis of consolidation

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

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

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

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

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

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

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

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

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

2.3 Summary of significant accounting policies

a) Goodwill and business combinations

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

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

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

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

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

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

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

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

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

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

(iii) revenue and EBITDA for comparable transactions.

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

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

b) Interest in a Joint Venture

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

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

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

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

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

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

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

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

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

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

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

c) Interests in associates

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

d) Investments

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

e) Foreign currency translation

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

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

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

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

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

f) Revenue recognition

Revenue includes:

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

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

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

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

Separable components of packaged and bundled offers

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

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

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

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

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

Equipment sales

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

Equipment rental

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

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

Revenue share arrangements

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

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

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

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

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

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

Service revenues

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

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

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 become due based on the non-achievement of contractual terms.

Subscriber acquisition and retention costs

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

Loyalty programs

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

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

Advertising and related costs

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

Borrowing costs

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

h) Intangible assets

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

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

Customer relationships

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

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

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

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

Spectrum

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

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

Software and research and development costs

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

The Group's research and development projects mainly concern:

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

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

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

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

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

Other development costs

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

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

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

i) Property, plant and equipment

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

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

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

Cost

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

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

Network share assets

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

Finance leases

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

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

Government grants

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

Depreciation

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

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

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

j) Impairment of non-current assets other than goodwill

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

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

k) Financial assets and liabilities

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are:

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

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

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

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

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

Financial liabilities at fair value through profit or loss

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

Recognition and measurement of derivative instruments

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

Hedge accounting is applicable when:

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

Cash flow hedge accounting is performed as follows:

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

Hedge accounting can be terminated in the following circumstances:

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

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

l) Equipment inventories

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

m) Provisions

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

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

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

- probable obligations that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group’s control; or

- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Restructuring

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

Provisions for dismantling and restoring sites

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

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

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

- obligations relating to collection, treatment and recovery of waste electrical and electronic equipment related to the professional use are accrued for. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled and an average cost per ton, and discounted as it will be settled at a future date;

- obligations relating to waste of electrical and electronic equipment related to the private households have been considered as immaterial by the Group and have therefore not been accrued for.

Network share restructuring provision

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

- Leases for 90% of the sites identified for decommissioning will be terminated and remaining 10% of the sites will be sublet;

- Cost of decommissioning sites based on experience and adjusted for expected economies of scale; and

- Restructuring will be completed in 2012; however, following the finalisation of key contracts in the year the costs in relation to vacant site rentals will now continue to be incurred until 2018.

n) Employee benefits

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

Defined Contribution Scheme

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

Defined Benefit Scheme

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

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

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

o) Share capital

Ordinary shares are classified as equity.

p) Current income tax

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

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

q) Deferred taxes

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

r) Cash and cash equivalents

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

3. Standards issued but not yet effective

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

IAS 24 Related Party Disclosures (Amendment)

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

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Improvements to IFRSs (issued in May 2010)

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

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

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

4. Segment Information

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

5. External purchases

External purchases comprise:

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

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

6. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

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

The auditors did not perform any non-audit services.

7. Other operating income/expense

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

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

8. Employees

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

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

The costs incurred in respect of these employees are:

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

9. Directors emoluments

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

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

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

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

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

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

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

10. Restructuring expenses

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

11. Finance income

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

12. Finance expense

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

13. Taxation

(a) Income tax charged in the Consolidated income statement

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

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

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

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

(c) Reconciliation of the total income tax expense

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

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

(d) Change in Corporation Tax rate

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

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

(e) Deferred income tax asset / (liability)

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

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

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

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

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

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

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

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

14. Intangible assets

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

Goodwill

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

Impairment test for goodwill

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

Impairment test for goodwill

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

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

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

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

Customer Relationships

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

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

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

Spectrum

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

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

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

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

Other

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

15. Tangible assets

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

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

Network Assets

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

Network Share Arrangement

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

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

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

Sale of rights

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

16. Principal subsidiaries, associates and joint venture investments

a) Interests in subsidiaries

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

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

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

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

b) Interests in associates and joint ventures

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

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

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

Associates

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

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

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

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

Joint venture

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

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

17. Inventories

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

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

18. Loans and trade receivables

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

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

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

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

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

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

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

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

19. Financial assets at fair value through Consolidated income statement

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

All above assets are derivatives held for trading.

20. Other assets and prepaid expenses

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

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

21. Cash and cash equivalents

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

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

22. Financial liabilities and net financial debt

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

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

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

Net financial debt

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

i. derivative instruments carried in assets / liabilities held for trading, cash flow hedges, fair value hedges, and net investment hedges;

ii. cash collateral paid on derivative instruments;

iii. cash and cash equivalents and financial assets at fair value; and

iv. deposits paid on certain specific transactions (if the associated liability is included in gross financial debt).

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

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

23. Other liabilities and deferred income

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

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

24. Derivative financial instruments

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

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

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

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

25. Provisions

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

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

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

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

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

Restructuring provision

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

Onerous lease provision

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

Network share provision

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

26. Pensions

Defined contribution pension scheme

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

Defined benefit pension scheme

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

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

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

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

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

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

The mortality assumptions used were as follows:

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

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

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

Reconciliation of present value of scheme obligations:

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

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

Reconciliation of fair value of schemes assets:

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

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

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

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

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

Movement in the deficit in the year:

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

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

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

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

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

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

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

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

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

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

27. Share Capital and Reserves

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

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

Nature and purpose of reserves

Capital contribution reserve

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

New basis reserve

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

28. Dividends paid

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

29. Related party transactions

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

Related party transactions with joint ventures

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

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

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

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

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

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

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

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

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

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

There were no material transactions with any other related parties.

30. Capital and financial commitments

Finance leases

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

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

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

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

Operating leases

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

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

Capital commitments

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

Contingent liabilities

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

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

31. Financial risk management, objectives and policies

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

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

Market risk

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

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

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

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

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

- The statement of financial position sensitivity relates to derivatives;

- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risk. This is based upon the financial assets and financial liabilities held at 31 December, and 1 April 2010 including the effect of hedge accounting;

- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 31 December 2010 for the effects of the assumed changes in the underlying items.

Interest rate risk

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

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

Foreign currency risk

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

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

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

Equity price risk

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

Credit risk

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

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

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

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

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

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

Liquidity risk

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

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

At 31 December 2010

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

At 1 April 2010

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

Capital management

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

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

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

Hedges

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

32. Events after the balance sheet date

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

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

(B) AUDITED UK GAAP FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED (FORMERLY T-MOBILE (UK) LIMITED) FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010

In this set of accounts the terms the "Company", "parent Company" and "TMUK" refer to the Guarantor.

Statement of Directors' Responsibilities

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

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

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

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

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

Independent auditors' report to the members of Everything Everywhere Limited

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

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 156, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

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

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.

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

Balance sheet

As at 31 December 2010

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

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

Richard Moat

Director

Reconciliation of movements in Shareholders' funds

As at 31 December 2010

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

Notes to the financial statements

1. Accounting Policies

1.1 Basis of preparation

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

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

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

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

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

The Company's functional currency is British Pounds.

Going concern

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

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

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

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

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

Use of Estimates

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

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

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

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

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

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

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

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

1.3 Derivative instruments

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

Forward foreign currency contracts

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

1.4 Intangible fixed assets and goodwill

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

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

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

1.5 Tangible fixed assets and depreciation

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

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

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

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

The useful economic lives used for this purpose are:

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

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

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

1.6 Investments

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

1.7 Impairment of fixed assets and goodwill

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

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

1.8 Foreign currencies

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

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

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

1.9 Stocks

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

1.10 Loans

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

1.11 Provisions for liabilities

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

1.12 Pensions

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

Defined Contribution Scheme

This scheme is open to all employees.

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

Defined Benefit Scheme

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

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

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

1.13 Taxation

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

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

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

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

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

1.14 Joint arrangements not entities

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

2. Profit / (Loss) attributable to the Company

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

3. Taxation

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

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

(b) Taxation included directly in shareholders funds

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

(c) Factors affecting the current tax credit

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

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

(d) Factors that may affect future taxation charges

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

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

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

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

(e) Deferred taxation

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

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

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

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

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

4. Intangible fixed assets

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

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

5. Tangible fixed assets

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Investments

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

Subsidiary undertakings

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

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

Acquisitions

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

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

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

Disposals

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

Joint venture

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

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

7. Stocks

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

8. Debtors amounts falling due within one year

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

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

9. Debtors amounts falling due after more than one year

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

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

10. Creditors amounts falling due within one year

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

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

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

11. Creditors amounts falling due after more than one year

	31 December 2010 £m	31 December 2009 £m
Amounts owed to group undertakings	-	1,027
Other creditors	27	38
	27	1065

The maturity profile is analysed as follows:

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

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

12. Provisions for liabilities

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

Onerous lease provision

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

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

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

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

Network share provision

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

13. Called up share capital

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

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

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

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

14. Reserves

	Capital contribution £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 gain on pension schemes net of taxes	-	-	76
Policy alignment net of taxes	-	-	(377)
Dividends declared and paid	-	-	(646)
Share premium reduction	-	(5,143)	5,143
Share premium on issue of shares	-	1,638	-
At 31 December 2010	196	1,638	4,482

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

15. Reconciliation of movements in Shareholders' funds

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

16. Capital and financial commitments

The Company had capital commitments as follows:

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

Annual commitments under non cancellable operating leases are as follows:

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

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

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

17. Pension commitments

Defined contribution pension scheme

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

Defined benefit pension scheme

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

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

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

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

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

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

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

The mortality assumptions used were as follows:

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

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

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

Reconciliation of present value of scheme liabilities:

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

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

Reconciliation of fair value of scheme assets:

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

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

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

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

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

Movement in the deficit in the year:

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

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

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

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

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

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

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

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

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

History of gains and losses in the scheme

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

18. Related Party Transactions

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

Related party transactions with joint ventures

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

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

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

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

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

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

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

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

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

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

There were no material transactions with any other related parties.

19. Post Balance Sheet Events

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

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

20. Ultimate Parent Shareholders

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

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

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

3. NON-STATUTORY AUDITED UK GAAP FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED (FORMERLY T-MOBILE (UK) LIMITED) FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010, INCLUDING THE AUDITED UK GAAP PROFIT AND LOSS ACCOUNT FOR SUCH PERIOD

In this set of accounts the terms "Company" and "EE" refer to the Guarantor.

Business review

Introduction

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

With European Commission approval gained in March 2010, the joint venture company was legally formed on 1 April 2010.

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

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

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

- T-Mobile (UK) Limited ("TMUK", "the Company")
- T-Mobile (UK) Pension Trustees Limited

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

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

Strategy

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

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

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

Operating review

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

During the period, 1 January 2010 to 31 December 2010, the total mobile base increased from 10.8 million to 27.2 million customers. The key driver of this was the combination of the Orange and T-Mobile businesses.

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

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

Financial position of the company as at 31 December 2010

The net assets of the Company increased from £3,027 million at 1 January 2010 to £6,338 million at 31 December 2010. The increase in net assets during the period was significantly influenced by the hive up of assets from OUK.

Risks and uncertainties

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

Level of competitive activity

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

Spectrum factors

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

Regulatory factors

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

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

Price risk

The Company is not exposed to significant commodity price risk given the nature of its business. The Company does not hold listed or unlisted equity securities except for associates and joint ventures as disclosed in note 12 and therefore there is minimal exposure to equity price risk.

Credit risk

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

Liquidity risk

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

Foreign exchange risk

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

Business continuity risk

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

Directors' Report

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

Principal activities

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

Business review

A review of the Companies operations, key performance indicators, principal business risks and future developments are detailed in the Business Review on pages 180 to 183.

Results for the financial period, dividends and transfer to reserves

The profit after taxation for the 12 months ended 31 December 2010 was £2,609 million on a turnover of £5,518 million and has been transferred to reserves. Detailed results for this period are shown in the Profit and Loss Account on page 190.

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

Directors

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

	Appointed	Resigned
Thomas Alexander	1 April 2010	31 August 2011
Richard Moat		31 August 2011
Timotheus Höttges	1 April 2010	
Philipp Humm		1 July 2010
Guido Kerkhoff	1 July 2010	1 April 2011
Gervais Pellissier	1 April 2010	
Olaf Swantee	1 April 2010	
Srinivasan Gopalan		18 February 2010
Lars Nordmark		23 March 2010
Bernhard Michael Günther		31 March 2010
Andreas Möelich		31 March 2010
Neal Milsom	1 September 2011	
Benoit Scheen	1 September 2011	
Claudia Nemat	1 October 2011	

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

Research and development

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

Going concern

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

On 30 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 group of banks comprising The Bank of Tokyo-Mitsubishi UFJ, Barclays Capital, HSBC Bank, J.P. Morgan, Lloyds Bank Corporate Markets, Morgan Stanley and Royal Bank of Scotland. The facilities comprise a term loan and a multicurrency revolving credit facility with maturities of between 3 and 5 years. EEF then loaned these funds to the Company which 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 of £374 million remains 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.

The Directors have made enquiries of the Company's investors FT and DT regarding their intention to support the business as a going concern and have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

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

Supplier payments policy

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

Events since the balance sheet date

Events since the balance sheet date are discussed in note 25.

Employees

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

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

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

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

Employee involvement

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

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

From 1 January 2010 to 30 June 2010 FT and DT also facilitated European Works Councils in which the Company's companies participated. Elected employee representatives of OUK sat on the FT European Works Council and elected representatives of

TMUK sat on the DT European Works Council, in order to take part in consultative and information sharing activities at European level with management. From 1 July 2010 EE has not participated in a European Works Council as its non-UK based employees are not within the European Union.

Equal opportunities and disabled employees

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

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

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

Disclosure of information to the auditor

In the case of each person who was a Director at the date this report was approved, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

- they have taken all steps that they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Appointment of the auditor

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

By order of the board

Neal Milsom
Director

Date: 9 January 2012

Statement of Directors' Responsibilities

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

The Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards. The Directors are satisfied that the financial statements 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 United Kingdom 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 applicable regulations. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of Everything Everywhere Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards.

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 28 November 2011. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 188, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended; and

- have been properly prepared in accordance with United Kingdom accounting standards.

Ernst & Young LLP
London
9 January 2012

Profit and loss account

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Turnover	1	5,518	3,020
Cost of sales		(2,564)	(2,005)
Gross profit		2,954	1,015
Selling and distribution expenses		(832)	(876)
Administrative expenses		(2,574)	(192)
Impairment of assets		(56)	-
Other operating income		13	23
Operating loss	2	(495)	(30)
Dividend income	3	2,860	-
Interest receivable and similar income	6	10	4
Interest payable and similar charges	7	(254)	(77)
Other finance expenses	8	(5)	(14)
Profit / (Loss) on ordinary activities before taxation		2,116	(117)
Taxation on profit / (loss) on ordinary activities	9	493	(15)
Profit / (Loss) for the financial year		**2,609**	**(132)**

All activities relate to continuing operations.

Balance sheet

As at 31 December 2010

	Notes	31 December 2010 £m	31 December 2009 £m
Fixed assets			
Intangible assets	10	4,809	3,066
Tangible fixed assets	11	2,912	1,497
Investments	12	10	10
		7,731	4,573
Current assets			
Stock	13	144	33
Debtors amounts falling due within one year	14	1,314	487
Debtors amounts falling due after more than one year	15	615	78
Cash at bank and in hand		523	76
		2,596	674
Creditors amounts falling due within one year	16	(3,448)	(876)
Net current liabilities		(852)	(202)
Total assets less current liabilities		6,879	4,371
Creditors amounts falling due after more than one year	17	(27)	(1,065)
Provisions for liabilities	18	(483)	(149)
Net assets excluding pension deficit		6,369	3,157
Pension deficit	23	(31)	(130)
Net assets including pension deficit		**6,338**	**3,027**
Capital and reserves			
Called up share capital	19	22	11
Share premium account	20	1,638	5,143
Capital contribution	20	196	196
Profit and loss reserve	20	4,482	(2,323)
Total shareholders' funds		**6,338**	**3,027**

These financial statements were approved by the board of Directors on 9 January 2012 and were signed on its behalf by

Neal Milsom

Director

Statement of total recognised gains and losses

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Profit / (loss) for the financial year		2,609	(132)
Actuarial gains / (losses) on the Company's pension scheme during the year	23	84	(121)
Deferred taxation on actuarial gains / (losses) on the company's pension scheme		(8)	15
Policy alignment – licence policy	10	(517)	-
Deferred taxation on licence policy alignment		140	-
Total recognised gains and losses for the year		**2,308**	**(238)**

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

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

The financial statements of the Company were approved for issue on 9 January 2012, and are presented in accordance with United Kingdom Accounting Standards.

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

The Company is exempt under the terms of FRS 1 "Cash Flow Statements" from the requirement to publish its own cash flow statement, as its cash flows are included within the consolidated cash flow statement of its Group.

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

The Company’s functional currency is British Pounds.

Going concern

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

On 30 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 group of banks comprising The Bank of Tokyo-Mitsubishi UFJ, Barclays Capital, HSBC Bank, J.P. Morgan, Lloyds Bank Corporate Markets, Morgan Stanley and Royal Bank of Scotland. The facilities comprise a term loan and a multicurrency revolving credit facility with maturities of between 3 and 5 years. EEF then loaned these funds to the Company which 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 of £374 million remains 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.

The Directors have made enquiries of the Company’s investors FT and DT regarding their intention to support the business as a going concern and have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

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

Use of Estimates

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

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

- Note 1.7 - Goodwill
- Note 1.16 – Provisions
- Note 1.18 - Deferred tax

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

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

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

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

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

1.3 Turnover

Turnover comprises the value of sales (including interconnect revenue), connection fees and equipment revenues earned in the normal course of business, net of allowances for returns, trade discounts, value added tax and other sales related taxation.

Mobile service turnover is recognised in the profit and loss account based on minutes of airtime processed over the company's network. Turnover includes amounts receivable in respect of roaming revenues and inbound interconnect income in respect of calls terminating on the company's network, based upon usage. Turnover from subscription fees is recognised evenly throughout the periods to which they relate. Turnover from the sale of handsets and related accessories is recognised at the point of dispatch. Sales of prepaid minutes are deferred until the customer uses the prepaid value to pay for relevant calls.

Turnover generated through the provision of information and data services is recognised when the related service has been performed. Depending on the nature of the service, turnover is either recognised at the gross amount billed to the customer or the amount receivable as commission for facilitating the service.

1.4 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.

1.5 Advertising costs

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

1.6 Derivative instruments

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

Forward foreign currency contracts

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

1.7 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 the estimated useful economic life of the asset from the date of acquisition.

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

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

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 land: Nil
- Freehold buildings: 50 years
- Short-term leasehold improvements: shorter of 10 years or lease team
- Network: 5 to 20 years

- Fixtures, fittings and equipment: 3 to 6 years

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

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

1.9 Investments

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

1.10 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 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.

1.12 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.

1.13 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.

1.14 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.

1.15 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.

1.16 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.

1.17 Pensions

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

Defined Contribution Scheme

This scheme is open to all employees.

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

Defined Benefit Scheme

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

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

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.

1.18 Taxation

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

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

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

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

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

1.19 Joint arrangements not entities

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

1.20 Network share assets

Certain assets have been contributed to the network share arrangement by both the Company and 3, with legal title remaining with the contributor (see Note 11b). 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.

1.21 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. Profit / (Loss) attributable to the Company

The profit/(loss) is stated after charging/(crediting):

	2010 £m	2009 £m
Depreciation of owned tangible fixed assets	644	252
Amortisation of intangible fixed assets	382	291
Impairment of intangible fixed assets	45	-
Impairment of investments	11	-
Foreign exchange (profit)/loss	(20)	(19)
Hire of plant and machinery under operating leases	8	3
Other operating lease rentals	223	153
(Profit)/loss on disposal of tangible fixed assets	-	-
Auditors' remuneration		
- audit	2	1
- others	-	-

The reconciliation between operating loss and EBITDA is as follows:

	2010 £m	2009 £m
Operating loss	(495)	(30)
Add back:		
Depreciation and impairment of tangible fixed assets	655	252
Amortisation and impairment of intangible fixed assets	427	291
EBITDA	587	513

3. Dividend income

	2010 £m	2009 £m
Orange Jersey Limited	2,860	-

4. Staff costs

Staff costs, including directors' remuneration, (including amounts capitalised Note 11) were as follows:

	2010 £m	2009 £m
Wages and salaries	352	193
Social security costs	36	15
Other pension costs	25	24
	413	232

The average monthly number of employees, including directors, during the year was as follows:

	2010	2009
By function:		
- Sales and marketing	3,732	2,071
- Customer services	5,447	2,328
- Network services and information systems	1,598	888
- Finance and administration	840	508
	11,617	5,795

5. Directors' emoluments

Remuneration

The directors received the following remuneration in respect of services rendered to the company:

	2010 £m	2009 £m
Emoluments for qualifying services	2	1
Compensation for loss of office	1	1
	3	2

Pension

The number of directors who were members of the T Mobile (UK) group pension scheme, which is a defined benefit pension scheme, during the year ended 31 December 2010 was one (2009 three).

Highest paid director

The above amounts for remuneration included the following in respect of the highest paid director:

	2010 £m	2009 £m
Emoluments	1	1
Accrued pension at end of year	-	-

6. Interest receivable and similar income

	2010 £m	2009 £m
Bank interest	-	-
Interest receivable from group undertakings	9	1
Interest receivable from joint ventures	1	-
Other finance income from pension schemes (Note 23)	-	3
	10	4

7. Interest payable and similar charges

	2010 £m	2009 £m
Interest on loans from group undertakings	50	77
Penalty for early settlement	200	-
Other finance costs from pension schemes (Note 23)	4	-
Other interest payable and similar charges	-	-
	254	77

Included in interest payable on bank loans and overdrafts and loans from group undertakings is £0.0m million (2009 £0.3 million) relating to the amortisation of loan issue costs.

8. Other finance expenses

	2010 £m	2009 £m
Interest on unwinding discounts	5	14
	5	14

Interest on unwinding of discounts relates to provisions and other creditors falling due after more than one year.

9. Taxation

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

	31 December 2010 £m	31 December 2009 £m
Current taxation		
Current taxation income for the year	31	-
Current taxation expense for previous years	(1)	-
	30	-

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

(b) *Taxation included directly in shareholders funds*

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

(c) *Factors affecting the current tax credit*

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

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

(d) *Factors that may affect future taxation charges*

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

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

Announcements were made during and after the year by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Company. The corporation tax rate was reduced to 26% with effect from 1 April 2011. This reduction was introduced in stages with an initial reduction from 28% to 27% being substantively enacted on 20 July 2010, and a further reduction from 27% to 26% being substantively enacted on 29 March 2011. Furthermore, a reduction from 26% to 25%, with effect from 1 April 2012, was substantively enacted on 5 July 2011. Further reductions to 23% have been announced but not substantively enacted.

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

(e) *Deferred taxation*

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

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

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

The deferred tax in the balance sheet is as follows:

	Accelerated depreciation £m	Other timing differences £m	Taxation losses £m	Total £m
Included within debtors amounts falling due after more than one year (note 15)	(145)	87	554	496
Included within pension deficit (note 23)	-	12	-	12
At 31 December 2010 – recognised	(145)	99	554	508

Post the balance sheet date, following clarification by the Courts, the Company has withdrawn its goodwill amortisation claims dating back to 31 December 2002. As no tax benefit has been recognised for the amortisation claims, no adjustments are necessary to the reported figures as a consequence of the withdrawal.

10. Intangible fixed assets

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

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

11. Tangible fixed assets

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

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

b) As part of the network share agreement (see Note 11e), selected TMUK network assets will become jointly controlled with Hutchinson 3G UK Limited (“3”). Included within TMUK’s network assets are 3G assets with a net book amount of approximately £38 million (2009: £67 million) that will become part of the shared network. Also included within network assets are 2G and core network assets with a net book amount of approximately £125 million (2009: £146 million) that will not be shared assets. The remaining network assets relate to the network infrastructure, an element of which is attributed to the shared network. The reciprocal nature of the arrangement means that, in exchange for these assets, the Company will have access to assets held by 3. The fair value of the assets held by 3 could not be reliably determined; therefore the cost of 3’s shared assets is determined based on the fair value of the Company assets shared.

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

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

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

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

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

As a consequence of signing this contract the Company is committed to incurring 50% of costs in respect of the Shared Network. A provision of £73 million was established in the year ended 31 December 2007 in respect of restructuring costs as allowed by FRS 12 “Provisions, contingent liabilities and contingent assets”, see Note 18 for further details. The amounts provided represent management’s best estimate of the present value of the costs that the Company expects to incur, the timing and amount of the actual payments could differ from the amounts included in these estimates.

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

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

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

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

12. Investments

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

Subsidiary undertakings

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

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

Acquisitions

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

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

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

Disposals

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

Joint venture

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

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

13. Stocks

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

14. Debtors amounts falling due within one year

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

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

15. Debtors amounts falling due after more than one year

	31 December 2010	31 December 2009
	£m	£m
Trade debtors	-	4
Amounts due from joint ventures	60	25
Prepayments and accrued income	59	49
Deferred tax asset (note 9)	496	-
	615	78

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

16. Creditors amounts falling due within one year

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

On 30 December 2010, the Company amended the term of the £1,250 million loan granted as a long term Eurobond listed on the Channel Islands Stock Exchange. The Eurobond, which consists 1,250 £1 million loan notes, was originally issued to France Telecom S.A and Deutsche Telekom A.G. through a private offer. The rate of interest payable on the Eurobond is fixed Libor 11 months as at 31 December 2010 + 0. 6%. The Eurobond is unsecured (see Note 25).

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

17. Creditors amounts falling due after more than one year

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

The maturity profile is analysed as follows:

	31 December 2010	31 December 2009
	£m	£m
In one year or less or on demand (Note 16)	-	260
In more than one year but not more than two years	27	367
In more than two years but not more than five years	-	-
In more than five years	-	660
	27	1,287

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

18. Provisions for liabilities

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

Onerous lease provision

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

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

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

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

Network share provision

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

19. Called up share capital

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

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

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

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

20. Reserves

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

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

21. Reconciliation of movement in shareholders' funds

	Notes	2010 £m	2009 £m
Total recognised gains and losses for the year		2,308	(238)
Capital increase	19	11	-
Share premium increase	20	1,638	-
Dividend payment	20	(646)	-
Net change in shareholders' funds		3,311	(238)
Opening shareholders' funds		3,027	3,265
Closing shareholders' funds		6,338	3,027

22. Capital and financial commitments

The Company had capital commitments as follows:

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

Annual commitments under non cancellable operating leases are as follows:

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

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

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

23. Pension commitments

Defined contribution pension scheme

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

Defined benefit pension scheme

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

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

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

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

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

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

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

The mortality assumptions used were as follows:

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

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

	Long-term rate of return expected at 31 December 2010	Value at 31 December 2010	Long-term rate of return expected at 31 December 2009	Value at 31 December 2009
	%	£m	%	£m
UK equities and unit trusts	8.1	103	8.5	107
Property	8.1	47	8.5	37
Hedge funds	8.0	21	6.2	19
Gilts	4.1	34	4.5	10
Corporate bonds	5.2	83	5.5	68
Other	n/a	34	1.2	33
Total market value of assets	6.6	322	7.0	274
Present value of scheme liabilities		(365)		(404)
Deficit in the scheme		(43)		(130)
Related deferred taxation asset (see Note 9)		12		-
		(31)		(130)

Reconciliation of present value of scheme liabilities:

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

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

Reconciliation of fair value of scheme assets:

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

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

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

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

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

Movement in the deficit in the year:

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

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

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

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

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

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

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

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

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

History of gains and losses in the scheme

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

Total amount recognised in shareholders funds:					
Amount (£m)	84	(121)	84	34	(16)
Percentage of the present value of the scheme liabilities	23.0%	(30.0)%	25.8%	10.6%	(5.0)%

24. Related Party Transactions

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

Related party transactions with joint ventures

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

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

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

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

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

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

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

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

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

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

There were no material transactions with any other related parties.

25. Post Balance Sheet Events

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

On 18 March 2011 the Group signed a contract with T-Systems (DT Group company) for the management and design of IT data centres, desktop services and IT infrastructure. The service commencement date was 1 July 2011. The contractual period is seven years.

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. The announcement is expected to contribute to total future reductions of £47 million to the deferred tax asset as disclosed in Note 9.

In the period to 30 June 2011, a non-recurring operating gain of £35 million arose from the settlement of certain historical operational accruals.

On 27 September 2011 the board approved an interim dividend of £400 million to be paid on 29 September 2011.

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

On 30 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 group of banks comprising The Bank of Tokyo-Mitsubishi UFJ, Barclays Capital, HSBC Bank, J.P. Morgan, Lloyds Bank Corporate Markets, Morgan Stanley and Royal Bank of Scotland. The facilities comprise a term loan and a multicurrency revolving credit facility with maturities of between 3 and 5 years. EEF then loaned these funds to the Company which 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 of £374 million remains 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.

26. Ultimate Parent Shareholders

At 31 December 2010 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.

4. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF T-MOBILE (UK) LIMITED FOR THE PERIOD 1 JANUARY 2009 TO 31 DECEMBER 2009

In this set of accounts the terms the "company" and "TMUK" refer to the Guarantor. The term "JV Group" refers to the Group.

Directors' report for the year ended 31 December 2009

The directors present their report and the audited financial statements of the company for the year ended 31 December 2009 for T Mobile (UK) Limited ('TMUK' or 'the company').

Principal activities and review of business

The principal activities of the company are the design, development, construction, installation, ownership, operation, maintenance and marketing of a mobile telecommunications network, the provision of services by means of the network, and the marketing of such services throughout the UK. There have been no significant changes in the nature of the principal activities of the company during the financial year.

The principal legislation governing mobile telecommunications networks and services in the United Kingdom ('UK') is the Communications Act 2003 and the Wireless Telegraphy Acts 1949 1998 (as amended) ('WTA'). The company has been granted licences under the WTA to utilise the specified radio spectrum.

The company's key financial and other performance indicators during the year were as follows:

	2009	2008	Change
Subscribers excluding Virgin (millions)	12.9	12.1	7%
-contract (millions)	4.1	4.1	-
-prepay (millions)	8.8	8.0	10%
Turnover (£' millions)	3,020	3,221	-6%
Earning before interest, taxation, depreciation and amortisation ('EBITDA') (£' millions)	514	649	-21%
Loss on ordinary activities after taxation (£' millions)	(132)	(685)	81%
Average revenue per user ('ARPU')	£19	£20	-5%
Churn (monthly)	2%	2%	-

The company ended the year with strong customer growth and a notable improvement in performance in the second half of the year against the background of significant economic slowdown in the UK. Turnover for the year ending 31 December 2009 was down 6% year-on-year to £3,020million, a significant proportion of which was due to the effects of lower termination rates, with EBITDA for the year decreasing by 21% to £514 million, reflecting the weakness of the pound sterling during the year and increased interconnect costs.

The total contract customer base remained relatively static with only a slight increase predominantly coming through the direct channels.

The prepay customer base has increased by 10% to 8.8 million reflecting the refresh of the prepay offers, in particular the market leading unlimited free texts for life £10 monthly top-ups. Again, sales through the direct channels delivered the majority of this growth.

Data revenues grew strongly as TMUK continued to develop non-voice services including mobile broadband and data services. Non-Voice revenue accounted for 25% of ARPU in 2009, an increase of 3% compared to last year.

In the wholesale market, TMUK continued to consolidate its market leadership position, confirming that Virgin Mobile will remain a partner with the joint venture with Orange. In October 2009, the company signed an agreement with Vectone, an MVNO that predominantly targets the ethnic market. A deal with another MVNO, Viacloud, was also signed shortly after the year end.

The company measures its financial performance by reference to turnover and profit. To supplement these UK GAAP measures, the Company measures its performance by EBITDA, which is not a UK GAAP headline indicator ('non-GAAP measure'). The rationale for this analysis is that EBITDA is a performance measure widely used in the telecommunications industry and reconciliation of the non-GAAP measure (EBITDA) to UK GAAP measure (loss) is included in Note 5 of the financial statements. This measure is used by management to assess the performance of the business and should be seen as complementary to, rather than a replacement for, reported statutory results.

Future developments

On 8 September 2009, an announcement was made and an Exclusivity Agreement was signed between TMUK's ultimate parent company, Deutsche Telekom AG ('DT') and France Télécom SA ('FT') to enter into a Joint Venture Agreement ('JVA'). The JVA was signed on 5 November 2009 and was given regulatory approval on the 1st March 2010.

The decision made by the European Commission is conditional upon:

- the amendment of the existing network sharing agreement with Hutchison 3G UK ('3UK'), to ensure that there are sufficient competitors in the market; and

- the surrender of a quarter of the combined spectrum of the merging parties in the 1800 Mhz band, which is one of the three frequency bands currently used for mobile communications in the UK.

The company will continue to support its network share arrangement with H3G to build the country's largest 3G network. The carrying value of the company's network assets is not deemed impaired as a result of any amendment to the H3G agreement.

TMUK uses the 1800 MHz frequency band exclusively for the operation of the 2G GSM network and pays for the right to use the 1800 MHz frequency on an annual basis recorded as an expense during the year. As no intangible asset has been recorded there will be no impact on the assets of the company as a result of surrendering 1800 MHz spectrum.

Under the JVA, DT will contribute its TMUK mobile telephony business and FT will contribute its Orange UK telephony and broadband businesses ('OUK') to a UK joint venture ('JV Group' or 'JV') to be 50% owned by each of DT and FT. TMUK will be the UK joint venture vehicle; prior to completion TMUK will also undertake a pre-sale re-organisation where it will:

- transfer shares in wholly-owned subsidiary undertakings to T-Mobile Holdings Limited;

- re-structure its share capital so it has only ordinary shares;

- increase its capitalisation; and

- re-structure indebtedness.

To create the JV Group, DT will contribute TMUK on a cash free, debt free basis, including TMUK's 50% holding in its 3G network venture with 3 and gross unrecognised tax losses carried forward. FT will contribute the whole of OUK including £1.25 billion of intra-group net debt in order to equalise the value of the contributions to the JV Group. Immediately after closing DT will grant a £625 million shareholder loan to the JV Group, which will be used to simultaneously reimburse £625 million to FT. As a result, the JV Group will have indebtedness of £1.25 billion, represented by two shareholder loans of £625 million held by each of DT and FT.

On completion of the transaction it is the intention of TMUK and OUK to:

- continue to trade using existing brands for a minimum period of 18 months;
- deliver significant reductions in operating expenses and capital expenditure through integrating the activities of TMUK and OUK and rationalising the enlarged network to deliver synergy benefits; and
- finance the JV independently of and without further support from or resource to, the parent companies.

As part of the transaction with OUK, management updated its cash flow forecasts from those used in the impairment booked in fiscal year 2008. Based on this exercise and on the expected cash flows of the combined business, the directors remain confident that the recoverable amount of the business exceeds the carrying value as at 31 December 2009.

In accordance with FRS 11, the company will continue to perform impairment reviews in future periods, as appropriate.

Principal risks and uncertainties

The mobile telecommunications market continues to evolve rapidly and there are a number of inherent features in this market which create a substantial level of risk and uncertainty. The principal risks and uncertainties facing the company are:

- the ultimate size of the market
- the nature and extent of competition and/or regulation of the market
- the availability of sites and network infrastructure
- the cost of rolling out the services and the amounts which customers are prepared to pay for such services
- the timing of availability of service
- the impact of new technologies
- the impact of perceived health risks

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The company follows the risk management programme established by DT, which is designed to limit the adverse effect of these risks on the financial performance of the company.

In applying the risk management programme the company uses derivative financial instruments from time to time to manage its interest rate costs and its foreign currency exposures.

Price risk

The company is not exposed to significant commodity price risk given the nature of its business and has no exposure to equity securities price risk as it holds no listed or other equity investments.

The pension fund assets are susceptible to movements in the underlying prices of equities, property and bonds. This is reviewed on an annual basis by the company and their actuaries.

Credit risk

The company is exposed to credit risk related losses in the event of non conformance by third parties but it does not expect such risks to be material. The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually.

Liquidity risk

The company actively maintains a mixture of long term and short term debt financing that is designed to ensure the company has sufficient available funds for operations and planned growth.

Interest rate risk

The company has both interest bearing assets and interest bearing liabilities consisting of cash balances and cash pooling arrangements which earn interest at a floating rate and liabilities which bear interest at both fixed and floating rates.

At any given time, the company has a blend of fixed and floating rate intercompany debt. The floating rate debt is managed according to the group hedging policy to minimise interest rate risk and the fixed rate debt provides certainty of future cash flows. In order to ensure an element of stability in cash out flows and hence manage interest rate risk, the company aims to hold between 50% and 90% fixed rate debt. In addition, the company seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods.

Foreign exchange rate risk

The company is exposed to foreign exchange rate movements in respect of outsourced services, handsets and network equipment purchases in foreign currencies. The company uses currency derivative instruments, such as forward exchange contracts, to reduce exposure to this risk.

Results and dividends

The loss for the year, after taxation, amounted to £132.2 million (2008 – £685.0 million). The directors do not recommend the payment of a dividend (2008: £nil).

Charitable and political contributions

During the financial year ended 31 December 2009, the company made contributions exceeding £200 to the following organisations; The Trust Partnership (£35,000), the British Heart Foundation (£20,541), Macmillan Cancer Support (£20,541), Cancer Research UK (£20,541), RED (£19,212), Disaster Emergency Committee (£45,000) and the Red Cross (£28,440.26). Cumulative contributions of £nil (2008 £2,000) were made to charitable projects at individual contribution levels of less than £200. No political donations were made during the year.

Employees

The company is an equal opportunity employer and recruits disabled workers where there are vacancies that they are able to fill. All necessary assistance with initial training is given and a career plan is developed so as to ensure suitable opportunities for each disabled employee. Arrangements are made, wherever possible, for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interest and, that all employees are aware of the financial and economic performance of the business units and the company as a whole. Communication with all employees continues through regular meetings and information bulletins. The company has nine local employee councils and one national employee council covering issues of national nature.

Directors

The directors who served during the year and up to the date of signing of the financial statements were as follows:

R. Moat - Managing Director (appointed 1 July 2009)
M. Martin (resigned 31 December 2009)
L. Nordmark (resigned 23 March 2010)
S. Gopalan (appointed 1 July 2009, resigned 18 February 2010)
A. Schiffer (appointed 1 April 2009, resigned 15 October 2009)
P. Humm (appointed 1 June 2009)
M. Günther (appointed 1 June 2009)
J. Dvorjancansky (appointed 1 June 2009, resigned 31 October 2009)
A. Moelich (appointed 15 October 2009)
J. Hyde - Managing Director (resigned 31 March 2009)
K. Hollender (resigned 14 April 2009)
L. Harings (resigned 31 March 2009)
H. Akhavan (resigned 31 May 2009)
R. Hauber (appointed 15 April 2009, resigned 31 May 2009)

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements 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;

- 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.

Disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The ultimate parent company has changed the roles of its group auditors. In accordance with these changes, the directors propose Ernst & Young be appointed auditors in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on the 26 March 2010 and signed on its behalf.

R. Moat
Director
Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

Independent auditors' report to the members of T-Mobile (UK) Limited

We have audited the financial statements of T-Mobile (UK) Limited for the year ended 31 December 2009 which comprise the Profit and loss account, the Balance sheet, the Statement of total recognised gains and losses and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 221, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended;
- 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 financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stephen Mount (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 March 2010

Profit and loss account for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Turnover	1, 4	3,020,381	3,221,052
Cost of sales		(2,005,382)	(2,075,448)
Gross profit		1,014,999	1,145,604
Selling and distribution expenses		(876,002)	(906,621)
Administrative expenses		(191,823)	(846,350)
Other operating income		23,387	23,799
Operating loss	5	(29,439)	(583,568)
Interest receivable and similar income	8	4,087	5,357
Interest payable and similar changes	9	(77,010)	(115,780)
Other finance expenses	10	(14,403)	(6,476)
Loss on ordinary activities before taxation		(116,765)	(700,467)
Taxation on loss on ordinary activities	11	(15,429)	15,429
Loss for the financial year		(132,194)	(685,038)

All amounts relate to continuing activities.

There are no material differences between the loss on ordinary activities before taxation and loss for the financial years stated above and their historical cost equivalents for the years stated above.

The notes on pages 227 to 248 form part of these financial statements.

Statement of total recognised gains and losses for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Loss for the financial year		(132,194)	(685,038)
Actuarial (losses)/gains on the company's pension schemes during the year	25	(121,058)	84,363
Deferred taxation on cumulative actuarial gains on the company's pension schemes	11, 25	15,429	(15,429)
Total recognised gains and losses for the year		(237,823)	(616,104)

The notes on pages 227 to 248 form part of these financial statements.

Balance sheet as at 31 December 2009

	Note	2009 £000	2008 £000
Fixed assets			
Intangible fixed assets	12	3,065,735	3,356,551
Tangible fixed assets	13	1,497,340	1,566,782
Investments	14	10,000	1,724
		4,573,075	4,925,057
Current assets			
Stocks	15	32,748	47,356
Debtors: amounts falling due within one year	16	487,520	539,968
Debtors: amounts falling due after more than one year	17	78,158	38,805
Cash at bank and in hand		75,607	75,072
		674,033	701,201
Creditors: amounts falling due within one year	18	(876,343)	(1,099,713)
Net current liabilities		(202,310)	(398,512)
Total assets less current liabilities		4,370,765	4,526,545
Creditors: amounts falling due after more than one year	19	(1,065,359)	(1,110,581)
Provisions for liabilities	20	(148,046)	(136,417)
Net assets excluding pension deficit		3,157,360	3,279,547
Pension deficit	25	(130,317)	(14,681)
Net assets including pension deficit		3,027,043	3,264,866
Capital and reserves			
Called up share capital	21	11,025	11,025
Share premium account	22	5,143,487	5,143,487
Capital contribution	22	196,260	196,260
Profit and loss account	22	(2,323,729)	(2,085,906)
Total shareholders' funds	23	3,027,043	3,264,866

The financial statements were approved by the board on the 26 March 2010 and signed on its behalf.

R. Moat

Director

The notes on pages 227 to 248 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2009

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. A summary of the more important accounting policies is set out below.

In preparing these financial statements the directors have taken into consideration the Joint Venture Agreement ('the Agreement') dated 5 November 2009 between Deutsche Telecom AG ('DT') and France Télécom SA ('FT'). Under the agreement DT will contribute its TMUK mobile telephony business and FT will contribute its Orange UK telephony and broadband businesses ('OUK') to a UK joint venture ('JV Group') to be 50% owned by each of DT and FT. TMUK itself will be the UK joint venture vehicle; prior to completion TMUK will also undertake a pre-sale re-organisation which will, in summary:

- transfer shares in wholly-owned subsidiary undertakings to T-Mobile Holdings Limited;

- re-structure its share capital so it has only ordinary shares;

- increase its capitalisation; and

- re-structure indebtedness.

To create the JV Group, DT will contribute TMUK on a cash free, debt free basis, including TMUK's 50% holding in its 3G network venture with 3 and gross unrecognised tax losses carried forward. FT will contribute the whole of OUK including £1.25 billion of intra-group net debt in order to equalise the value of the contributions to the JV Group. Immediately after closing DT will grant a £625 million shareholder loan to the JV Group, which will be used to simultaneously reimburse £625 million to FT. As a result, the JV Group will have indebtedness of £1.25 billion, represented by two shareholder loans of £625 million held by each of DT and FT.

On 1 March 2010, the agreement was given regulatory approval by the European Commission. The decision made is conditional upon:

- the amendment of the existing network sharing agreement with Hutchison 3G UK ('3UK'), to ensure that there are sufficient competitors in the market; and

- the surrender of a quarter of the combined spectrum of the merging parties in the 1800 Mhz band, which is one of the three frequency bands currently used for mobile communications in the UK.

The company will continue to support its network share arrangement with H3G to build the country's largest 3G network. The carrying value of the company's network assets is not deemed impaired as a result of any amendment to the H3G agreement.

TMUK uses the 1800 MHz frequency band exclusively for the operation of the 2G GSM network and pays for the right to use the 1800 MHz frequency on an annual basis recorded as an expense during the year. As no intangible asset has been recorded there will be no impact on the assets of the company as a result of surrendering 1800 MHz spectrum.

On completion of the transaction it is the intention of TMUK and OUK to:

- continue to trade using existing brands for a minimum period of 18 months

- deliver significant reductions in operating expenses and capital expenditure through integrating the activities of TMUK and OUK and rationalising the enlarged network to deliver synergy benefits; and

- finance the JV independently of and without further support from or resource to, the parent companies.

1.2 Going concern

At 31 December 2009 the company was financed by £1,169 million (2008 £1,440 million) of loans from Deutsche Telekom International Finance B.V. and £60 million (2008 - £nil) of loans from Deutsche Telekom AG. The current liabilities of the company exceeded current assets by £202 million and the company made a loss for the financial year of £132 million. Consequently, at 31 December 2009, up until the completion of the transaction, the company's ability to continue as a going concern remains dependent on the provision of loans by and continuing financial support from the company's parent company.

However, the JVA anticipates that:

- so far as practicable the activities of the JV Group are financed from its own resources with no recourse to the Parents or any of their associated companies;

- no Parent shall be obliged to provide any guarantee or security for any indebtedness of the JV Group or to provide any further capital to it;

- the JV Group may require further finance to fund its projected cash requirements;

- the JV Group may borrow additional sums from third parties on the most favourable terms compatible with its needs but without guarantee or recourse from the Parents;

- the JV Group will repay all loan amounts due to the Parents under the initial Rebalancing/Shareholder Loan Agreements in accordance with the agreed terms; and

- 90% of the JV Group's prospective annual free cash flow will be distributed to the Parents by way of dividend.

Therefore, upon completion of the transaction described above, the company will commence operations as the JV Group with indebtedness of £1.25 billion but will cease to be able to rely on the further provision of loans by, and continuing financial support from, the company's parent company and will need to finance itself through positive cash flow and/or securing sufficient and appropriate funding to meet the prospective needs of the combined businesses. Repayment of the JV's initial loans of £1.25 billion will begin in 2014.

Management has completed an exercise to forecast the cash flows of the combined business from the expected date of completion for the next 18 months. With input from DTAG, FT and its advisors, the cash flows were prepared by combining the OUK and TMUK cash flow forecasts and then overlaying forecasted integration costs and synergies. In forecasting these cash flows, management has made a number of assumptions and judgements, including:

- the company will successfully roll out the network in accordance with the MBNL agreement,

- the company will improve the mix of the customer base,

- the company will achieve operating and capex synergies related to the combination of its operations with OUK, and

- generate income and cash flows necessary to realise the carrying value of its assets and fund the repayment of the interest on the company's indebtedness.

On that basis, and with the current benefit of continuing loans and financial support from the company's parent until completion, the board of directors consider that it remains appropriate for the company's financial statements to be prepared on a going concern basis.

1.3 Turnover

Turnover comprises the value of sales (including interconnect revenue), connection fees and equipment revenues earned in the normal course of business, net of allowances for returns, trade discounts, value added tax and other sales related taxation.

Mobile service turnover is recognised in the profit and loss account based on minutes of airtime processed over the company's network. Turnover includes amounts receivable in respect of roaming revenues and inbound interconnect income in respect of calls terminating on the company's network, based upon usage. Turnover from subscription fees is recognised evenly throughout the periods to which they relate. Turnover from the sale of handsets and related accessories is recognised at the point of dispatch. Sales of prepaid minutes are deferred until the customer uses the prepaid value to pay for relevant calls.

Turnover generated through the provision of information and data services is recognised when the related service has been performed. Depending on the nature of the service, turnover is either recognised at the gross amount billed to the customer or the amount receivable as commission for facilitating the service.

1.4 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.

1.5 Advertising costs

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

1.6 Financial instruments

Interest rate swaps
In order to manage its interest rate exposure, the company enters into interest rate swap agreements. The interest differentials under such agreements are recognised by adjustment to interest expense.

Forward foreign currency contracts
In order to manage its foreign currency exposure, the company enters into forward foreign currency contracts. The exchange rate differentials under such agreements are recognised in arriving at operating loss.

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 auction process, less interest received on that deposit as a result of the successful bid in the auction. Amortisation is charged on a straight line basis over the estimated useful economic life of the asset from the date of acquisition. The UMTS licence acquired on 9 May 2000 is valid until 31 December 2021.

Goodwill represents the difference between the cost of 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 an 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.

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:

Network assets	-	5 -15 years
Land & buildings		
- short leasehold property	-	term of lease
- freehold buildings	-	50 years
Business assets		
- plant and equipment	-	3 - 5 years
- computer systems	-	3 - 5 years
- furniture, fixtures and fittings	-	3 - 10 years

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

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

1.9 Investments

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

1.10 Impairment of fixed assets and goodwill

In accordance with FRS 11 ‘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. Also, in accordance with FRS 11, annual 'look back' tests are performed on each impairment review that has been conducted in the five years preceding the balance sheet date. Any impairment identified is recognised in the current period unless the impairment has reversed and the reversal of the loss is permitted in accordance with FRS 11.

1.11 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.

1.12 Operating 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.

1.13 Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate ruling at the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). 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. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at the balance sheet date (or, where appropriate, at the rate of exchange in a related forward exchange contract).

1.14 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.

1.15 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.

1.16 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.

1.17 Pensions

The company operates a defined benefit scheme which is accounted for in accordance with FRS 17 'Retirement benefits'. Employees of one other subsidiary of Deutsche Telekom AG also participate in this scheme.

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.

1.18 Consolidation

Under Section 400 of the Companies Act 2006, the company is exempt from preparing consolidated financial statements, as the company is included in the consolidated financial statements of its ultimate parent company, Deutsche Telekom AG. Deutsche Telekom AG is incorporated in Germany, a member state of the European Union, and its audited financial statements are drawn up to 31 December 2009.

1.19 Taxation

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

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

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

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

2. Impairment of intangible fixed assets

In prior years, the company has invested in the wireless market by funding the acquisition of a 3G licence. This market continues to evolve rapidly and there are a number of inherent features in this market which create a substantial level of uncertainty in relation to the recoverability of the amounts invested. These include:

- the ultimate size of the market
- the nature and extent of competition and/or regulation of the market
- the availability of sites and network infrastructure
- the cost of rolling out the services that customers demand

- the nature of services and the amounts which customers are prepared to pay for such services
- the timing of availability of service
- the impact of new technologies
- the impact of perceived health risks

2009 Impairment review:

As part of the transaction with OUK, management updated its cash flow forecasts from those used in the impairment recorded in fiscal year ended 2008. Based on this exercise and on the expected cash flows of the combined business, the directors remain confident that the recoverable amount of the business exceeds the carrying value as at 31 December 2009.

2008 Impairment review:

The impairment reviews were performed in Quarter 3 2008 and again at the end of the year against the background of issues that emerged in Quarter 4 2008. Based on conventional discounted cash flow projections, prepared in conjunction with the company's annual impairment test required in support of the preparation of DTAG's consolidated financial statements, the reviews did not result in an impairment.

As a consequence of the significant economic slowdown in the UK, in Quarter 1 2009 DTAG performed an additional impairment test that resulted in an impairment loss in DTAG's consolidated financial statements on the goodwill of the cash generating unit TMUK. Due to the fact that at this point in time the statutory financial statements of the company had not been finalised, management considered the result of the impairment test performed in Quarter 1 as an adjusting event for 31 December 2008 and concluded that a write down of £578million was required against goodwill.

In both years, the method used for establishing the recoverable amount was a value in use calculation derived from conventional discounted cash flow projections. The valuation comprised the discounted cash flows of the business for an initial 10-year period and a terminal value in perpetuity. An initial 10 year forecast period was used because management considered that there would be significant volatility in the business and that at 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 2% (2008 - 2%) and a discount rate of 6.91% (2008 – 6.99%) was used within a capital asset pricing model, using a risk free rate of 4.32% (2008 - 4.45%) calculated from long-dated government bonds and an equity risk premium taking into account long term trend of 4.20% (2008 - 5%) as an appropriate measure of risk. There were a number of key assumptions which affected the cash flows of the business. These included assumptions about the development of the UK market and the market size, TMUK's share of the market, customer revenues, operating margins and capital expenditure.

In accordance with FRS 11, the company will continue to perform impairment reviews in future periods, as appropriate.

3. Network share arrangement

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

The company currently has approximately 11,000 sites which support the 2G and 3G network and 3 has approximately 7,800 3G sites. Upon completion of the shared network approximately 13,000 sites will be jointly operated. As at 31 December 2009, 3,775 (2008 – 520) TMUK sites have been consolidated into the shared network.

The Companies have jointly established a joint venture company, Mobile Broadband Network Limited ("MBNL"), for the ongoing purpose of acquiring assets relevant to the Shared Network and managing network and operational services as agent for the Companies in respect of the Shared Network, unilateral deployments, being network assets or services specific to one company only and the T-Mobile 2G Network in accordance with the terms set out in the contract. MBNL commenced trading in 2008, see Note 14.

As a consequence of signing this contract TMUK is committed to incurring 50% of costs in respect of restructuring and consolidating the combined network. A provision of £72.9 million was established in the year end 31 December 2007 in respect of restructuring costs as allowed by FRS 12 "Provisions, contingent liabilities and contingent assets", see Note 20 for further details. The amounts provided represent management's best estimate of the present value of the costs that the company expects to incur, the timing and amount of the actual payments could differ from the amounts included in these estimates.

Concessions have been agreed with H3G as part of the European Commission's approval of the Joint Venture between TMUK and OUK. The company will continue to support its network share arrangement with H3G and has concluded the agreed concessions have not impacted the carrying value of the company's network assets.

On dissolution of the joint venture arrangement with H3G certain payments and sharing of assets may become liable depending on the specific nature of any termination.

4. Turnover

The company operated substantially one business activity and its turnover was generated in one geographic market which was the United Kingdom.

5. Operating loss

The operating loss is stated after charging/(crediting):

	2009 £000	2008 £000
Depreciation of owned tangible fixed assets	252,448	299,904
Amortisation of intangible fixed assets	290,816	355,004
Impairment of intangible fixed assets	-	577,700
Foreign exchange (profit)/loss	(18,897)	4,418
Hire of plant and machinery under operating leases	2,771	2,900
Other operating lease rentals	153,274	159,965
(Profit)/loss on disposal of tangible fixed assets	(69)	61
Auditors' remuneration		
- audit	1,238	875
- others	87	282

The reconciliation between operating loss and EBITDA is as follows:

	2009 £000	2008 £000
Operating loss	(29,439)	(583,568)
Add back:		
Depreciation of owned tangible fixed assets	252,448	299,904
Amortisation of intangible fixed assets	290,816	355,004
Impairment of intangible fixed assets	-	577,700
EBITDA	513,825	649,040

6. Staff costs

Staff costs, including directors' remuneration, (including amounts capitalised Note 13) were as follows:

	2009 £000	2008 £000
Wages and salaries	192,439	208,151
Social security costs	15,465	16,041
Other pension costs	24,243	34,292
	232,147	258,484

The average monthly number of employees, including directors, during the year was as follows:

	2009 £000	2008 £000
By function:		
- Sales and marketing	2,071	1,998
- Customer services	2,328	2,413
- Network services and information systems	888	1,193
- Finance and administration	508	524
	5,795	6,128

7. Directors' emoluments

Remuneration

The directors received the following remuneration in respect of services rendered to the company:

	2009 £000	2008 £000
Emoluments for qualifying services	1,433	2,204
Compensation for loss of office	719	240
	2,152	2,444

Pension

The number of directors who were members of the T Mobile (UK) group pension scheme, which is a defined benefit pension scheme, during the year ended 31 December 2009 was three (2008 two).

Highest paid director

The above amounts for remuneration included the following in respect of the highest paid director:

	2009 £000	2008 £000
Emoluments	804	1,202
Accrued pension at end of year	23	-

8. Interest receivable and similar income

	2009 £000	2008 £000
Bank interest	53	236
Interest receivable from group undertakings	733	5,121
Interest receivable from joint ventures	381	-
Other interest receivable	17	-
Other finance income from pension schemes (Note 25)	2,903	-
	4,087	5,357

9. Interest payable and similar charges

	2009 £000	2008 £000
Bank loans and overdrafts	-	54
Loans from group undertakings	76,968	115,690
Other interest payable and similar charges	42	36
	77,010	115,780

Included in interest payable on bank loans and overdrafts and loans from group undertakings is £0.3 million (2008 £1.1 million) relating to the amortisation of loan issue costs.

10. Other finance expenses

	2009 £000	2008 £000
Interest on unwinding of discounts	14,403	5,916
Other finance costs from pension schemes (Note 25)	-	560
	14,403	6,476

Interest on unwinding of discounts relates to provisions and other creditors falling due after more than one year.

11. Taxation on loss on ordinary activities

	2009 £000	2008 £000
Current taxation		
Current taxation charge for year	-	-
Deferred taxation		
Origination and reversal of timing differences	(15,429)	15,429
Taxation on loss on ordinary activities	(15,429)	15,429

The standard rate of corporation taxation in the UK changed form 30% to 28% with effect from 1 April 2008. Accordingly, for this financial year the effective rate of tax is 28% (2008 - 28.5%) and will be 28% in the future.

The taxation assessed for the year was lower (2008 lower) than the standard rate of corporation taxation in the UK applicable to the company. The differences are explained below:

	2009 £000	2008 £000
Loss on ordinary activities before taxation	(116,765)	(700,467)
Loss on ordinary activities multiplied by the standard rate of corporation taxation in the UK of 28% (2008 – 28.5%)	(32,694)	(199,633)
Effects of:		
Expenses not deductible for taxation purposes	40,585	221,870
Capital allowances in excess of depreciation	(21,280)	(11,732)
Other timing differences	5,000	5,247
Losses not recognised	8,389	(15,752)
Current taxation charge for year	-	-

Factors that may affect future taxation charges

Both the current and the total taxation charge on the profit or loss before taxation will continue to be affected by the generation and utilisation of taxation losses and by the impact of depreciation in excess of capital allowances and other timing differences. As at 31 December 2008 a deferred taxation liability of £15.4 million was recognised in respect of cumulative actuarial gains on the company's pension schemes in the statement of total recognised gains and losses. In addition, a deferred taxation asset of £15.4 million was recognised in respect of other pension timing differences in the profit and loss account, see Note 25. As at 31 December 2009 the deferred tax liability and asset above were de-recognised as there were no longer cumulative actuarial gains on the company's pension scheme. No further provision for deferred taxation has been recognised at 31 December 2009 (2008 £nil) on the basis that the benefits associated with the taxation losses are not expected to be utilised in the foreseeable future, and the reversal of accelerated depreciation and other timing differences are not expected to result in taxation payments in the foreseeable future.

The company's gross potential deferred taxation assets, measured on a non discounted basis at the current rate of corporation taxation in the UK of 28% (2008   28%), are analysed as follows:

	Accelerated depreciation £000	Other timing differences £000	Taxation losses	Total
At 1 January 2009	(74,243)	54,096	411,626	391,479
Movement in the year	(21,280)	5,000	8,389	(7,891)
Movement in respect of actuarial losses on pension schemes	-	33,896	-	33,896
Adjustments in respect of prior years	3,984	-	2,367	6,351
At 31 December 2009	(91,539)	92,992	422,382	423,835

The revision to the opening unrecognised deferred taxation asset followed management's review of the taxation position of the T Mobile (UK) Group. In addition, there are unrecognised taxation losses not yet agreed with the taxation authorities. These taxation losses relate, in the main, to the amortisation of the goodwill arising on the group reorganisation undertaken on 31 December 2002 to collapse the partnership structure in operation at that time. These losses may be utilised in the future to the extent that there are sufficient levels of trading profit.

12. Intangible fixed assets

	Concessions, patents, licences, trade marks and similar rights £000	Goodwill £000	Total £000
Cost			
At 1 January 2009 and 31 December 2009	4,004,074	2,681,225	6,685,299
Accumulated amortisation			
At 1 January 2009	1,601,629	1,727,119	3,328,748
Charge for the year	184,804	106,012	290,816
At 31 December 2009	1,786,433	1,833,131	3,619,564
Net book value			
At 31 December 2009	2,217,641	848,094	3,065,735
At 31 December 2008	2,402,445	954,106	3,356,551

Concessions, patents, licences, trademarks and similar rights include a licence issued by the UK government for a block of spectrum. This allows the company to offer 3G to the public. The licence was purchased for £4,004 million by the company on 9 May 2000 and expires on 31 December 2021. Included in the cost of the licence is £1.5 million (2008 £1.5 million) of capitalised interest incurred on funds borrowed to place deposits held by the Radio Telecommunications Agency as a result of the successful bid.

13. Tangible fixed assets

	Land and Buildings £000	Fixtures and fittings £000	Computer and software development costs £000	Network assets (see b & f below) £000	Assets in the course of construction £000	Total £000
Cost						
At 1 January 2009	146,306	9,483	727,159	3,132,195	263,347	4,278,490
Additions	-	3,510	10,296	-	170,281	184,087
Transfers	6,957	1,520	7,037	149,756	(165,270)	-
Disposals	(912)	(1,559)	(49,118)	(118,623)	(8)	(170,220)
At 31 December 2009	152,351	12,954	695,374	3,163,328	268,350	4,292,357
Accumulated depreciation						
At 1 January 2009	53,450	4,992	570,751	2,082,515	-	2,711,708
Charge for the year	15,176	1,469	31,466	204,337	-	252,448
Disposals	(646)	(487)	(49,383)	(118,623)	-	(169,139)
At 31 December 2009	67,980	5,974	552,834	2,168,229	-	2,795,017
Net book amount						
At 31 December 2009	84,371	6,980	142,540	995,099	268,350	1,497,340
At 31 December 2008	92,856	4,491	156,408	1,049,680	263,347	1,566,782

a) The net book value of land and buildings includes £21million (2008 - £22million) of freehold land and buildings and £63 million (2008 - £71 million) of short leaseholds.

b) As part of the network share agreement (see Note 3), selected TMUK network assets will become jointly controlled with Hutchinson 3G UK Limited (“3”). Included within TMUK’s network assets are 3G assets with a net book amount of approximately £67million (2008 - £82 million) that will become part of the shared network. Also included within network assets are 2G and core network assets with a net book amount of approximately £146 million (2008 – £180 million) that will not be shared assets. The remaining network assets relate to the network infrastructure and may form part of the shared network and therefore become jointly controlled. In exchange for these assets, TMUK will receive assets from 3. The fair value of the assets received from 3 could not be reliably determined; therefore the cost of the assets received was determined based on the fair value of the assets given up.

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

d) At 31 December 2009 network assets with a net book value of £310 million (2008 - £54 million) were jointly controlled. No income from the sale or use of jointly controlled assets was earned, and no liabilities have been incurred by TMUK alone or jointly with 3.

e) Shared network assets acquired following the agreement are treated as jointly controlled assets, the amount included in tangible fixed assets is 50% of the value of each new asset acquired. As at the 31 December 2009 network assets in the course of construction with a net book value of £204 million (2008 - £70 million) were jointly controlled.

f) The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International. Due to the fact that the company still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the tangible assets of the company. The net book amount of these assets as at 31 December 2009 was £32.4million (2008 £39.1 million).

g) Included above are fully depreciated assets, predominately computer and software development costs, with an original cost of £1,350.9million (2008 £1,250.5 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 2009 is £47.3 million (2008 £39.9 million).

14. Investments

	Shares in subsidiaries and joint ventures £000
Cost	
At 1 January 2009	1,724
Additions in the year	8,276
At 31 December 2009	10,000

Subsidiary undertakings

The company's subsidiary undertakings throughout 2009 and 2008 were as follows:

Name	Principal activities	Percentage shareholding
One 2 one Personal Communications Limited	Dormant	100%
T-Mobile International Limited	Dormant	100%
T-Mobile (UK) Retail Limited	Dormant	100%
T-Mobile (UK) Pension Trustee Limited	Dormant	100%

Joint venture

On 18 December 2007 the company established a 50% share of the ordinary share capital of Mobile Broadband Network Limited ('MBNL') for £1, the company was created as part of the network sharing contract (see Note 3).

	TMUK's share as at 31 December 2009 (unaudited) £000	TMUK's share as at 31 December 2008
Turnover	5,537	1,983
Profit on ordinary activities before taxation	161	58
Tax on profit on ordinary activities	(44)	(20)
Profit for the financial year	117	38
Fixed assets	38,452	834
Current assets	6,089	3,931
Creditors: amounts falling due within one year	(9,243)	(2,983)
Creditors: amounts falling due after more than one year	(25,146)	(20)
	10,152	1,762

15. Stocks

	2009 £000	2008 £000
Equipment for sale to customers	32,748	47,356
	32,748	47,356

16. Debtors: amounts falling due within one year

	2009	2008
	£000	£000
Trade debtors	269,774	326,721
Amounts due from group undertakings	130,518	115,037
Amounts due from joint ventures	13,207	2,633
Other debtors	9,201	9,803
Prepayments and accrued income	64,820	85,774
	487,520	539,968

Amounts due from group undertakings are unsecured and have no fixed date of repayment, as at 31 December 2009 £38.2million (2008 - £38.8 million) was interest free, the remainder relates to group cash pooling arrangements and attracts interest at a rate of Libor less circa 0.045%. Amounts due from joint ventures relate to trading balances and are unsecured, interest free and have no fixed date of repayment.

17. Debtors: amounts falling due after more than one year

	2009	2008
	£000	£000
Trade debtors	4,083	5,483
Amounts due from joint ventures	25,150	-
Prepayments and accrued income	48,925	33,322
	78,158	38,805

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

18. Creditors: amounts falling due within one year

	2009	2008
	£000	£000
Trade creditors	442,561	499,972
Amounts owed to group undertakings	259,575	439,592
Amounts owed to joint ventures	4,107	855
Taxation and social security	46,677	48,936
Other creditors	25,404	22,859
Accruals	8,694	8,337
Deferred income	89,325	79,162
	876,343	1,099,713

Amounts owed to group undertakings include £10.4 million (2008 £25.9 million) of accrued interest payable on loans from Deutsche Telekom International Finance B.V, further details of amounts owed to group undertakings is included in Note 19. Amounts due to joint ventures relate to trading balances and are unsecured, interest free and have no fixed date of repayment.

19. Creditors: amounts falling due after more than one year

	2009	2008
	£000	£000
Amounts owed to group undertakings	1,026,782	1,058,158
Other creditors	38,577	52,423
	1,065,359	1,110,581

The maturity profile of amounts owed to group undertakings is analysed as follows:

	2009	2008
	£000	£000
In one year or less or on demand (Note 18)	259,575	439,592
In more than one year but not more than two years	366,880	268,846
In more than two years but not more than five years	-	247,469
In more than five years	659,902	541,843
	1,286,357	1,497,750

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

	2009	2008
	£000	£000
In more than one year but not more than two years	17,653	25,891
In more than two years but not more than five years	8,544	12,605
In more than five years	12,380	13,927
	38,577	52,423

Amounts owing to group undertakings

Amounts owing to group undertakings comprise the following loans:

£1,169 million (2008 £1,440 million) funding from Deutsche Telekom International Finance B.V and £60 million (2008 - £nil) funding from Deutsche Telekom AG.

The above amounts owing to group undertakings are not secured and have an average interest rate of 7.09% as at 31 December 2009 and have a maturity profile ranging from January 2010 to June 2030 repayable on maturity.

The funding from Deutsche Telekom International Finance B.V. is shown net of deferred financing costs of £8.6 million (2008 - £10.3 million).

The company has entered into interest rate swaps with Deutsche Telekom AG which has the effect of converting £450 million of borrowings from fixed rates to floating rates. These swaps have a maturity profile ranging from July 2010 to June 2030 and as at 31 December 2009 have a fair value of £13.5 million (2008 - £52.6 million).

From time to time, the company is exposed to foreign exchange rate movements in respect of handset and network equipment purchased in foreign currency. The company uses currency derivative instruments, such as forward foreign exchange contracts, to reduce exposure to the risk that these purchases will be adversely affected by changes in exchange rates. During the year the company entered into forward foreign exchange contracts with a natural value of €466.0 million (2008 - €453.8 million) and US$107.3 million (2008 - $51.4 million) and as at 31 December 2009 have a negative fair value of £2.4 million (2008 - positive £29.0 million).

20. Provisions for liabilities

	Property provision £000	Restoration provision £000	Restructuring provision £000	Total £000
At 1 January 2009	2,673	60,844	72,900	136,417
Established during the year	885	3,510	650	5,045
Utilisation	(1,031)	(557)	(5,586)	(7,174)
Amortisation of discount	-	11,978	1,780	13,758
At 31 December 2009	2,527	75,775	69,744	148,046

Property provision

The property provision consists of amounts that the company expects to incur in respect of its commitments under operating leases over certain properties that are no longer occupied following the relocation in 2003 of the T Mobile (UK) Group to its campus office and a number of vacant properties arising from the closure of retail stores. A new provision was established in the year for the closure of additional retail stores. The remaining lengths of these leases are between one and five years. In determining the provision, the cash flows have been discounted using a risk free rate of 3.24% (2008 - 3.24%).

Restoration provision

The restoration provision represents the company's estimate of its obligation to remove equipment and to restore certain property leased for wireless transmission equipment, administrative offices, call centres, retail facilities and car parks back to its original condition at the end of the lease term. The company has estimated that these costs will be incurred over the next 20 years. In determining the provision, the cash flow have been discounted using a nominal, risk adjusted, pre-tax discount rate of 6% (2008 – 7.50%).

The restoration provision includes approximately £26 million (2008: £26 million) that is expected to be utilised against the decommissioning cost incurred as part of the network share arrangement (see below and Note 3). These costs will be incurred as sites are decommissioned as part of the rollout of the network share, which is expected to be completed by the end of 2010.

Restructuring provision

The £72.9 million provision in 2007 arises in respect of the network share restructure following the signing of the contract between TMUK and Hutchison 3G UK Limited (see Note 3).

The restructuring of the network involves rationalising the number of combined sites held by TMUK and 3 UK from 19,000 to 13,000. The costs included in the provision predominantly cover estimated vacant site rentals and early termination of lease payments. The major assumptions used for estimating the restructuring provision 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 carried out over the next year and completed in 2010; however the costs in relation to vacant site rentals will continue to be incurred until 2018.

In determining the provision, cash flows have been discounted using a risk free rate of 3.24% (2008 - 3.24%).

The effect of a 0.5% movement in the discount rate would be to as follows:

Discount rate	Increase £'million	Decrease £'million
Property provision	2.5	2.5
Restoration provision	71.4	80.8
Network share restructuring provision	68.2	71.6
Total	142.1	154.9

While the amounts provided in respect of the company's property, restoration and restructuring obligations represent management's best estimate of the present value of the costs that the company expects to incur, the timing and amount of the actual payments could differ from the amounts included in these estimates.

21. Called up share capital

Authorised	2009 £000	2008 £000
1,000,000,000 ordinary shares of £1 each	1,000,000	1,000,000

Allotted and fully paid

5,923,500 ordinary shares of £1 each	5,923	5,923
5,101,652 redeemable ordinary shares of £1 each	5,102	5,102
	11,025	11,025

The company's articles of association allows the authorised share capital of 1,000,000,000 ordinary shares of £1 each to be used to issue either ordinary shares of £1 each or redeemable ordinary shares of £1 each.

The ordinary shares and redeemable ordinary shares rank pari passu and equally in all respects save that the redeemable ordinary shares do not carry any rights to dividends in respect of any period prior to 17 June 2004 and they are redeemable on such date as the directors of the company stipulate. They are redeemable at an amount equal to the issue proceeds, including any premium.

22. Reserves

	Capital contribution £000	Share premium account £000	Profit and loss account £000
At 1 January 2009	196,260	5,143,487	(2,085,906)
Loss for the financial year	-	-	(132,194)
Actuarial loss on pension schemes net of taxes (Note 25)	-	-	(105,629)
At 31 December 2009	196,260	5,143,487	(2,323,729)

23. Reconciliation of movement in shareholders' funds

	2009 £000	2008 £000
Loss for the financial year	(132,194)	(685,038)
Actuarial (loss)/gain on the company's pension schemes during the year net of taxes	(105,629)	68,934
Net change in shareholders funds	(237,823)	(616,104)
Opening shareholders' funds	3,264,866	3,880,970
Closing shareholder's funds	3,027,043	3,264,866

24. Capital and financial commitments

The company had capital commitments as follows:

	2009 £000	2008 £000
Capital expenditure that has been contracted but not provided for	62,904	89,816

In order to ensure adequate supply of certain stock requirements, the company has committed to purchase from various suppliers a minimum number of handsets and accessories totalling £127.9million at 31 December 2009 (2008 £137.1 million).

Annual commitments under non cancellable operating leases at 31 December 2009 are as follows:

	Land and buildings		Others	
	2009	2008	2009	2008
	£000	£000	£000	£000
Expiring within 1 year	1,912	1,960	61,101	45,318
Expiring between 2 and 5 years	9,401	9,469	73,321	100,554
Expiring in over 5 years	34,707	34,391	44,266	27,597
	46,020	45,820	178,688	173,469

25. Pension commitments

As at 31 December 2009, the company operated a pension scheme as follows:

- The T Mobile (UK) Pension Scheme ('the pension scheme') a defined benefit scheme in which retirement benefits are based on final remuneration and length of service. Assets are held in separately administered trusts. This scheme was established on 1 March 2000.

Employees of one other subsidiary of Deutsche Telekom AG also participate in this pension scheme.

A full actuarial valuation of the pension scheme using the projected unit basis, was carried out at 31 December 2006 and updated to 31 December 2009 by Hewitt Associates Limited actuaries.

Disclosures as at 31 December 2009 and for the year then ended

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

	2009	2008
	%	%
Inflation assumptions	3.6	3.2
Rate of increase in salaries	4.6	4.2
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.4	3.2
Rate of increase for pensions in payment – accrued post 6 April 2006	2.2	2.2
Discount rate	5.7	5.8

The mortality assumptions used were as follows:

	2009	2008
	years	years
Longevity at age 65 for current pensioners:		
- Men	22.0	22.0
- Women	24.8	24.8
Longevity at age 65 for future pensioners:		
- Men	23.1	23.1
- Women	25.9	25.9

The company's share of the assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 December 2009	Value at 31 December 2009	Long-term rate of return expected at 31 December 2008	Value at 31 December 2008
	%	£000	%	£000
UK equities and unit trusts	8.5	106,500	7.4	108,981
Property	8.5	36,634	7.4	39,367
Hedge funds	6.2	18,900	-	-
Gilts	4.5	10,493	-	30,656
Corporate bonds	5.5	67,856	-	-
Other	1.2	33,200	5.5	132,860
Total market value of assets		273,583		311,864
Present value of scheme liabilities		(403,900)		(326,545)
Deficit in the scheme		(130,317)		(14,681)
Related deferred taxation asset (see Note 11)		-		-
		(130,317)		(14,681)

Reconciliation of present value of scheme liabilities:

	2009	2008
	£000	£000
At 1 January	326,545	320,393
Current service cost	24,243	34,292
Interest cost	19,399	17,153
Plan participant's contributions	71	120
Benefits paid	(5,499)	(7,672)
Actuarial loss/(gains)	39,201	(37,741)
	403,900	326,545

Reconciliation of fair value of scheme assets:

	2009	2008
	£000	£000
At 1 January	311,864	227,431
Expected return on scheme assets	22,242	16,593
Actuarial (losses)/gains	(81,857)	46,622
Benefits paid	(5,499)	(7,672)
Contributions paid by employer	26,762	28,770
Contributions paid by members	71	120
	273,583	311,864

The scheme assets do not include any of T-Mobile (UK) Limited's own financial instruments, or any property occupied by T-Mobile (UK) Limited. The expected long-term rate of return on assets is determined by considering the current level of expected returns on equities, property, corporate bonds and cash and the expectations for future returns of these asset classes.

The actual return on scheme assets in the year was negative £59,615 (2008: positive £63,215).

The following amounts were recognised in the company's performance statements in the year to 31 December 2009:

	2009	2008
	£000	£000
Operating loss		
Current service cost	24,243	34,292
Other financial expense		
Expected return on pension scheme assets	22,242	16,593
Interest on pension scheme liabilities	(19,339)	(17,153)
Net return	2,903	(560)

Movement in the deficit in the year:

	2009 £000	2008 £000
Opening deficit in the scheme	(14,681)	(92,962)
Current year service cost	(24,243)	(34,292)
Contributions	26,762	28,770
Other financial income/(expense)	2,903	(560)
Actuarial (loss)/gain	(121,058)	84,363
Deficit in scheme at end of year	(130,317)	(14,681)

Analysis of the amounts that were recognised in the statement of total recognised gains and losses:

	2009 £000	2008 £000
Actual return less expected return on pension scheme assets	(81,857)	46,622
Experience gains and losses arising on the scheme liabilities	7,271	3,207
Changes in assumptions underlying the present value of the scheme liabilities	(46,472)	34,534
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(121,058)	84,363

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses, had the company shown the pension scheme as a defined benefit scheme since 2002, is £66.0 million (2008 - £55.1 million gain).

Under the current schedule of contributions the company is expected to contribute £24.9 million to the scheme in the year ending 31 December 2010.

The effect of a 0.5% movement in the discount rate would be as follows:

	6.2% £'million	5.2% £'million
Discount rate		
Deficit in scheme at end of year	(72.3)	(199.7)

History of experience gains and losses in the scheme

	2009	2008	2007	2006	2005
Defined benefit obligations (£'000)	(403,900)	(326,545)	(320,393)	(318,406)	(280,124)
Plan assets (£'000)	273,583	311,864	227,431	203,465	182,253
Deficit (£'000)	(130,317)	(14,681)	(92,962)	(114,941)	(97,871)
Difference between the expected and actual return on scheme assets:					
Amount (£000)	(81,857)	46,622	(6,669)	(8,737)	16,785
Percentage of scheme assets	(29.9)%	14.9%	(2.9)%	(4.3)%	9.2%
Experience gains and losses on scheme liabilities:					
Amount (£000)	7,271	3,207	(1,431)	12,052	2,082
Percentage of the present value of the scheme liabilities	1.8%	1.0%	(0.4)%	3.8%	0.7%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£000)	(121,058)	84,363	33,813	(15,767)	(41,702)
Percentage of the present value of the scheme liabilities	(30.0)%	25.8%	10.6%	(5.0)%	(14.9)%

As at 31 December 2008 a deferred taxation liability in respect of cumulative actuarial gains had been recognised in the year in the statement of total recognised gains and losses. As at 31 December 2009 the deferred tax liability has been de-recognised as there are no longer cumulative actuarial gains on the company's pension scheme. See Note 11.

26. Guarantees and contingent liabilities

The company has no guarantees or contingent liabilities at 31 December 2009 (2008 £nil) other than identified in Note 3.

27. Cash flow statement

Under FRS 1 - Cash flow statements (Revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking. A cash flow statement is included in the consolidated financial statements of Deutsche Telekom AG for the year ended 31 December 2009.

28. Related party transactions

Under FRS 8 Related party disclosures, the company is exempt from the requirement to disclose transactions with entities that are part of the Deutsche Telekom AG group during the year ended 31 December 2009. Under the same standard the company is also exempt from the requirement to disclose transactions with investees of the group qualifying as related parties, as all of the company's voting rights were controlled within the Deutsche Telekom AG group throughout the year.

Related party transaction with joint ventures

MBNL charges the company a network management fee and network usage fee in relation to the management and use of the shared network assets. Charges from MBNL during the year totalled £5,537,000 (2008 - £1,983,000).

The company recharged MBNL for certain costs including a number of seconded staff and for the provision of dedicated procurement staff at a fixed daily rate. Charges to MBNL during the year totalled £1,888,297 (2008 - £2,054,000).

At 31 December 2009 MBNL was holding £1,271,140 (2008 - £366,000) of restricted cash on behalf of the company. The net amount owed to TMUK at the end of the year was £9,100,000 (2008 - £1,778,000). In addition £27,939,125 of formal loan funding was provided by the company to MBNL. As at 31 December 2009 the outstanding balance receivable in respect of this loan amounted to £25,149,738 which included accrued interest of £72,283. The loan was provided on an arms length basis and attracts interest at a rate of LIBOR plus1.75%.

The company also charged MBNL a commitment fee of £166,841 during the year. As at 31 December 2009, the outstanding balance receivable from MBNL was £17,888.

The company's share of MBNL's annual financial commitments under operating leases totals £146,000 (2008 - £138,000), in addition the company's share of MBNL's capital commitments is £22 million (2008 - £52 million).

There were no material transactions with any other related parties.

29. Post balance sheet events

On 8 September 2009, an announcement was made and an Exclusivity Agreement was signed between TMUK's ultimate parent company, Deutsche Telekom AG ('DT') and France Télécom SA ('FT') to enter into a Joint Venture Agreement ('JVA'). The JVA was signed on 5 November 2009 and was given regulatory approval by the European Commission on the 1st March 2010.

The decision made by the European Commission is conditional upon:

- the amendment of the existing network sharing agreement with Hutchison 3G UK ('3UK'), to ensure that there are sufficient competitors in the market; and

- the surrender of a quarter of the combined spectrum of the merging parties in the 1800 Mhz band, which is one of the three frequency bands currently used for mobile communications in the UK.

The company will continue to support its network share arrangement with H3G to build the country's largest 3G network. The carrying value of the company's network assets is not deemed impaired as a result of any amendment to the H3G agreement.

TMUK uses the 1800 MHz frequency band exclusively for the operation of the 2G GSM network and pays for the right to use the 1800 MHz frequency on an annual basis recorded as an expense during the year. As no intangible asset has been recorded there will be no impact on the assets of the company as a result of surrendering 1800 MHz spectrum.

30. Ultimate parent companies

At 31 December 2009 the company's immediate parent company was T-Mobile Holding Limited ("TMH"). The registered office for TMH is Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW. The company's ultimate parent company and controlling party is Deutsche Telekom AG, a company incorporated in Germany, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. A copy of Deutsche Telekom AG's published consolidated financial statements can be obtained from The Press and Corporate Communication Department, Postfach 20 00, D 53 105 Bonn, Germany.

5. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF ORANGE PERSONAL COMMUNICATIONS SERVICES LIMITED FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010

In this set of accounts the term "EE" refers to the Guarantor. The term the "company" refers to OPCS.

Directors' Report

The directors present the annual report and the audited financial statements of the company for the year ended 31 December 2010.

Principal activities, business review and future developments

Introduction

In September 2009, France Telecom S.A. ("FT") and Deutsche Telekom A.G. ("DT") announced an agreement to combine their respective UK mobile businesses, which operate under the brand names Orange and T-Mobile.

With European Commission approval gained in March 2010, the joint venture company was legally formed on 1 April 2010.

FT, via its UK subsidiary company, Orange Telecommunications Group Limited, contributed the company, together with the following subsidiaries, to the joint venture:

- Orange Jersey Limited
- Orange Retail Limited
- Orange Home UK Limited
- Orange Services India Private Limited
- Orange Pension Trustees Limited
- Orange FURBS Trustees Limited

DT, via its UK subsidiary company T-Mobile Holdings Limited, contributed the following subsidiaries to the joint venture:

- T-Mobile (UK) Limited ("TMUK")
- T-Mobile (UK) Pension Trustees Limited

On 1 July 2010, TMUK was renamed Everything Everywhere Limited ("EE"). On the same day, all the trade, assets, liabilities and employees of the company, Orange Retail Limited and Orange Home UK Limited were transferred to EE.

EE as a company continues to trade under the brand names Orange and T-Mobile.

Business Review

Prior to the transfer of the trade, assets and liabilities of the company to EE on 1 July 2010 the company was principally involved with the operation of a national digital wirefree personal communications network and the provision of digital telecommunications services. During the period to 1 July 2010 the company continued to invest in the development of digital mobile communications technology. Since 1 July 2010 the company has not traded and the directors expect it will continue to remain dormant.

The company's financial and other performance indicators during the year were as follows:

	2010 £m	2009 £m	Change
Turnover	2,340	4,586	(49)%
Operating (loss) / profit	(53)	192	(128)%
Profit after tax	7	1,852	(100)%
Shareholder's funds	1	1,897	(100)%
Current assets as % current liabilities	Nil %	78%	(100)%
Average number of employees	8,735	9,159	(5)%

As a consequence of the transfer of the trade direct comparisons between the results for 2010 and 2009 are not meaningful.

On an annualised basis, turnover in 2010 increased by 2% compared to 2009 due to a steady increase in handset connections and growth in average revenue per user.

During 2009 the company sold the residual value in the Orange brand to a sister company, Orange Brand Services Limited for £1,678m. The sale had a large impact on the reported profit after tax for 2009.

A restructuring expense of £71m was incurred in 2010 principally for employee severance costs and lease exit costs.

Other developments

During 2010, and in preparation for the creation of the JV, the company acquired, from fellow France Telecom SA Group companies, the following:

- 100% interests in Orange Retail Limited; Orange Home UK Limited; Orange Pension Trustees Limited and Orange FURBS Trustees Limited; and

- minority interests in Midland Communications Distribution Limited and Mainline Communications Group Plc.

On 15 January 2010 the company completed an exercise to repay or receive payments from other France Telecom subsidiaries that were not included within the JV.

The residual lease at 31 December 2009 with Commerzbank was repaid on 25 February 2010 for £121 million.

On 23 March 2010 the company issued 972,665,228 £1 ordinary shares at par to Orange Limited for cash.

On 23 March 2010 the company received a short term loan of £1,250,000,000 from Atlas Services Belgium SA, a subsidiary of France Telecom.

On 23 March 2010 the company repaid its long term loan of £1,893,184,334 and short term loan of £657,000,000 with Orange Global Limited.

On 29 June 2010 a special resolution was passed to reduce the share capital by cancelling 1,001,705,746 issued shares of £1 each.

Going concern review

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 this Directors' Report.

After making enquiries, the directors have a reasonable expectation that as the company will not trade in the foreseeable future, and it has no liabilities, it will not require any further resources to continue in existence. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Principal risks and uncertainties

The company has an active risk management process in place, which is designed to identify, manage and mitigate business risk. 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 principal risks facing the company during the period to 1 July 2010 are explained below. Following the transfer of the trade to Everything Everywhere Limited the extent to which these risks may affect the company has been reduced significantly.

External

The Orange business is directly impacted by the external environment and, in particular, the regulatory environment and competitive marketplace the company operates in.

Level of competitive activity

The mobile communications market in the UK is highly competitive. 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 company to respond by developing innovative customer propositions and retention campaigns.

Regulatory factors

The company's operations are subject to stringent regulatory requirements. The company monitors regulatory developments and undertakes regular reviews and audits to ensure compliance.

Price risk

The company was not exposed to significant commodity price risk given the nature of its business and had no exposure to equity security price risk as it has not held listed equity investments.

Credit risk

Credit risk is the risk that one party to a transaction will cause a financial loss for the other party by failing to discharge an obligation. The company's policies are aimed at minimising such losses, 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.

Liquidity risk

The company maintained a mixture of long-term and short-term debt financing that was designed to ensure the company has sufficient funds for operations and planned growth.

Foreign exchange risk

The company was exposed to foreign exchange risk arising from the purchases of inventory and capital equipment in currencies other than sterling. The risk was mitigated by the treasury policy of arranging forward currency exchange contracts on the market.

Results for the year, dividends and transfer to reserves

The profit for the year after taxation was £7 million (2009: £1,852 million) on a turnover of £2,340 million (2009: £4,586 million) and has been transferred to reserves. Detailed results for the year are shown in the profit and loss account on page 258.

Dividends of £2,860 million were declared and paid during the year (2009: £200 million).

Directors

The directors, who held office during the year, and up to the date of approval of the financial statements, are given below:

	Appointed	Resigned
Colin Caldwell	5 October 2010	
Tom Alexander	1 April 2010	24 September 2010
James Blendis	28 May 2010	
Alexander Lunshof	1 April 2010	1 July 2010
Gavin Moore	5 October 2010	
Orange Limited		1 April 2010

There are no directors' interests requiring disclosure under the Companies Act 2006.

Research and development

Orange is active in the forums which are developing the standards for future mobile communications services with representatives of the business holding key positions. The company ensured that its policies were in keeping with the policies and strategies evolved in these forums.

Political and charitable donations

The company has made charitable donations during the year of £125,000 (2009: £180,500).

The company made no political donations during the year (2009: £nil).

Employees

Orange in the United Kingdom is managed on a unified basis. All UK group companies adhere to the employment policies and procedures issued from time to time by the UK Group. Until 30 June 2010 Orange Personal Communications Services Limited hosted the employment contracts and operated the payroll on behalf of all UK companies.

On 1 July 2010, the employees of the company were transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 to T-Mobile (UK) Limited, and TMUK was re-named EE.

Since 1 July 2010 EE has been the employing entity, and has operated the payroll for its UK based employees, and adheres to its employment policies and procedures.

Employee involvement

The company ensured that employees under its direction and control were fully informed and involved in the business. Various communication methods were utilised during 2010 including a monthly employee magazine, 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 an employee opinion survey ("people poll") which is conducted annually. 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 the period to 30 June 2010, the company continued to operate comprehensive consultative arrangements throughout the organisation. 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.

The company's previous ultimate parent company, France Telecom SA also facilitates a European Works Council in which the company participates. Elected employee representatives sit on the France Telecom European Works Council in order to take part in consultative and information sharing activities at European level with management.

Equal opportunities and disabled employees

The company strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.

The company is committed to valuing the diversity of its people and to improve and measure its performance 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.

The company makes every effort to ensure that known disabled employees, and those employees that become disabled during their employment, will be given appropriate levels of support. Where practical, reasonable adjustments will be considered to ensure disabled employees can continue in employment, maximise their potential and have equality of opportunity throughout their career with the company.

Events since the balance sheet date

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

In accordance with S485 of the Companies Act 2006 a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

By order of the board

Charles Mowat
Company Secretary

Date: 22/9/2011

Registered Office:
St James Court
Great Park Road
Almondsbury Park
Bradley Stoke
Bristol
BS32 4QJ

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Orange Personal Communications Services Limited

We have audited the financial statements of Orange Personal Communications Services Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 27. 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 255, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;

- 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 financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Naresh Alimchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

26 September 2011

Profit and Loss Account

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
TURNOVER	1,3	2,340	4,586
Cost of sales	1	(2,049)	(3,940)
GROSS PROFIT		291	646
Administrative expenses		(93)	(183)
Distribution costs		(159)	(327)
Restructuring expenses		(71)	-
Impairment of fixed asset investments	13	(27)	-
Other operating income		6	56
OPERATING (LOSS) / PROFIT	4	(53)	192
Profit on sale of intangible assets	5	8	1,683
Dividend income		32	-
Interest receivable and similar income	6	3	21
Interest payable and similar charges	7	(8)	(7)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(18)	1,889
Tax credit / (charge) on loss / profit on ordinary activities	10	25	(37)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	7	1,852

All activities relate to discontinued operations.

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Balance Sheet

As at 31 December 2010

	Notes	2010 £m	2009 £m
FIXED ASSETS			
Intangible assets	11	-	2,757
Tangible assets	12	-	1,795
Investments	13	1	-
		1	4,552
CURRENT ASSETS			
Stocks	14	-	71
Debtors	15	-	1,415
Cash at bank and in hand		-	6
		-	1,492
CREDITORS: Amounts falling due within one year	16	-	(1,923)
NET CURRENT ASSETS / (LIABILITIES)		-	(431)
TOTAL ASSETS LESS CURRENT LIABILITIES		1	4,121
CREDITORS: Amounts falling due after more than one year	17	-	(2,029)
PROVISIONS FOR LIABILITIES AND CHARGES	18	-	(195)
NET ASSETS		1	1,897
CAPITAL AND RESERVES			
Called up equity share capital	19	-	29
Equity settled stock option plan liability	23	-	16
Profit and loss account	20	1	1,852
TOTAL EQUITY SHAREHOLDER'S FUNDS	21	1	1,897

These financial statements on pages 258 to 279 were approved by the board of directors on 22 September 2011 and were signed on its behalf by:

Gavin Moore

Date: 22/9/2011

Notes to the financial statements for the year ended 31 December 2010

1. Accounting policies

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS 18') "Accounting Policies", the directors have reviewed the accounting policies set out below and are of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of Orange Personal Communications Services Limited for the year ended 31 December 2010.

(b) 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 Orange network, together with interconnect income earned but not invoiced;
- Connected handsets and related accessories supplied to both subscribers and intermediaries within the period;
- Income from pre-paid customers which is deferred in the balance sheet on purchase by the customer and released to the profit and loss account as calls are made.

Turnover excludes airtime income billed in advance and value added tax.

(c) Cost of sales

Cost of sales includes:

- Amortisation of capitalised network costs over the useful economic life of the asset;
- The cost of Orange handsets connected in the period to the company's network;
- Costs of leasing lines from other telecommunications operators;
- Interconnect costs of terminating calls on other networks;
- Costs of day to day network operation and maintenance.

(d) Stocks

Stocks comprise handsets and other goods for resale. Stocks of new handsets are held at the lower of average cost and net realisable value.

Any provision required to reduce stock from average cost to net realisable value is estimated by management on the basis of projected future sales of handsets into the distribution channels.

(e) Intangible fixed assets

Licences to operate mobile networks are recorded within intangible assets. They are recorded at cost of acquisition and are amortised on a straight line basis over the period in which the company benefits from use of the licence. UMTS licences are amortised from the date of commercialisation of services.

(f) Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation.

The cost of the Orange network comprises network assets purchased at cost, together with direct construction and enhancement costs. Estimates of the level of overhead cost relating directly to network build or enhancement are made on a percentage basis at the cost centre level.

Costs of maintaining the network are charged to the profit and loss account as incurred.

Depreciation is calculated using the straight line method to write off the cost of each asset over its estimated useful life according to the following rates:

Freehold land	Nil
Freehold buildings	50 years
Short term leasehold improvements	shorter of 10 years or lease term
Networks	5-20 years
Computer equipment	3-5 years
Fixtures, fittings and equipment	5-6 years

The company selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When setting useful economic lives, the principal factors the company takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

(g) Impairment

If a significant indicator of a possible impairment is noted, the need for any fixed asset impairment provision is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use. The value in use is determined from estimated discounted future cash flows. Discount rates are based on the circumstances applicable in each case.

(h) Research and development costs

Research and development costs are charged to the profit and loss account as incurred.

(i) Advertising costs

All advertising costs are charged to the profit and loss account as incurred.

(j) Finance costs

Finance costs represent interest charges on inter-company borrowings, securitised debts, finance leases and bank charges relating to external overdraft facilities and are charged to the profit and loss account as incurred.

(k) Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax or receive more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(l) Leased assets

Where the company has substantially all the risks and rewards of ownership of an asset subject to lease, that lease is treated as a finance lease with the equivalent of cost recorded as both a fixed asset and a liability. Depreciation is provided in line with the company accounting policy for the underlying assets. Finance charges, included in interest, are allocated over each lease to produce a constant rate of charge on the outstanding balance.

Other leases are classified as operating leases and lease payments are charged to the profit and loss account in the year to which they relate.

(m) Pension and other post retirement obligations

The company operates defined contribution schemes for its eligible employees. The company's contributions to the pension schemes are charged to the profit and loss account in the year to which they relate.

(n) Foreign currencies

Transactions in foreign currencies are recorded using the average monthly market exchange rate. Foreign currency monetary assets and liabilities are translated into sterling at year end rates.

(o) Share-based Payments - Equity settled transactions

In accordance with FRS20 'Share-based Payment', the cost of the employee share offer corresponds to the fair value of the rights to shares at the grant date. The value of stock options is determined by reference to the exercise price, the life of the options, the current price of the underlying shares, the expected share price volatility, expected dividends and the risk-free interest rate over the life of the options. The amount is recognised in administrative expenses on a straight line basis over the period between the grant date and the exercise date – corresponding to the vesting period – and in equity.

(p) Derivative instruments

The company uses forward currency contracts to reduce exposure to foreign exchange rates. The company considers its derivative instruments qualify for hedge accounting when certain criteria are met.

The criteria for forward foreign currency contracts are:

- The instrument must be related to a firm foreign currency commitment;
- It must involve the same currency as the hedged item; and
- It must reduce the risk of foreign currency exchange movements on the company's operations.

The rates used under contracts are used to record the hedged item. As a result, gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs.

(q) Provisions for liabilities and charges

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

2. Cash flow statement and related party disclosures

The company has taken advantage of the exemption in FRS 1. A cash flow statement has not been prepared as:

(i) until 31 March 2010 the company was a wholly owned subsidiary of France Telecom S.A., registered in France, which prepares a group cash flow statement, and;

(ii) from 1 April 2010 the company was a wholly owned subsidiary of Everything Everywhere Limited, registered in England, which prepares a group cash flow statement.

The company is exempt under the terms of FRS 8 from disclosing related party transactions in the period to 31 March 2010 with entities that are part of the France Telecom S.A. group, the ultimate parent company, or investees of the France Telecom S.A. group.

The company is also exempt under the terms of FRS 8 from disclosing related party transactions in the period from 1 April 2010 with entities that are part of the Everything Everywhere group, or investees of the Everything Everywhere group.

Other related party transactions are disclosed in note 25.

3. Turnover

The geographical analysis of sales to third parties of goods and services is as follows:

	2010	2009
	£m	£m
United Kingdom	2,319	4,540
Rest of the World	21	46
	2,340	4,586

All sales originate in the United Kingdom.

Until 30 June 2010, the company was principally engaged in one class of activity, being telecommunications, comprising the operation of telecommunications networks and the supply of a range of mobile voice and data communications services and products. Since 1 July 2010 the company has been dormant.

4. Operating (loss) / profit

Operating (loss) / profit is stated after charging:		2010	2009
		£m	£m
Auditor's remuneration		-	1
Depreciation of tangible fixed assets	- owned	223	426
	- leased	14	34
Amortisation of intangible fixed assets		115	229
Employee costs (note 8)		161	333
Operating lease rentals	- land and buildings	7	13
	- network sites	44	90
	- leased lines	19	36
	- other	1	4

The auditor's remuneration in 2010 of £1m has been borne and paid for by Everything Everywhere Limited, a fellow group company. The auditor's remuneration in 2009 was borne and paid for by the company.

The remuneration of the auditor is further analysed as follows:

	2010	2009
	£m	£m
Audit of the financial statements	1	1
	1	1

5. Profit on sale of intangible assets	2010	2009
	£m	£m
Gain on sale of patents to France Telecom S.A.	8	-
Gain on sale of Orange brand to a group company	-	1,678
Gain on sale of software licences to France Telecom S.A.	-	5
	8	1,683

The profit on sale of intangible assets gives rise to a tax expense of £2 million (2009: £nil) which has been charged to the profit and loss account.

6. Interest receivable and similar income	2010	2009
	£m	£m
Amounts received from France Telecom S.A. and its subsidiaries	3	18
Net change in financial assets at fair value through Profit and Loss	-	3
	3	21

7. *Interest payable and similar charges*

	2010	2009
	£m	£m
Net change in financial assets at fair value through Profit and Loss	7	-
Securitisation interest	-	4
Finance leases	1	3
	8	7

8. *Employees and directors' remuneration*

(a) *Employees*

The average number of persons employed by the company during the year was as follows:

	2010	2009
	Number	Number
Telecommunications	8,735	9,159

The aggregate payroll costs of these persons were as follows:

	2010	2009
	£m	£m
Wages and salaries	136	283
Social security costs	15	31
Other pension costs	8	16
Share based payments	2	3
	161	333

(b) *Directors*

	2010	2009
The emoluments of the directors were as follows:	£m	£m
Aggregate emoluments (including benefits)	0.1	-
Contributions to defined contribution pension schemes	-	-
	0.1	-

The emoluments of the highest paid director were as follows:

	£m	£m
Aggregate emoluments (including benefits)	0.1	-
Contributions to defined contribution pension schemes	-	-
	0.1	-

The remuneration of Tom Alexander is disclosed in the accounts of Everything Everywhere Limited.

The corporate director did not receive any remuneration (2009: £nil).

9. Pensions

The pension cost for defined contribution schemes, which represents contributions payable by the company amounted to £8 million (2009: £16 million). Included in other creditors is £nil (2009: £2 million) in respect of contributions payable to the schemes.

10(a) Tax on profit on ordinary activities

	2010	2009
	£m	£m
Current tax		
Current tax charge for the year	17	78
Adjustments in respect of previous years	(11)	(16)
Total current tax charge (note 10(b))	6	62
Deferred tax		
Origination and reversal of timing differences	(31)	(25)
Total deferred tax (credit) (note 18)	(31)	(25)
Tax (credit) / charge on loss / profit on ordinary activities	(25)	37

(b) Factors affecting the current tax charge

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28% (2009: 28%). The difference is explained as follows:

	2010	2009
	£m	£m
(Loss) / profit on ordinary activities before taxation	(18)	1,889
(Loss) / profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28% (2009: 28%)	(5)	529
Factors affecting the charge:		
Non-taxable dividend income	(9)	-
Non-deductible investment impairment	8	-
Disallowable expenses	3	4
Short-term timing differences	-	(1)
Group relief claimed for nil payment	(20)	(15)
Depreciation in excess of capital allowances	40	31
Non-taxable intangible asset disposals	-	(470)
Adjustments in respect of previous years	(11)	(16)
Current tax charge for the year (note 10(a))	6	62

(c) **Factors that may affect future tax charges**

Announcements were made during and after the year by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the company. The change in the corporation tax rate from 28% to 27%

was substantively enacted on 20 July 2010, whereas further reductions to 23% have been announced but were not substantively enacted at 31 December 2010.

On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation.

(d) Deferred taxation

The deferred tax liability provided in the financial statements is analysed as follows:

	2010 £m	2009 £m
Accelerated capital allowances	-	131
Other short term timing differences	-	(12)
Deferred tax liability provided (note 18)	-	119

There is no unprovided deferred taxation

11. Intangible assets

	Licence £m
Cost	
1 January 2010	4,097
Transferred to group company	(4,097)
31 December 2010	-
Amortisation	
1 January 2010	1,340
Charge for the year	115
Transferred to group company	(1,455)
31 December 2010	-
Net book amount	
31 December 2010	-
31 December 2009	2,757

The UMTS licence, acquired by the group in 2000 to operate mobile services in the United Kingdom, provides an allocation of frequency spectrum and the right to deliver mobile services for 20 years from 1 January 2002 until 31 December 2021.

The cost of the licence includes acquisition costs. The licence has been amortised from 1 March 2004, the date at which telecommunication services related to the licence became operational.

12. Tangible assets

	Freehold land and buildings £m	Short term Leasehold improvements	Network £m	Fixtures, Fittings and Equipment £m	Total £m

	£m				
Cost					
1 January 2010	31	39	4,554	1,022	5,646
Additions	-	10	72	40	122
Disposals		(4)	(122)	(42)	(168)
Transferred to group company	(31)	(45)	(4,504)	(1,020)	(5,600)
31 December 2010	-	-	-	-	-
Depreciation					
1 January 2010	10	28	3,174	639	3,851
Charge in the year	-	1	176	60	237
Disposals	-	(4)	(122)	(42)	(168)
Transferred to group company	(10)	(25)	(3,228)	(657)	(3,920)
31 December 2010	-	-	-	-	-
Net book amount					
31 December 2010	-	-	-	-	-
31 December 2009	21	11	1,380	383	1,795

Network includes assets held under finance leases with a net book value of £nil at 31 December 2010 (2009: £53 million). Network assets include capitalised interest of £nil at 31 December 2010 (2009: £18 million) with a net book value of £nil (2009: £nil).

Fixtures, fittings and equipment include assets held under finance leases with a net book value of £nil at 31 December 2010 (2009: £1 million).

13. Investments

	Shares in subsidiary undertakings £m
Cost	
At 1 January 2010	-
Acquired	28
At 31 December 2010	28
Impairment	
At 1 January 2010	-
Provided in the year	27
At 31 December 2010	27
Net book value	
At 31 December 2010	1
At 31 December 2009	-

On 15 January 2010 the investment in Orange Retail Limited was purchased from a sister company, Orange Holdings (UK) Limited, for £27,000,000.

On 15 January 2010 the investment in Mainline Communications Group Plc was purchased from Orange Limited, for £1,120,000.

On 15 January 2010 the investment in Midland Communications Distribution Limited was purchased from Orange Limited, for £360,000.

On 15 January 2010 the investment in Orange Pension Trustee Limited was purchased from Orange Limited, for £1.

On 15 January 2010 the investment in Orange FURBS Trustees Limited was purchased from Orange Limited, for £1.

On 12 March 2010 a subsidiary of the company, Orange Retail Limited, purchased the investment in Orange Services India Private Limited from Orange Limited, for £255,428.

On 17 March 2010 the investment in Orange Home UK Limited was purchased from Wanadoo Limited, for £1.

At 31 December 2010 the subsidiary undertakings in which the company had an interest in 20% or more of the nominal value of the ordinary issued share capital are as follows:

Name of company	Country of incorporation and operation	Principal activities	Percentage shareholding
Orange Retail Limited	England	Not trading	100%
Mainline Communications Group Plc	England	Holding company	26%
Midland Communications Distribution Limited	England	Provider of other services	35%
Orange FURBS Trustees Limited	England	Pension trustee company	100%
Orange Pension Trustees Limited	England	Pension trustee company	100%
Orange Home UK Limited	England	Not trading	100%
Orange Services India Private Limited	India	Provider of other services	100%

99.8% of the holding in Orange Services India Private Limited is held indirectly via a subsidiary of the Company.

14. Stocks

	2010	2009
	£m	£m
Finished goods and goods for resale	-	71

Stocks principally comprised handsets for use with the Orange network.

15. Debtors

	2010	2009
	£m	£m
Trade debtors	-	410
Amounts due from group undertakings	-	623
Other debtors	-	18
Prepayments and accrued income	-	364
	-	1,415

16. Creditors: Amounts falling due within one year

	2010 £m	2009 £m
Bank overdrafts	-	18
Obligations under finance leases	-	1
Trade creditors	-	197
Amounts owed to group undertakings	-	677
Other creditors	-	58
Corporation tax	-	93
Taxation and social security	-	38
Accruals and deferred income	-	841
	-	1,923

17. Creditors: Amounts falling due after more than one year

	2010 £m	2009 £m
Amounts owed to group undertakings	-	1,893
Accruals and deferred income	-	15
Obligations under finance leases	-	121
	-	2,029

There was no fixed repayment plan on the parent undertaking loans.

The debt falling due after more than one year is repayable as follows:

	2010 £m	2009 £m
Between one and two years	-	2,029
Total due for repayment after more than one year	-	2,029

A loan of £1,893 million with Orange Holdings (UK) Limited was transferred to Orange Global Limited during 2009. The loan was repaid on 23 March 2010.

As part of preparing for the JV the company repaid most of its finance leases during 2009. The residual lease at 31 December 2009 was with Commerzbank, and this lease was repaid on 25 February 2010 for £121 million.

18. Provisions for liabilities and charges

	Deferred tax liability £m	Property provision £m	ARO / WEEE provision £m	Total £m
At 1 January 2010	119	4	72	195
Utilised during year	(31)	-	-	(31)
Transferred to group company	(88)	(4)	(72)	(164)
At 31 December 2010	-	-	-	-

Deferred tax liability

An analysis of the deferred tax liability is included in note 10 (d).

Property provision

This represented the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under lease contracts, being the difference between rentals paid and the sub lease rentals received, were provided for at net present value. The provisions related to property leases expiring between 2010 and 2023.

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (WEEE)

This represented the liability relating to the responsibility of the company to dismantle radio frequency mast sites where leases are not renewed and to dispose of electrical equipment at the end of its life. These obligations were provided for at net present value.

19. Share capital

	2010		2009	
	Number	£m	Number	£m
Authorised ordinary shares of £1	-	-	600,000,000	600
Allotted, called up and fully paid ordinary shares of £1	1	-	29,040,519	29

Movement in share capital	£m
At 1 January 2010	29
Shares issued	973
Capital reduction	(1,002)
At 31 December 2010	-

On 23 March 2010 a resolution was passed removing the statement of authorised share capital from the articles of association of the company.

On 23 March 2010 the company issued 972,665,228 £1 ordinary shares to Orange Limited for cash at par.

On 30 June 2010 a special resolution was passed to reduce the share capital by cancelling 1,001,705,746 issued ordinary shares of £1 each.

20. Profit and loss account

	£m
At 1 January 2010	1,852
Profit for the year	7
Capital reduction	1,002
Dividends declared and paid during the year	(2,860)
At 31 December 2010	1

On 1 July 2010 an interim dividend of £2,628,000,000 was declared and paid.

On 9 July 2010 a further interim dividend of £232,219,012.35 was declared and paid.

21. Reconciliation of movements in equity shareholder's funds

	2010 £m	2009 £m
Profit for the year	7	1,852
Shares issued	973	-
Dividends declared and paid during the year	(2,860)	(200)
	(1,880)	1,652
Equity settled stock option plan liability	(16)	1
Opening equity shareholder's funds	1,897	244
Closing equity shareholder's funds	1	1,897

22. Financial commitments

Amounts due under finance leases

As at 31 December 2010	Fixtures, fittings and equipment	Network £m	Total 2010 £m
Amounts payable:			
Within one year	-	-	-
Within one to five years inclusive	-	-	-
After five years	-	-	-
	-	-	-

As at 31 December 2009	Fixtures, fittings and equipment	Network £m	Total 2009 £m
Amounts payable:			
Within one year	-	121	121
Within one to five years inclusive	-	-	-
After five years	-	-	-
	-	121	121

Amounts due under operating leases

As at 31 December 2010	Land and Buildings	Network Sites	Other Leases	Total 2010

	£m	£m	£m	£m
Payable within one year of the balance sheet date in respect of leases expiring:				
Within one year	-	-	-	-
Between two and five years	-	-	-	-
After five years	-	-	-	-
Total payable within one year	-	-	-	-

As at 31 December 2009	Land and Buildings £m	Network Sites £m	Other Leases £m	Total 2009 £m
Payable within one year of the balance sheet date in respect of leases expiring:				
Within one year	1	6	13	20
Between two and five years	-	28	11	39
After five years	15	41	-	56
Total payable within one year	16	75	24	115

Capital expenditure	2010 £m	2009 £m
Contracts placed for capital expenditure not provided for in the accounts	-	52

23. Share-based Payments

On 1 July 2010, the employees of the company were transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 to T-Mobile (UK) Limited, which was re-named Everything Everywhere Limited.

23.1 Orange Share options for OPCS Employees

Following the purchase of minority shares in Orange S.A., France Telecom in 2004 offered to all option holders, the France Telecom Liquidity Agreement, which guaranteed that France Telecom would purchase Orange shares acquired on exercise, and exchange them for France Telecom shares, cash, or a combination of both (to be decided by France Telecom). Since September 2005 France Telecom has offered shares under the Liquidity agreement. The exchange ratio since September 2005 has been 1 Orange share for 0.446 France Telecom S.A. share.

All share option plans have a 10-year term.

No Orange options have been granted since May 2003 and all options under the share options plans have now vested. Options were granted for OPCS employees between 2001 and 2003.

All options were exercisable at 31 December 2010.

23.2 Employee Share Offers

Following the sale of France Telecom shares by the French State in June 2007, employees were offered the opportunity to purchase France Telecom shares at a discounted price. In the UK shares were offered at a price of £14.69. The shares were delivered on 29 January 2008 and under the Classic Plan are subject to a 2-year holding period, during which the shares cannot be disposed of in any way. If the shares are held for 3 years from date of delivery, France Telecom will provide free bonus shares on an allocation of 1 Free France Telecom share for each 4 shares purchased and held for 3 years. The maximum number of bonus shares available is 30. In addition to the Classic Plan, France Telecom offered a Leverage Plan which enabled eligible employees to purchase 22 shares; this has a 4 year holding period and offers a guaranteed cash payout in April 2012.

Similar share offerings were made in 2004 and 2005, following the sale of shares by the French State. The purchase price for UK employees was £10.68 in 2004, bonus shares were awarded on 21 January 2008 for all employees who had not withdrawn their shares, the maximum award being 81 shares. Under the 2005 offer the purchase price for UK employees was £13.40, bonus shares were awarded on 7 November 2008 for all employees who had not withdrawn their shares, the maximum award being 63 shares.

23.3 Share Incentive Plan

In September 2005, the France Telecom Purchase Incentive Plan and trust was established under the Income Tax (Earnings & Pensions) Act 2003, and formally approved by HM Revenue & Customs. This allows eligible employees to acquire shares in France Telecom S.A.

Employees can acquire shares via:

- Partnership Shares - Eligible employees can purchase monthly “partnership shares”, via the trust, up to £1,500 or to 10% of annual pre-tax salary each year.

- Matching Shares - One matching share is offered for every partnership share purchased by the employees, up to the value of £50 per month.

- Free Shares - Free shares can be offered up to £3,000 per employee in any tax year. This part of the plan has not been operated.

- Dividend Shares - The company can grant dividend shares up to £1,500 in any tax year.

23.4 Share Incentive Plan

From March 2007 the partnership share agreement has permitted purchase of dividend shares if the participant elects to reinvest the net dividend received. The first dividend shares were purchased in July 2007.

The matching shares are subject to forfeiture in certain circumstances for the first twelve months of acquisition, and are required to remain in the trust for three years.

23.5 France Telecom Stock Option Plan

In October 2005 and May 2007 France Telecom granted share options to selected senior employees on a world-wide basis. Employees of Orange Personal Communications Services Limited are participants of these grants. In October 2005 options were granted under both tax-approved and tax-unapproved plans in the UK. In May 2007 all options granted were tax-unapproved.

All share options are for a 10-year term. No options have yet vested. Options granted in October 2005 vested and became exercisable in October 2008.

23.6 Wanadoo UK Share Option Plan

Following the purchase of minority shares in Wanadoo, France Telecom exchanged Wanadoo share options for France Telecom stock options in September 2004, at a ratio of 7 France Telecom S.A. shares for 18 Wanadoo S.A. shares. There was a further adjustment in September 2005 following a France Telecom increase in share capital.

Under the UK element of the share option plan all options have 10-year terms and are equity-settled, although they were temporarily settled by cash from 9, March 2004 to 1, September 2004.

No options have been granted since November 2003 and all options under the share options plans have now vested. Options were granted for UK employees between 2001 and 2003.

23.7 Movements in share options for OPCS Ltd's employees

Details of the share options granted in Orange S.A. to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009
Options outstanding on 1 January 2010	**4,151,665**	**4,699,739**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(231,595)	(42,167)
Exercised	(38,400)	(57,793)
Lapsed	(706,521)	(448,114)
Options outstanding on 31 December 2010	**3,175,149**	**4,151,665**

23.8 Movements in options granted under the Orange S.A. stock option plan

Details of the options granted under the Orange S.A. stock option plan to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009
Options outstanding on 1 January 2010	**-**	**18,128**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	-	(18,128)
Exercised	-	-
Lapsed	-	-
Options outstanding on 31 December 2010	**-**	**-**

23.9 Movements in options granted under the International share option plans

Details of the options granted under the International share option plans to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009

Options outstanding on 1 January 2010	**4,151,665**	**4,681,611**
Granted		-
Transferred from Orange Limited and Orange Home UK Limited (net)	(231,595)	(24,039)
Exercised	(38,400)	(57,793)
Lapsed	(706,521)	(448,114)
Options outstanding on 31 December 2010	**3,175,149**	**4,151,665**

23.10 Movements in options granted under the France Telecom 2005 UK tax-approved plan

Details of the options granted under the France Telecom 2005 UK tax-approved plan to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009
Options outstanding on 1 January 2010	**65,441**	**149,565**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(7,520)	1,880
Exercised	-	-
Lapsed	(57,921)	(86,004)
Options outstanding on 31 December 2010	**-**	**65,441**

23.11 Movements in options granted under the France Telecom 2005 tax-unapproved plans

Details of the options granted under the France Telecom 2005 tax-unapproved plans to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009
Options outstanding on 1 January 2010	**299,839**	**767,265**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(44,630)	213,920
Exercised	-	-
Lapsed	(74,300)	(681,346)
Options outstanding on 31 December 2010	**180,909**	**299,839**

23.12 Movements in options granted under the France Telecom 2007 plans

Details of the options granted under the France Telecom 2007 plans to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009
Options outstanding on 1 January 2010	**541,700**	**634,400**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(65,200)	(55,000)
Exercised	-	-
Lapsed	(275,300)	(37,700)
Options outstanding on 31 December 2010	**201,200**	**541,700**

23.13 Movements in options granted under the Wanadoo plans

Details of the options granted under the Wanadoo plans to the company's employees can be summarised as follows for the 2010 and 2009 financial years:

	2010	2009
Options outstanding on 1 January 2010	**39,817**	**52,525**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	-	3,122
Exercised	(8,205)	(14,361)
Lapsed	(8,807)	(1,469)
Options outstanding on 31 December 2010	**22,805**	**39,817**

23.14 Fair value of options granted and options re-measured during the period

France Telecom has measured the fair value of goods or services received from employees during the year based on the fair value of the equity instruments granted.

Al the fair values of stock granted in 2007 were calculated using a binominal model which reflects the expected behaviour of grantees and also assumes that all the options will be exercised once the value of underlying shares reaches twice the exercise price.

The assumptions used to measure fair value are as follows:

	France Telecom SA plans
Price of underlying at the grant date	20.40 euros
Exercise price	21.61 euros
Expected volatility	21.00%
Option term (contractual or expected)	9.89 years
Turnover rate (annual)	1.50%
Expected dividend payout rate	6.00%
Risk-free yield	4.50%

23.15 Fair value of options granted

	2010		**2009**	
	Expense for the year	Liability recognised	Expense for the year	Liability recognised
	£m	£m	£m	£m
Total for all share-based payment plans	-	-	1	16

24. Derivatives

The company purchased forward foreign currency contracts to hedge currency exposure on firm future commitments. The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:

	2010	2009
	£m	£m
Forward foreign currency contracts	-	52

25. Related Party Transactions

2009

During 2009 Orange Personal Communications Services Limited and the following companies were subject to a common controlling influence, France Telecom S.A (see note 2). The following balances, all transacted under normal commercial terms, are included in these financial statements:

	Sales	Purchases	Debtors	Creditors
	£m	£m	£m	£m
Egyptian Company for Mobile Services S.A.E.	1	-	-	-
Mobistar S.A.	1	-	-	-

3 months ended 31 March 2010

During the period ended 31 March 2010 there were no material transactions between Orange Personal Communications Services Limited and companies subject to a common controlling influence, France Telecom S.A (see note 2).

3 months ended 30 June 2010

During the 3 month period ended 30 June 2010 France Telecom S.A. charged the company for a series of services, including IT and network support and licences, management fees, and international roaming charges. In addition, a royalty fee is charged for the use of the Orange brand. Total charges in the period amounted to £40 million, and the balance outstanding at 30 June 2010 was £nil million.

During the 3 month period ended 30 June 2010 Deutsche Telekom A.G. charged the company for international roaming charges. Total charges for the period amounted to £2 million, and the balance outstanding at 30 June 2010 was £nil million.

6 months ended 31 December 2010

Following the hive up of the trade and assets to Everything Everywhere the company was dormant during the 6 month period ended 31 December 2010.

26. Parent undertakings

At 31 December 2009 Orange Limited, a company incorporated in the United Kingdom, was the immediate parent undertaking. On 26 March 2010 Orange Limited transferred its shareholding in Orange Personal Communications Services Limited to Orange Jersey Limited.

The immediate parent undertaking at 31 December 2010 was Orange Jersey Limited, a company incorporated in Jersey, Channel Islands.

At 31 December 2010, the ultimate parent undertaking was Everything Everywhere Limited, a company incorporated in the United Kingdom. Copies of Everything Everywhere Limited's consolidated financial statements can be obtained from The Company Secretary, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

At 31 December 2010 the immediate shareholders of Everything Everywhere Limited, 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. Copies 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.

27. Events after the balance sheet date

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

6. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF ORANGE PERSONAL COMMUNICATIONS SERVICES LIMITED FOR THE PERIOD 1 JANUARY 2009 TO 31 DECEMBER 2009

In this set of accounts the term the "company" refers to OPCS.

Directors' Report

The director presents its annual report and the audited financial statements of the company for the year ended 31 December 2009.

Principal activities, business review and future developments

The company is principally involved with the operation of a national digital wirefree personal communications network and the provision of digital telecommunications services. The company continues to invest in the development of digital mobile communications technology.

The company's financial and other performance indicators during the year were as follows:

	2009 £m	£m 2008	Change
Turnover	4,586	4,676	(2)%
Operating profit	192	344	(44)%
Profit after tax	1,852	370	401%
Shareholder's funds	1,897	244	677%
Current assets as % current liabilities	78%	49%	59%
Average number of employees	9,159	9,227	(1)%
Subscriber base (million)	16.5	16.0	3%

Turnover in 2009 decreased by 2% compared to 2008 due to a reduction in average revenue per user, partly offset by an increase in the subscriber base. Operating profit in 2009 decreased by £152 million, this is mainly due to a decrease in the turnover, together with increased in-bundle usage per user.

During the year the company sold the residual value in the Orange brand to a sister company, Orange Brand Services Limited for £1,678m. The sale had a large impact on the reported profit after tax for the year.

In 2009 the company made a profit after tax of £1,852 million and a dividend payment of £200 million was made to its immediate parent company, Orange Limited.

Subscriber connections continued to increase during 2009. The closing subscriber base was 16.5 million at 31 December 2009 compared with 16 million at 31 December 2008.

During the forthcoming year the company will continue to aim to grow its customer bases and to differentiate its telecommunication services by offering an increasing number of different multi-media applications to its subscribers. The director expects the market to continue to be highly challenging following the economic downturn but, will maintain the existing policies that have resulted in steady growth over the past few years and will continue to focus on cost control at all levels of the business. Consequently, the director believes that the company is well placed to continue its success in the forthcoming year and beyond.

Going concern review

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 this Directors' Report.

The company is expected to continue to generate positive cash flows for the foreseeable future.

The director having assessed the responses of the company's ultimate parent France Telecom SA to its enquiries and taking into account the post year end restructuring noted below, has 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 director has a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future, and thus continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties

The company has an active risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted on behalf of the director by the relevant business function.

External

The Orange business is directly impacted by the external environment and in particular the regulatory environment and competitive marketplace the company operates in.

Level of competitive activity

The mobile communications market in the UK is highly competitive. 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 company to respond by developing innovative customer propositions and retention campaigns.

Regulatory factors

The company's operations are subject to stringent regulatory requirements. The company monitors regulatory developments and undertakes regular reviews and audits to ensure compliance.

Price risk

The company is not exposed to significant commodity price risk given the nature of its business and has no exposure to equity security price risk as it holds no listed equity investments.

Credit risk

Credit risk is the risk that one party to a transaction will cause a financial loss for the other party by failing to discharge an obligation. The company's policies are aimed at minimising such losses, 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.

Liquidity risk

The company actively maintains a mixture of long-term and short-term debt financing that is designed to ensure the company has sufficient funds for operations and planned growth.

Foreign exchange risk

The company is exposed to foreign exchange risk arising from the purchases of inventory and capital equipment in currencies other than sterling. The risk is mitigated by the treasury policy of arranging forward currency exchange contracts on the market.

Results for the year, dividends and transfer to reserves

The profit for the year after taxation was £1,852 million (2008: £370 million) on a turnover of £4,586 million (2008: £4,676 million) and has been transferred to reserves. Detailed results for the year are shown in the profit and loss account on page 288.

Dividends of £200 million were declared and paid during the year (2008: £2,294 million) to Orange Limited.

Directors

The director, who held office during the year, and up to the date of signature, is given below:

Orange Limited

There is no director's interest requiring disclosure under the Companies Act 2006.

Research and development

The company is active in the forums which are developing the standards for future mobile communications services with company's representatives holding key positions. The company is ensuring that its policies are in keeping with the policies and strategies evolved in these forums.

Political and charitable donations

The company has made charitable donations during the year of £180,500 (2008: £101,422).

The company made no political donations during the year (2008: £nil).

Events since the balance sheet date

On 8 September 2009, France Telecom SA, the ultimate parent undertaking, announced that it had entered into exclusive negotiations to combine the company's mobile telephone activities with those of Deutsche Telekom AG's subsidiary T-Mobile (UK) Limited in a new 50:50 joint venture company (the 'JV').

As at the date of these accounts the JV had been given regulatory approval and both France Telecom SA and Deutsche Telekom AG continue to work towards the implementation of the JV.

Since the balance sheet date and in preparation for the JV, the company has acquired, from fellow France Telecom SA Group companies:

- 100% interests in Orange Retail Limited; Orange Home UK Limited; Orange Pension Trustees Limited and Orange FURBS Trustees Limited; and

- minority interests in Midland Communications Distribution Limited and Mainline Communications Group Plc.

Restructuring in preparation for the JV, which has taken place before the balance sheet date, is described elsewhere within these accounts and in accordance with accounting standards.

On 15 January 2010 the company completed an exercise to repay or receive payments from other France Telecom subsidiaries that will not be included within the JV.

The residual lease at 31 December 2009 was with Commerzbank, this lease was repaid on 25 February 2010 for £121 million.

On 23 March 2010 the company issued 972,665,228 £1 ordinary shares at par to Orange Limited for cash.

On 23 March 2010 the company received a short term loan of £1,250,000,000 from Atlas Services Belgium SA (ASB) a subsidiary of France Telecom.

On 23 March 2010 the company repaid its long term loan of £1,893,184,334 and short term loan of £657,000,000 with Orange Global Limited. It is expected that the short term ASB loan will be refinanced by a long term loan on completion of the JV.

Employees

Orange in the United Kingdom is managed on a unified basis. All UK group companies adhere to the employment policies and procedures issued from time to time by the UK Group. Orange Personal Communications Services Limited hosts the employment contracts and operates the payroll on behalf of all UK companies.

Employee involvement

The company ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during 2009 including a monthly employee magazine, 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 an employee opinion survey (“people poll”) which is conducted annually. 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 2009, the company continued to operate comprehensive consultative arrangements throughout the organisation. These comprised eight local employee consultation forums and an overarching national employee consultation forum. Each body is characterised by elected employee representatives regularly meeting with senior managers to discuss items of employee interest and issues arising from business proposals and changes.

The company’s ultimate parent company, France Telecom SA also facilitates a European Works Council in which the company participates. Elected employee representatives sit on the France Telecom European Works Council in order to take part in consultative and information sharing activities at European level with management.

Equal opportunities and disabled employees

The company strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.

The company is committed to valuing the diversity of its people and to improve and measure its performance 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.

The company will make every effort to ensure that known disabled employees, and those employees that become disabled during their employment, will be given appropriate levels of support. Where practical, reasonable adjustments will be considered to ensure disabled employees can continue in employment, maximise their potential and have equality of opportunity throughout their career with the company.

Disclosure of information to the auditor

So far as the director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, the director has taken all the steps that it is obliged to take as a director in order to make itself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

In accordance with S485 of the Companies Act 2006 a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

By order of the board

Charles Mowat
Company Secretary

Date: 26/03/2010

Registered Office:
St James Court
Great Park Road
Almondsbury Park
Bradley Stoke
Bristol
BS32 4QJ

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Orange Personal Communications Services Limited

We have audited the financial statements of Orange Personal Communications Services Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 27. 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 285, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- 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 financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director’s remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Naresh Alimchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

29 March 2010

Profit and loss account

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
TURNOVER	1,3	4,586	4,676
Cost of sales	1	(3,940)	(3,836)
GROSS PROFIT		646	840
Administrative expenses		(183)	(159)
Distribution costs		(327)	(345)
Other operating income		56	8
OPERATING PROFIT	4	192	344
Profit on sale of intangible asset	5	1,683	-
Interest receivable and similar income	6	21	37
Interest payable and similar charges	7	(7)	(23)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	10	1,889	358
Tax (charge) / credit on profit on ordinary activities		(37)	12
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	20	1,852	370

All activities relate to continuing operations.

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Balance Sheet

As at 31 December 2009

	Notes	2009 £m	Restated 2008 £m
FIXED ASSETS			
Intangible assets	11	2,757	2,986
Tangible assets	12	1,795	1,940
		4,552	4,926
CURRENT ASSETS			
Stocks	13	71	78
Debtors	14	1,415	1,632
Debtors subject to financing arrangements:			
- Net debtors	15	-	183
- Less: non-returnable amounts received	15	-	(108)
Deposits held for finance leases		-	1
Cash at bank and in hand		6	18
		1,492	1,804
CREDITORS: Amounts falling due within one year	16	(1,923)	(3,690)
NET CURRENT LIABILITIES		(431)	(1,886)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,121	3,040
CREDITORS: Amounts falling due after more than one year	17	(2,029)	(2,577)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(195)	(219)
NET ASSETS		1,897	244
CAPITAL AND RESERVES			
Called up equity share capital	19	29	29
Equity settled stock option plan liability	23	16	15
Profit and loss account	20	1,852	200
TOTAL EQUITY SHAREHOLDER'S FUNDS	21	1,897	244

These financial statements on pages 288 to 306 were approved by the board of directors on 26 March 2010 and were signed on its behalf by:

Neal Milsom

For and on behalf of Orange Limited, Director

Date: 26/03/2010

Notes to the financial statements for the year ended 31 December 2009

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS 18') "Accounting Policies", the director has reviewed the accounting policies set out below and is of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of Orange Personal Communications Services Limited for the year ended 31 December 2009.

Prior period restatement

The comparative figures for the year ended 31 December 2008 were restated to record the Asset Retirement Obligation and Waste Electrical and Electronic Equipment provision within provisions for liabilities and charges. The amendment increased provisions for liabilities and charges by £65m and decreased creditors: amounts falling due after more than one year by the same amount, the amendment had no change to the operating profit or net assets.

(b) 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 Orange network, together with interconnect income earned but not invoiced;
- Connected handsets and related accessories supplied to both subscribers and intermediaries within the period;
- Income from pre-paid customers which is deferred in the balance sheet on purchase by the customer and released to the profit and loss account as calls are made.

Turnover excludes airtime income billed in advance and value added tax.

(c) Cost of sales

Cost of sales includes:

- Amortisation of capitalised network costs over the useful economic life of the asset;
- The cost of Orange handsets connected in the period to the company's network;
- Costs of leasing lines from other telecommunications operators;
- Interconnect costs of terminating calls on other networks;
- Costs of day to day network operation and maintenance.

(d) Stocks

Stocks comprise handsets and other goods for resale. Stocks of new handsets are held at the lower of average cost and net realisable value.

Any provision required to reduce stock from average cost to net realisable value is estimated by management on the basis of projected future sales of handsets into the distribution channels.

(e) Intangible fixed assets

Licences to operate mobile networks are recorded within intangible assets. They are recorded at cost of acquisition and are amortised on a straight line basis over the period in which the company benefits from use of the licence. UMTS licences are amortised from the date of commercialisation of services

(f) Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation.

The cost of the Orange network comprises network assets purchased at cost, together with direct construction and enhancement costs. Estimates of the level of overhead cost relating directly to network build or enhancement are made on a percentage basis at the cost centre level.

Costs of maintaining the network are charged to the profit and loss account as incurred.

Depreciation is calculated using the straight line method to write off the cost of each asset over its estimated useful life according to the following rates:

Freehold land	Nil
Freehold buildings	50 years
Short term leasehold improvements	shorter of 10 years or lease term
Networks	5-20 years
Computer equipment	3-5 years
Fixtures, fittings and equipment	5-6 years

The company selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When setting useful economic lives, the principal factors the company takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

(g) Impairment

If a significant indicator of a possible impairment is noted, the need for any fixed asset impairment provision is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use. The value in use is determined from estimated discounted future cash flows. Discount rates are based on the circumstances applicable in each case.

(h) Research and development costs

Research and development costs are charged to the profit and loss account as incurred.

(i) Advertising costs

All advertising costs are charged to the profit and loss account as incurred.

(j) Finance costs

Finance costs represent interest charges on inter-company borrowings, securitised debts, finance leases and bank charges relating to external overdraft facilities and are charged to the profit and loss account as incurred.

(k) Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(l) Leased assets

Where the company has substantially all the risks and rewards of ownership of an asset subject to lease, that lease is treated as a finance lease with the equivalent of cost recorded as both a fixed asset and a liability. Depreciation is provided in line with the company accounting policy for the underlying assets. Finance charges, included in interest, are allocated over each lease to produce a constant rate of charge on the outstanding balance.

Other leases are classified as operating leases and lease payments are charged to the profit and loss account in the year to which they relate.

(m) Pension and other post retirement obligations

The company operates defined contribution schemes for its eligible employees. The company’s contributions to the pension schemes are charged to the profit and loss account in the year to which they relate.

(n) Foreign currencies

Transactions in foreign currencies are recorded using the average monthly market exchange rate. Foreign currency monetary assets and liabilities are translated into sterling at year end rates.

(o) Share-based Payments - Equity settled transactions

In accordance with FRS20 ‘Share-based Payment’, the cost of the employee share offer corresponds to the fair value of the rights to shares at the grant date. The value of stock options is determined by reference to the exercise price, the life of the options, the current price of the underlying shares, the expected share price volatility, expected dividends and the risk-free interest rate over the life of the options. The amount is recognised in administrative expenses on a straight line basis over the period between the grant date and the exercise date – corresponding to the vesting period – and in equity.

(p) Derivative instruments

The company uses forward currency contracts to reduce exposure to foreign exchange rates. The company considers its derivative instruments qualify for hedge accounting when certain criteria are met.

The criteria for forward foreign currency contracts are:

- The instrument must be related to a firm foreign currency commitment;
- It must involve the same currency as the hedged item; and
- It must reduce the risk of foreign currency exchange movements on the company's operations.

The rates used under contracts are used to record the hedged item. As a result, gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs.

(q) Provisions for liabilities and charges

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

2. Cash flow statement and related party disclosures

The results of the company are included in the consolidated financial statements of France Telecom SA, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the France Telecom S.A. group, the ultimate parent company, or investees of the France Telecom SA group.

Other related party transactions are disclosed in note 25.

3. Turnover

The geographical analysis of sales to third parties of goods and services is as follows:

	2009	2008
	£m	£m
United Kingdom	4,540	4,631
Rest of the World	46	45
	4,586	4,676

All sales originate in the United Kingdom.

The company is principally engaged in one class of activity, being telecommunications, comprising the operation of telecommunications networks and the supply of a range of mobile voice and data communications services and products.

4. Operating profit

		2009	2008
Operating profit is stated after charging:		£m	£m
Auditor's remuneration		1	1
Depreciation of tangible fixed assets	- owned	426	395
	- leased	34	46
Amortisation of intangible fixed assets		229	230
Employee costs (note 8)		333	336
Operating lease rentals	- land and buildings	13	14
	- network sites	90	90
	- leased lines	36	49
	- other	4	5

The remuneration of the auditor is further analysed as follows:

	2009	2008
	£m	£m
Audit of the financial statements	1	1
	1	1

5. Profit on sale of intangible asset

The company sold the residual value in the Orange brand to Orange Brand Services Limited, a fellow member of the France Telecom SA group, for £1,678 million on 30 October 2009. The asset was held on the balance sheet at £nil resulting in a gain of £1,678 million. The company also sold software licences to France Telecom for a gain of £5 million on 31 December 2009.

There is no tax arising on these disposals.

6. Interest receivable and similar income

	2009	2008
	£m	£m
Amounts received from France Telecom S.A. and its subsidiaries	18	37
Net change in financial assets at fair value through Profit and Loss	3	-
	21	37

7. Interest payable and similar charges

	2009	2008
	£m	£m
Net change in financial assets at fair value through Profit and Loss	-	2
Securitisation interest (note 15)	4	10
Finance leases	3	11
	7	23

8. Employees and director's remuneration

The corporate director received no remuneration.

The average number of persons employed by the company during the year was as follows:

	2009	2008
	Number	Number
Telecommunications	9,159	9,227

The aggregate payroll costs of these persons were as follows:

	2009 £m	2008 £m
Wages and salaries	283	285
Social security costs	31	32
Other pension costs	16	17
Share based payments	3	2
	333	336

9. Pensions

The pension cost for defined contribution schemes, which represents contributions payable by the company amounted to £16 million (2008: £17 million). Included in other creditors is £2 million (2008: £3 million) in respect of contributions payable to the schemes.

10. (a) Tax on profit on ordinary activities

	2009 £m	2008 £m
Current tax		
Current tax charge for the year	78	12
Adjustments in respect of previous years	(16)	(45)
Total current tax charge / (credit) (note 10b)	62	(33)
Deferred tax		
Origination and reversal of timing differences	(25)	21
Total deferred tax (credit) / charge (note 18)	(25)	21
Tax charge / (credit) on profit on ordinary activities	37	(12)

(b) Factors affecting the current tax charge

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28% (2008: 28.5%). The difference is explained as follows:

	2009 £m	2008 £m
Profit on ordinary activities before taxation	1,889	358
Profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28% (2008: 28.5%)	529	102
Factors affecting the charge:		
Disallowable expenses	4	4
Short-term timing differences	(1)	(1)
Unrecorded tax deductible interest	-	(47)
Group relief claimed for nil payment	(15)	(64)
Depreciation in excess of capital allowances	31	18
Non-taxable intangible asset disposals	(470)	-
Adjustments in respect of previous years	(16)	(45)
Current tax charge /(credit) for the year (note 10a)	62	(33)

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for the year ended 31 December 2009 have been taxed at 28% (2008: average rate of 28.5%).

(d) Deferred taxation

The deferred tax liability provided in the financial statements is analysed as follows:

	2009 £m	2008 £m
Accelerated capital allowances	131	156
Other short term timing differences	(12)	(12)
Deferred tax liability provided (note 18)	119	144

There is no unprovided deferred taxation.

11. Intangible assets

	Licence £m
Cost	
1 January 2009 and 31 December 2009	4,097
Amortisation	
1 January 2009	(1,111)
Charge for the year	(229)
31 December 2009	(1,340)
Net book amount	
31 December 2009	2,757
31 December 2008	2,986

The UMTS licence, acquired by the group in 2000 to operate mobile services in the United Kingdom, provides an allocation of frequency spectrum and the right to deliver mobile services for 20 years commencing 1 January 2002 until 31 December 2021.

The cost of the licence includes acquisition costs. The licence was amortised from 1 March 2004, the date at which telecommunication services related to the licence became operational.

12. Tangible assets

	Freehold land and buildings £m	Short term Leasehold Improvements £m	Network £m	Fixtures, Fittings and Equipment £m	Total £m
Cost					
1 January 2009	31	33	4,444	944	5,452
Additions	-	7	187	129	323
Disposals		(1)	(77)	(51)	(129)
31 December 2009	31	39	4,554	1,022	5,646
Depreciation					
1 January 2009	(9)	(26)	(2,895)	(582)	(3,512)
Charged in the year	(1)	(3)	(352)	(104)	(460)
Disposals	-	1	73	47	121
31 December 2009	(10)	(28)	(3,174)	(639)	(3,851)
Net book amount					
31 December 2009	21	11	1,380	383	1,795
31 December 2008	22	7	1,549	362	1,940

Network includes assets held under finance leases with a net book value of £53 million at 31 December 2009 (2008: £141 million). Network assets include capitalised interest of £18 million at 31 December 2009 (2008: £18 million) with a net book value of £nil (2008: £nil).

Fixtures, fittings and equipment include assets held under finance leases with a net book value of £1 million at 31 December 2009 (2008: £1 million).

13. Stocks

	2009 £m	2008 £m
Finished goods and goods for resale	71	78

Stocks principally comprise handsets for use with the Orange network.

14. Debtors

	2009 £m	2008 £m
Trade debtors	410	256
Amounts due from group undertakings	623	964
Other debtors	18	25
Corporation tax	-	26
Prepayments and accrued income	364	361
	1,415	1,632

15. Debtors subject to financing arrangements

The following are included in debtors within the company's working capital facilities:

	2009 £m	2008 £m
Gross securitised debts	-	327
Less: provision for securitised debts	-	(144)
Net securitised debts	-	183
Non-returnable proceeds	-	(108)
	-	75

In previous years within the company's working capital facilities, certain trade debtors were assigned as security against the advance of cash. The security was represented by the assignment of a pool of trade debtors, held by the company, to the providers of the working capital facility. The financing provided against this pool took into account the risks that may have been attached to individual debtors and the expected collection period. This facility ceased as at November 2009.

Of the financing, £nil million (2008: £75 million) has certain recourse and returnable terms so it does not qualify for linked presentation and is included in creditors (note 16).

Interest costs of £4 million (2008: £10 million) have been incurred in the year and are included in interest payable and similar charges (note 7).

16. Creditors: Amounts falling due within one year

	2009 £m	2008 £m
Bank overdrafts	18	5
Working capital financing arrangements (note 15)	-	75
Obligations under finance leases	1	1
Trade creditors	197	184
Amounts owed to group undertakings	677	2,365

Other creditors	58	59
Corporation tax	93	-
Taxation and social security	38	110
Accruals and deferred income	841	891
	1,923	3,690

17. Creditors: Amounts falling due after more than one year

	2009 £m	Restated 2008 £m
Amounts owed to group undertakings	1,893	1,794
Accruals and deferred income	15	10
Obligations under finance leases	121	773
	2,029	2,577

There is no fixed repayment plan on the parent undertaking loans.

The debt falling due after more than one year is repayable as follows:

	2009 £m	Restated 2008 £m
Between one and two years	2,029	135
Between two and three years	-	78
Between three and four years	-	90
Between four and five years	-	103
After five years	-	2,171
Total due for repayment after more than one year	2,029	2,577

The £1,893 million loan with Orange Holdings (UK) Limited has been transferred to Orange Global Limited during 2009. The loan was repaid on 23 March 2010 but it is expected that it will be replaced by a further long term loan of £1,250 million.

As part of preparing for the JV the company repaid most of its finance leases during the year. The residual lease at 31 December 2009 was with Commerzbank, this lease was repaid on 25 February 2010 for £121 million.

18. Provisions for liabilities and charges

	Deferred tax liability £m	Property Provision £m	ARO / WEEE provision £m	Total £m
At 1 January 2009 (restated)	144	10	65	219
Utilised during year	(25)	(11)	-	(36)
Increase in the provision during the year	-	5	7	12
At 31 December 2009	119	4	72	195

Deferred tax liability

An analysis of the deferred tax liability is included in note 10d).

Property provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under the lease contracts, being the difference between rentals paid and the sub lease rentals received has been provided for at its net present value. The provisions relate to property leases expiring between 2010 and 2023.

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (WEEE)

This represents the liability relating to the responsibility of the company to dismantle radio frequency mast sites where leases are not renewed and to dispose of electrical equipment at the end of its life. These obligations are provided for at their net present value.

19. Share capital

	2009 Number	2009 £m	2008 Number	2008 £m
Authorised ordinary shares of £1	600,000,000	600	600,000,000	600
Allotted, called up and fully paid ordinary shares of £1	29,040,519	29	29,040,519	29

On 22 March 2010 the company issued 950,000,000 £1 ordinary shares at par to Orange Limited for cash.

20. Profit and loss account

	£m
At 1 January 2009	200
Profit for the year	1,852
Dividends declared and paid during the year	(200)
At 31 December 2009	1,852

21. Reconciliation of movements in equity shareholder's funds

	2009 £m	2008 £m
Profit for the year	1,852	370
Dividends declared and paid during the year	(200)	(2,294)
	1,652	(1,924)
Equity settled stock option plan liability	1	1
Opening equity shareholder's funds	244	2,167
Closing equity shareholder's funds	1,897	244

22. *Financial commitments*

Amounts due under finance leases

As at 31 December 2009	Fixtures, fittings and equipment £m	Network £m	Total 2009 £m
Amount payable:			
Within one year	-	121	121
Within one to five years inclusive	-	-	-
After five years	-	-	-
	-	121	121

As at 31 December 2008	Fixtures, fittings and equipment £m	Network £m	Total 2008 £m
Amount payable:			
Within one year	-	25	25
Within one to five years inclusive	1	271	272
After five years	-	202	202
	1	498	499

Amounts due under operating leases

As at 31 December 2009	Land and Buildings £m	Network Sites £m	Other Leases £m	Total 2009 £m
Payable within one year of the balance sheet date in respect of leases expiring:				
Within one year	1	6	13	20
Between two and five years	-	28	11	39
After five years	15	41	-	56
Total payable within one year	16	75	24	115

As at 31 December 2008	Land and Buildings £m	Network Sites £m	Other Leases £m	Total 2008 £m
Payable within one year of the balance sheet date in respect of leases expiring:				
Within one year	-	9	21	30
Between two and five years	5	23	8	36
After five years	14	40	-	54
Total payable within one year	19	72	29	120

Capital expenditure	2009 £m	2008 £m
Contracts placed for capital expenditure not provided for in the accounts	52	97

23. Share-based Payments

23.1 Orange Share options for OPCS Employees

Following the purchase of minority shares in Orange S.A., France Telecom in 2004 offered to all option holders, the France Telecom Liquidity Agreement, which guaranteed that France Telecom would purchase Orange shares acquired on exercise, and exchange them for France Telecom shares, cash, or a combination of both (to be decided by France Telecom). Since September 2005 France Telecom has offered shares under the Liquidity agreement. The exchange ratio since September 2005 has been 1 Orange share for 0.446 France Telecom S.A. share.

All share option plans have a 10-year term.

No Orange options have been granted since May 2003 and all options under the share options plans have now vested. Options were granted for OPCS employees between 2001 and 2003.

All options were exercisable at 31 December 2009.

23.2 Employee Share Offers

Following the sale of France Telecom shares by the French State in June 2007, employees were offered the opportunity to purchase France Telecom shares at a discounted price. In the UK shares were offered at a price of £14.69. The shares were delivered on 29 January 2008 and under the Classic Plan are subject to a 2-year holding period, during which the shares cannot be disposed of in any way. If the shares are held for 3 years from date of delivery, France Telecom will provide free bonus shares on an allocation of 1 Free France Telecom share for each 4 shares purchased and held for 3 years. The maximum number of bonus shares available is 30. In addition to the Classic Plan, France Telecom offered a Leverage Plan which enabled eligible employees to purchase 22 shares; this has a 4 year holding period and offers a guaranteed cash payout in April 2012.

Similar share offerings were made in 2004 and 2005, following the sale of shares by the French State. The purchase price for UK employees was £10.68 in 2004, bonus shares were awarded on 21 January 2008 for all employees who had not withdrawn their shares, the maximum award being 81 shares. Under the 2005 offer the purchase price for UK employees was £13.40, bonus shares were awarded on 7 November 2008 for all employees who had not withdrawn their shares, the maximum award being 63 shares.

23.3 Share Incentive Plan

In September 2005, the France Telecom Purchase Incentive Plan and trust was established under the Income Tax (Earnings & Pensions) Act 2003, and formally approved by HM Revenue & Customs. This allows eligible employees to acquire shares in France Telecom S.A.

Employees can acquire shares via:

- Partnership Shares - Eligible employees can purchase monthly “partnership shares”, via the trust, up to £1,500 or to 10% of annual pre-tax salary each year.

- Matching Shares - One matching share is offered for every partnership share purchased by the employees, up to the value of £50 per month.

- Free Shares - Free shares can be offered up to £3,000 per employee in any tax year. This part of the plan has not been operated.

- Dividend Shares - The company can grant dividend shares up to £1,500 in any tax year.

23.4 Share Incentive Plan

From March 2007 the partnership share agreement has permitted purchase of dividend shares if the participant elects to reinvest the net dividend received. The first dividend shares were purchased in July 2007.

The matching shares are subject to forfeiture in certain circumstances for the first twelve months of acquisition, and are required to remain in the trust for three years.

23.5 France Telecom Stock Option Plan

In October 2005 and May 2007 France Telecom granted share options to selected senior employees on a world-wide basis. Employees of Orange Personal Communications Services Limited are participants of these grants. In October 2005 options were granted under both tax-approved and tax-unapproved plans in the UK. In May 2007 all options granted were tax-unapproved.

All share options are for a 10-year term. No options have yet vested. Options granted in October 2005 vested and became exercisable in October 2008.

23.6 Wanadoo UK Share Option Plan

Following the purchase of minority shares in Wanadoo, France Telecom exchanged Wanadoo share options for France Telecom stock options in September 2004, at a ratio of 7 France Telecom S.A. shares for 18 Wanadoo S.A. shares. There was a further adjustment in September 2005 following a France Telecom increase in share capital.

Under the UK element of the share option plan all options have 10-year terms and are equity-settled, although they were temporarily settled by cash from 9, March 2004 to 1, September 2004.

No options have been granted since November 2003 and all options under the share options plans have now vested. Options were granted for UK employees between 2001 and 2003.

23.7 Movements in share options for OPCS Ltd's employees

Details of the share options granted in Orange S.A. to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**4,699,739**	**4,761,823**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(42,167)	435,879
Exercised	(57,793)	(179,359)
Lapsed	(448,114)	(318,604)
Options outstanding on 31 December 2009	**4,151,665**	**4,699,739**

23.8 Movements in options granted under the Orange S.A. stock option plan

Details of the options granted under the Orange S.A. stock option plan to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**18,128**	**18,128**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(18,128)	-
Exercised	-	-
Lapsed	-	-
Options outstanding on 31 December 2009	**0**	**18,128**

23.9 Movements in options granted under the International share option plans

Details of the options granted under the International share option plans to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**4,681,611**	**4,743,695**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	(24,039)	435,879
Exercised	(57,793)	(179,359)
Lapsed	(448,114)	(318,604)
Options outstanding on 31 December 2009	**4,151,665**	**4,681,611**

23.10 Movements in options granted under the France Telecom 2005 UK tax-approved plan

Details of the options granted under the France Telecom 2005 UK tax-approved plan to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**149,565**	**136,908**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	1,880	65,947
Exercised	-	-
Lapsed	(86,004)	(53,290)
Options outstanding on 31 December 2009	**65,441**	**149,565**

23.11 Movements in options granted under the France Telecom 2005 tax-unapproved plans

Details of the options granted under the France Telecom 2005 tax-unapproved plans to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**767,265**	**648,802**
Granted	-	-
Transferred from Orange Limited and Orange Home UK Limited (net)	213,920	420,513
Exercised	-	-
Lapsed	(681,346)	(302,050)
Options outstanding on 31 December 2009	**299,839**	**767,265**

23.12 Movements in options granted under the France Telecom 2007 plans

Details of the options granted under the France Telecom 2007 plans to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**634,400**	**617,900**
Granted	-	-
Transferred to Orange Limited	(55,000)	130,700
Exercised	-	-
Lapsed	(37,700)	(114,200)
Options outstanding on 31 December 2009	**541,700**	**634,400**

23.13 Movements in options granted under the Wanadoo plans

Details of the options granted under the Wanadoo plans to the company's employees can be summarised as follows for the 2009 and 2008 financial years:

	2009	2008
Options outstanding on 1 January 2009	**52,525**	**58,504**
Granted	-	-
Transferred from Orange Home Limited	3,122	5,410
Exercised	(14,361)	(11,389)
Lapsed	(1,469)	-
Options outstanding on 31 December 2009	**39,817**	**52,525**

23.14 Fair value of options granted and options re-measured during the period

France Telecom has measured the fair value of goods or services received from employees during the year based on the fair value of the equity instruments granted.

All the fair values of stock granted in 2007 were calculated using a binominal model which reflects the expected behaviour of grantees and also assumes that all the options will be exercised once the value of underlying shares reaches twice the exercise price.

The assumptions used to measure fair value are as follows:

	France Telecom SA plans
Price of underlying at the grant date	20.40 euros
Exercise price	21.61 euros
Expected volatility	21.00%
Option term (contractual or expected)	9.89 years
Turnover rate (annual)	1.50%
Expected dividend payout rate	6.00%
Risk-free yield	4.50%

23.15 Fair value of options granted

	2009		**2008**	
	Expense for the year Fm	Liability recognised £m	Expense for the year £m	Liability recognised £m
Total for all share-based payment plans	1	16	1	15

24. Derivatives

The company purchases forward foreign currency contracts to hedge currency exposure on firm future commitments. The fair values of the derivatives held at the balance sheet date, determined by reference to their market values, are as follows:

	2009	2008
	£m	£m
Forward foreign currency contracts	-	52

25. Related Party Transactions

Orange Personal Communications Services Limited and the following companies are subject to a common controlling influence, France Telecom S.A (see note 2). The following balances, all transacted under normal commercial terms, are included in these financial statements:

2009	Sales	Purchases	Debtors	Creditors
	£m	£m	£m	£m
Egyptian Company for Mobile Services S.A.E.	1	-	-	-
Mobistar S.A.	1	-	-	-

2008	Sales	Purchases	Debtors	Creditors
	£m	£m	£m	£m
Egyptian Company for Mobile Services S.A.E.	1	(3)	-	(1)
Orange Slovensko (ex Globtel)	-	-	1	-
Mobistar S.A.	1	(1)	-	(1)
Orange Dominicana S.A.	-	(1)	-	-

26. Parent undertakings

The immediate parent undertaking is Orange Limited, a company incorporated in the United Kingdom.

The ultimate parent undertaking and controlling party at 31 December 2009 was France Telecom S.A. which is the parent undertaking of the smallest and largest group to consolidate these financial statements. France Telecom S.A. is a company incorporated in France. Copies of France Telecom S.A. consolidated financial statements can be obtained from the General Counsel at 6 Place d'Alleray, 75505 Paris, Cedex 15, France.

27. Events since the balance sheet date

On 8 September 2009, France Telecom SA, the ultimate parent undertaking, announced that it had entered into exclusive negotiations to combine the company's mobile telephone activities with those of Deutsche Telekom AG's subsidiary T-Mobile (UK) Limited in a new 50:50 joint venture company (the 'JV').

As at the date of these accounts the JV had been given regulatory approval and both France Telecom SA and Deutsche Telekom AG continue to work towards the implementation of the JV.

Since the balance sheet date and in preparation for the JV, the company has acquired, from fellow France Telecom SA Group companies:

- 100% interests in Orange Retail Limited; Orange Home UK Limited; Orange Pension Trustees Limited and Orange FURBS Trustees Limited; and

- minority interests in Midland Communications Distribution Limited and Mainline Communications Group Plc.

Restructuring in preparation for the JV, which has taken place before the balance sheet date, is described elsewhere within these accounts and in accordance with accounting standards.

On 15 January 2010 the company completed an exercise to repay or receive payments from other France Telecom subsidiaries that will not be included within the JV.

The residual lease at 31 December 2009 was with Commerzbank, this lease was repaid on 25 February 2010 for £121 million.

On 23 March 2010 the company issued 972,665,228 £1 ordinary shares at par to Orange Limited for cash.

On 23 March 2010 the company received a short term loan of £1,250,000,000 from Atlas Services Belgium SA (ASB) a subsidiary of France Telecom.

On 23 March 2010 the company repaid its long term loan of £1,893,184,334 and short term loan of £657,000,000 with Orange Global Limited. It is expected that the short term ASB loan will be refinanced by a long term loan on completion of the JV.

7. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF ORANGE RETAIL LIMITED FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010

In this set of accounts the term the "company" refers to Orange Retail Limited. The term "Everything Everywhere group" refers to the Group.

Directors' Report

The directors present the annual report and the audited financial statements of the company for the year ended 31 December 2010.

Principal activities, review of the business and future developments

The principal activity of the company during the first six months of 2010 was retailing telecommunications services, equipment and accessories. On 1 July 2010 the trade of the company was hived up to its parent Everything Everywhere Limited. The directors expect that the company will remain dormant for the foreseeable future.

The company's financial and other performance indicators during the year were as follows:

	2010 £'000	2009 £'000	Change
Turnover	235,648	402,171	(41)%
Gross profit	71,529	140,809	(49)%
Operating profit	2,014	7,106	(72)%
Profit after tax	1,097	5,560	(80)%
Shareholders' funds	255	30,888	(99)%
Current assets as % current liabilities	nil%	104%	(100)%
Average number of employees	2,282	2,090	9%

As a consequence of the transfer of the trade direct comparisons between the results for 2010 and 2009 are not meaningful.

On an annualised basis, turnover in 2010 increased by 17% compared to 2009 due to a steady increase in handset connections and growth in average revenue per user. Operating profit in 2010 (on an annualised basis) decreased from 2009 although there was an increase in turnover driven by growth in connections, as well as a continued effort to reduce distribution costs.

Going concern review

After making enquiries, the directors have a reasonable expectation that as the company will not trade in the foreseeable future, and it has no liabilities, it will not require any further resources to continue in existence. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Principal risks and uncertainties

Orange Retail Limited had an active risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted by the Board. The company's exposure to the key risks associated with its activities ceased following the transfer of the trade.

External

The Orange Retail business was directly impacted by the external environment and, in particular, the regulatory environment and competitive marketplace the company operates in.

Level of competitive activity

The mobile communications market in the UK is highly competitive. Competitive pressures increased as existing operators and other service providers seek to strengthen their market position. Close monitoring of customer trends and competitor activity enabled the company to respond by developing innovative customer propositions and retention campaigns.

Regulatory factors

The company's operations are subject to stringent regulatory requirements. The company monitors regulatory developments and undertakes regular reviews and audits to ensure compliance.

Results for the year

The profit for the year after taxation was £1,097,000 (2009: £5,560,000) on turnover of £235,648,000 (2009: £402,171,000).

Detailed results for the year are shown in the profit and loss account on page 314.

Dividends and transfer to reserves

During the year dividends of £31,730,000 were declared and paid (2009: £nil). The directors do not recommend the payment of a final dividend (2009: £nil).

The retained profit of £1,097,000 (2009: £5,560,000) has been transferred to reserves.

Directors

The directors who held office during the year, and up to the date of approval of the financial statements, were:

	Date appointed	*Date resigned*
Orange Limited		1 April 2010
Tom Alexander	1 April 2010	24 September 2010
James Blendis	28 May 2010	
Colin Caldwell	5 October 2010	
Alexander Lunshof	1 April 2010	1 July 2010
Gavin Moore	5 October 2010	

There are no directors' interests requiring disclosure under the Companies Act 2006.

Employees

Orange Personal Communications Services Limited hosted the employment contracts and operated the payroll on behalf of the company and other holding companies in the UK until 30 June 2010 at which point all employees were transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 to Everything Everywhere Limited. During the period to 30 June 2010 the company directed the activities and bore the costs of the relevant UK Group employees whose main activities related to the object and operation of the company.

Employee involvement

Through Orange Personal Communications Services Limited, the company ensured employees under its direction and control until 30 June 2010 were fully informed and involved in the business. Various communication methods were utilised during 2010 including a monthly employee magazine, an intranet site and regular meetings held between local management and their teams. Employee feedback and opinion was actively canvassed in such meetings and also via an employee opinion survey ("people poll") which has been conducted annually. 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 the period to 30 June 2010, the UK Group continued to operate comprehensive consultative arrangements throughout the organisation. These comprised of local employee consultation forums and an overarching national employee consultation forum. Each body is characterised by elected employee representatives regularly meeting senior managers to discuss items of employee interest and issues arising from business proposals and changes.

Equal opportunities and disabled employees

The company strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.

The company is committed to valuing the diversity of its people and to improve and measure its performance it has established, through Orange Personal Communications Services Limited, 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.

The company will make every effort to ensure that known disabled employees, and those employees that become disabled during their employment, will be given appropriate levels of support. Where practicable, reasonable adjustments will be considered to ensure disabled employees can continue in employment, maximise their potential and have equality of opportunity throughout their career with the company.

Events after the balance sheet date

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

The auditor, Ernst & Young LLP, has indicated its willingness to continue in office.

By order of the board

……………………………..

Charles Mowat

Company Secretary

Date: 22/09/2011

Registered Office:

St James Court

Great Park Road

Almondsbury Park

Bradley Stoke

Bristol

BS32 4QJ

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Orange Retail Limited

We have audited the financial statements of Orange Retail Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 24. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 311, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- 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 financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Naresh Alimchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

26 September 2011

Profit and loss account for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
TURNOVER	3	235,648	402,171
Cost of sales		(164,119)	(261,362)
GROSS PROFIT		71,529	140,809
Distribution costs		(68,439)	(131,708)
Administrative expenses		(1,076)	(1,995)
OPERATING PROFIT	4	2,014	7,106
Interest receivable and similar income	9	5	2
Interest payable and similar charges	10	-	(27)
PROFIT ON ORDINARY ACTIVITES BEFORE TAXATION		2,019	7,081
Tax on profit on ordinary activities	11	(922)	(1,521)
PROFIT FOR THE FINANCIAL YEAR	20	1,097	5,560

All activities relate to discontinued operations.

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Balance Sheet – at 31 December 2010

	Notes	2010 £'000	2009 £'000
FIXED ASSETS			
Intangible fixed assets	12	-	1,858
Tangible fixed assets	13	-	30,310
Investments	14	255	-
		255	32,168
CURRENT ASSETS			
Stocks	15	-	25,327
Debtors	16	-	51,952
Cash at bank and in hand		-	2,690
		-	79,969
CREDITORS: Amounts falling due within one year	17		(77,053)
NET CURRENT LIABILITIES		-	(2,916)
TOTAL ASSETS LESS CURRENT LIABILITIES		255	35,084
PROVISIONS FOR LIABILTIES AND CHARGES	18	-	(4,196)
NET ASSETS		255	30,888
CAPITAL AND RESERVES			
Called up equity share capital	19	-	-
Profit and loss account	20	255	30,888
TOTAL EQUITY SHAREHOLDER'S FUNDS	21	255	30,888

These financial statements on pages 314 to 324 were approved by the board of directors on 22 September 2011 and are signed on its behalf by:

Gavin Moore

Director

Notes to the Financial Statements for the year ended 31 December 2010

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS') "Accounting Policies", the directors have reviewed the accounting policies set out below and are of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of the company for the year ended 31 December 2010.

(b) Turnover

Turnover includes commissions, connected handsets, related accessories and products. Turnover excludes value added tax.

(c) Stocks

Stocks comprise of handsets, prepaid airtime vouchers and other goods for resale. Stocks of new handsets are held at the lower of average cost and net realisable value.

Any provision required to reduce stock from average cost to net realisable value is estimated by management on the basis of projected future sales of handsets.

(d) Intangible fixed assets

Intangible assets acquired separately from the business are capitalised at cost. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

(e) Goodwill

Goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

(f) Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation.

Depreciation is calculated using the straight line method to write off the cost of each asset over its estimated useful life according to the following rates:

Leasehold improvements	Term of lease
Fixtures, fittings and equipment	5 years
Software development	5 years

The company selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When setting useful economic lives, the principal factors the company takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

(g) Impairment

If a significant indicator of a possible impairment is noted, the need for any fixed asset impairment provision is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use. The value in use is determined from estimated discounted future cash flows. Discount rates are based on the circumstances applicable in each case.

(h) Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(i) Leased assets

Lease payments made under operating leases are charged to the profit and loss account in the periods during which they are payable.

(j) Pension and other post retirement obligations

The parent company Orange Personal Communications Services Limited and its subsidiaries operate a defined contribution scheme for its eligible employees and directors. The company's contributions to the pension scheme are charged to the profit and loss account in the year to which they relate.

(k) Consolidated accounts

Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of a company registered in England and Wales. Accordingly the company's financial statements present information about it as an individual undertaking and not as a group.

2. *Cash flow statement and related party disclosures*

The company has taken advantage of the exemption in FRS 1. A cash flow statement has not been prepared as:

(i) until 31 March 2010 the company was a wholly owned subsidiary of France Telecom S.A., registered in France, which prepares a group cash flow statement, and;

(ii) from 1 April 2010 the company was a wholly owned subsidiary of Everything Everywhere Limited, registered in England, which prepares a group cash flow statement.

The company is exempt under the terms of FRS 8 from disclosing related party transactions in the period to 31 March 2010 with entities that are part of the France Telecom S.A. group, the ultimate parent company, or investees of the France Telecom S.A. group.

The company is also exempt under the terms of FRS 8 from disclosing related party transactions in the period from 1 April 2010 with entities that are part of the Everything Everywhere group, or investees of the Everything Everywhere group.

3. *Turnover*

Turnover represents sales to third parties of mobile phone equipment and services, and includes commissions received from Orange Personal Communications Services Limited for obtaining contractual commitments to the Orange network.

4. *Operating profit*

Operating profit is stated after charging:	2010 £'000	2009 £'000
Amortisation of intangible fixed assets	238	1,059
Depreciation of tangible fixed assets – owned	3,522	7,353
Employee costs (note 6)	30,745	56,735
Operating lease rentals – land and building	17,023	33,225

5. *Auditor's remuneration*

The auditor's remuneration for audit services of £45,000 (2009: £45,000) has been borne and paid for by Everything Everywhere Limited, a fellow group company.

6. *Employees*

Orange in the United Kingdom is managed on a unified basis. All UK group companies adhere to the employment policies and procedures issued from time to time by the UK Group. Orange Personal Communications Services Limited hosted the employment contracts and operates the payroll on behalf of the company and other holding companies in the UK until 30 June 2010, at which point all employees transferred via TUPE to Everything Everywhere Limited. The company directs the activities and bears the costs of the relevant UK Group employees whose main activities relate to the object and operation of the company.

The average number of persons employed by the company during the year was as follows:

	2010 Number	2009 Number
Retail telecommunications	2,282	2,090

The aggregate payroll costs of these persons were as follows:	2010 £'000	2009 £'000
Wages and salaries	27,844	51,531
Social security costs	2,441	4,387
Other pension costs	460	817
	30,745	56,735

7. Directors' remuneration

The directors of the company are also directors of a number of subsidiaries of the ultimate parent undertaking. The directors do not believe that it is practicable to apportion their remuneration between remuneration for services as directors of the company and their remuneration for services as directors of the fellow subsidiary companies.

The remuneration of Alexander Lunshof is disclosed in the accounts of Orange Personal Communications Services Limited. The remuneration of Tom Alexander is disclosed in the accounts of Everything Everywhere Limited.

The corporate director did not receive any remuneration (2009: £nil).

8. Pensions

Orange Personal Communications Services Limited and its subsidiaries operate a defined contribution pension scheme for its employees and directors.

The pension cost for defined contribution scheme, which represents contributions payable by Orange Retail Limited, amounted to £460,000 (2009: £817,000). Included in creditors is £nil (2009: £nil) in respect of contributions to the scheme.

9. Interest receivable and similar income

	2010 £,000	2009 £,000
Other interest receivable	5	2

10. Interest payable and similar charges

	2010 £,000	2009 £,000
Other interest receivable	-	27

11(a) Tax on profit on ordinary activities

	2010 £,000	2009 £,000
Current tax		
UK corporation tax on profit for the year	840	2,675
Adjustments in respect of previous years	-	(1,624)
Total current tax charge (note 11(b))	840	1,051
Deferred tax		
Origination and reversal of timing differences	82	470
Tax charge on profit on ordinary activities	922	1,521

(b) Factors affecting the current tax charge

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28% (2009: 28%). The differences are explained as follows:

	2010 £,000	2009 £,000
Profit on ordinary activities before tax	2,019	7,081
Profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28% (2009: 28%)	565	1,983
Factors affecting the charge:		
Permanent differences	357	733
Depreciation in (arrears) / excess of capital allowances	(82)	(41)
Adjustments in respect of previous years	-	(1,624)
Current tax charge for the year (note 11(a))	840	1,051

(c) Factors that may affect future tax charges

Announcements were made during and after the year by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the company. The change in the corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010, whereas further reductions to 23% have been announced but were not substantively enacted at the balance sheet date.

On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

(d) Deferred taxation

The deferred tax asset provided in the financial statements is analysed as follows:

	2010 £,000	2009 £,000
Decelerated capital allowances	-	1,030
Short term timing differences	-	1,268
Deferred tax asset provided	-	2,298

	2010 £'000
Deferred tax asset provided at 1 January 2010 (note 16)	2,298
Transferred to Everything Everywhere Limited	(2,216)
Released to profit and loss account during the year	(82)
Deferred tax asset provided at 31 December 2010 (note 16)	-

There is no unprovided deferred taxation.

12. Intangible fixed assets

	Goodwill £'000	Property premium £'000	Total £'000
Cost			
At 1 January 2010	2,875	1,577	4,452
Transferred on hive up	(2,875)	(1,577)	(4,452)
At 31 December 2010	-	-	-
Depreciation			
At 1 January 2010	1,776	818	2,594
Charged in the year	101	137	238
Transferred on hive up	(1,877)	(955)	(2,832)
At 31 December 2010	-	-	-
Net Book Amount			
At 31 December 2010	-	-	-
At 31 December 2009	1,099	759	1,858

13. Tangible fixed assets

	Leasehold Improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2010	15,085	57,375	72,460
Additions	3,400	75	3,475
Disposals	(825)	(9,698)	(10,523)
Transferred on hive up	(17,660)	(47,752)	(65,412)
At 31 December 2010	-	-	-
Depreciation			
At 1 January 2010	7,390	34,760	42,150
Charged in the year	1,214	2,308	3,522
Disposals	(804)	(9,694)	(10,498)
Transferred on hive up	(7,800)	(27,374)	(35,174)
At 31 December 2010	-	-	-
Net Book Amount			
At 31 December 2010	-	-	-
At 31 December 2009	7,695	22,615	30,310

14. Investment

	2010 £'000
At 1 January 2010	-
Additions	255
At 31 December 2010	255

The Company purchased 99.8% of Orange India Services Private Limited on 12 March 2010 for a consideration of £255,428.

15. Stocks

	2010 £'000	2009 £'000
Finished goods and goods for resale	-	25,327

Stocks principally comprised handsets and prepaid airtime vouchers for use with the Orange Network.

16. Debtors

	2010 £'000	2009 £'000
Amounts owed by group undertakings	-	36,544
Deferred tax asset	-	2,298
Other debtors	-	377
Prepayments and accrued income	-	12,733
	-	51,952

Amounts owed by group undertakings include £nil (2009: £nil) which is due to the company after more than one year.

17. Creditors: Amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	-	2,904
Amounts owed to group undertakings	-	51,809
Corporation tax	-	6,399
Other creditors	-	2,564
Accruals and deferred income	-	13,377
	-	77,053

18. Provisions for liabilities and charges

	Dilapidation provision £'000
At 1 January 2010	4,196
Provision utilised	(23)
Transfer of provision	(4,173)
At 31 December 2010	-

The dilapidation provision relates to the estimated costs the company expects to incur as stipulated in the legal contracts for each retail store.

19. Share capital

	2010 £'000	2009 £'000
Authorised		
1,000 ordinary shares of £1	1	1
Called up, allotted and fully paid:		
2 ordinary shares of £1	-	-

20. Profit and loss account

	£'000
At 1 January 2010	30,888
Profit for the financial year	1,097
Dividend declared and paid during the year	(31,730)
At 31 December 2010	255

21. Reconciliation of movements in equity shareholder's funds

	2010 £'000	2009 £'000
Profit for the year	1,097	5,560
Dividend declared and paid	(31,730)	-
Net (decrease) / increase in equity shareholders' funds	(30,633)	5,560
Opening equity shareholder's funds	30,888	25,328
Closing equity shareholder's funds	255	30,888

22. Operating lease commitments

Annual commitments due under operating leases:

	2010 £'000	2009 £'000
Land and buildings		
Within one year	-	1,126
Between one and five years	-	8,512
After five years	-	23,452
	-	33,090

23. Immediate and ultimate parent undertaking

The immediate parent undertaking at 31 December 2009 was Orange Holdings (UK) Limited, a company incorporated in the United Kingdom. On 15 January 2010, Orange Holdings (UK) Limited sold the company to Orange Personal Communications Services Limited.

The immediate parent undertaking at 31 December 2010 was Orange Personal Communications Services Limited, a company incorporated in the United Kingdom.

At 31 December 2010, the ultimate parent undertaking was Everything Everywhere Limited, a company incorporated in the United Kingdom. Copies of Everything Everywhere Limited's consolidated financial statements can be obtained from The Company Secretary, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

At 31 December 2010 the immediate shareholders of Everything Everywhere Limited, 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. Copies 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 published consolidated financial statements can be obtained from the General Counsel at 6 Place d'Alleray, 75505, Paris, Cedex 15, France.

24. Event after the balance sheet date

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

8. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF ORANGE RETAIL LIMITED FOR THE PERIOD 1 JANUARY 2009 TO 31 DECEMBER 2009

In this set of accounts the term the "company" and the "Company" refer to Orange Retail Limited

Directors' Report

The sole director presents its annual report and the audited financial statements of the company for the year ended 31 December 2009.

Principal activities, review of the business and future developments

The principal activity of the company during the year was the retailing of telecommunications services, equipment and accessories. The director expects that this will continue to be the principal activity of the company for the foreseeable future.

The company's financial and other performance indicators during the year were as follows:

	2009 £'000	2008 £'000	Change
Turnover	402,171	336,231	20%
Gross profit	140,809	126,241	12%
Operating profit	7,106	4,101	73%
Profit after tax	5,560	2,798	99%
Shareholders' funds	30,888	25,328	22%
Current assets as % current liabilities	104%	96%	8%
Average number of employees	2,090	1,838	14%

Turnover in 2009 increased by 20% compared to 2008 due to a steady increase in handset connections and growth in average revenue per user. Operating profit in 2009 increased by £3,005,000 mainly due to an increase in the turnover driven by growth in connections, as well as a continued effort to reduce distribution costs.

The company has continued to focus on expanding its High street footprint whilst increasing the operational efficiency of the company. Throughout 2009 several new strategies were successfully trialled, such as the partnership with HMV, a multimedia store in Milton Keynes and a community store in Monmouth. Further initiatives are planned for rollout in 2010. Combined with the rollout of a extra 42 new stores across the country is a continuing refit programme.

The average number of employees increased by 252 during 2009 as a result of an increase in the number of trading stores.

Going concern review

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 this Directors' Report.

The company is expected to continue to generate positive cash flows for the foreseeable future.

On the basis of the assessment of the company's financial position, the director has a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, and thus continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties

Orange Retail Limited has an active risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted by the Board.

External

The Orange Retail business is directly impacted by the external environment and in particular the regulatory environment and competitive marketplace the company operates in.

Level of competitive activity

The mobile communications market in the UK is highly competitive. 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 company to respond by developing innovative customer propositions and retention campaigns.

Regulatory factors

The company's operations are subject to stringent regulatory requirements. The company monitors regulatory developments and undertakes regular reviews and audits to ensure compliance.

Results for the year

The profit for the year after taxation was £5,560,000 (2008: £2,798,000) on turnover of £402,171,000 (2008: £336,231,000).

Detailed results for the year are shown in the profit and loss account on page 332.

Dividends and transfer to reserves

No dividends were paid during the year (2008: £nil). The director does not recommend the payment of a final dividend (2008: £nil).

The retained profit of £5,560,000 (2008: £2,798,000) has been transferred to reserves.

Post balance sheet event

The company was sold by its parent Orange Holdings (UK) Limited to Orange Personal Communications Services Limited on the 15 January 2010 for £27,000,000.

Directors

The director who held office during the year, and up to the date of signature, is given below:

Orange Limited

There is no director’s interest requiring disclosure under the Companies Act 2006.

Employees

Orange in the United Kingdom is managed on a unified basis. All UK group companies adhere to the employment policies and procedures issued from time to time by the UK Group. Orange Personal Communications Services Limited hosts the employment contracts and operates the payroll on behalf of the Company and other holding companies in the UK. The company directs the activities and bears the costs of the relevant UK Group employees whose main activities relate to the object and operation of the company.

Employee involvement

Through Orange Personal Communications Services Limited, the company ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during 2009 including a monthly employee magazine, 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 an employee opinion survey (“people poll”) which is conducted annually. 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 2009, the UK Group continued to operate comprehensive consultative arrangements throughout the organisation. These comprised of eight local employee consultation forums and an overarching national employee consultation forum. Each body is characterised by elected employee representatives regularly meeting with senior managers to discuss items of employee interest and issues arising from business proposals and changes.

The company’s ultimate parent company, France Telecom S.A. also facilitates a European Works Council in which the company, through Orange Personal Communications Services Limited, participates. Elected employee representatives sit on the France Telecom European Works Council in order to take part in consultative and information sharing activities at European level with management.

Equal opportunities and disabled employees

The company strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.

The company is committed to valuing the diversity of its people and to improve and measure its performance it has established, through Orange Personal Communications Services Limited, 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.

The company will make every effort to ensure that known disabled employees, and those employees that become disabled during their employment, will be given appropriate levels of support. Where practicable, reasonable adjustments will be considered to ensure disabled employees can continue in employment, maximise their potential and have equality of opportunity throughout their career with the company.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company’s auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

The auditor, Ernst & Young LLP, has indicated its willingness to continue in office.

By order of the board

……………………………..
Charles Mowat
Company Secretary

Date: 31/03/2010

Registered Office:
St James Court
Great Park Road
Almondsbury Park
Bradley Stoke
Bristol
BS32 4QJ

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Member of the Orange Retail Limited

We have audited the financial statements of Orange Retail Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 23. 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 329, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- 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 financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Naresh Alimchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

31 March 2010

Profit and loss account

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
TURNOVER	3	402,171	336,231
Costs of sales		(261,362)	(209,990)
GROSS PROFIT		140,809	126,241
Distribution costs		(131,708)	(120,023)
Administrative expenses		(1,995)	(2,117)
OPERATING PROFIT	4	7,106	4,101
Interest receivable and similar income	9	2	8
Interest payable and similar charges	10	(27)	(8)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,081	4,101
Tax on profit on ordinary activities	11	(1,521)	(1,303)
PROFIT FOR THE FINANCIAL YEAR	19	5,560	2,798

All activities relate to continuing operations.

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Balance Sheet

At 31 December 2009

	Notes	2009 £'000	2008 £'000
FIXED ASSETS			
Intangible fixed assets	12	1,858	2,917
Tangible fixed assets	13	30,310	28,798
CURRENT ASSETS			
Stocks	14	25,327	23,361
Debtors: amounts falling due within one year	15	51,952	35,258
Cash at bank and in hand		2,690	1,998
		79,969	60,617
CREDITORS: Amounts falling due within one year	16	(77,053)	(62,808)
NET CURRENT ASSETS / (LIABILITIES)		2,916	(2,191)
TOTAL ASSETS LESS CURRENT LIABILITIES		35,084	29,524
PROVISIONS FOR LIABILITIES AND CHARGES	17	(4,196)	(4,196)
NET ASSETS		30,888	25,328
CAPITAL AND RESERVES			
Called up equity share capital	18	-	-
Profit and loss account	19	30,888	25,328
TOTAL EQUITY SHAREHOLDER'S FUNDS	20	30,888	25,328

These financial statements on pages 332 to 342 were approved by the board of directors on 31 March 2010 and are signed on its behalf by:

Neal Milsom

For and on behalf of Orange Limited, Director

Notes to the financial statements for the year ended 31 December 2009

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS') "Accounting Policies", the director has reviewed the accounting policies set out below and is of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of the company for the year ended 31 December 2009.

(b) Turnover

Turnover includes commissions, connected handsets, related accessories and products. Turnover excludes value added tax.

(c) Stocks

Stocks comprise of handsets, prepaid airtime vouchers and other goods for resale. Stocks of new handsets are held at the lower of average cost and net realisable value.

Any provision required to reduce stock from average cost to net realisable value is estimated by management on the basis of projected future sales of handsets.

(d) Intangible fixed assets

Intangible assets acquired separately from the business are capitalised at cost. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

(e) Goodwill

Goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

(f) Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation.

Depreciation is calculated using the straight line method to write off the cost of each asset over its estimated useful life according to the following rates:

Leasehold improvements	Term of lease
Fixtures, fittings and equipment	5 years
Software development	5 years

The Company selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When setting useful economic lives, the principal factors the company takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

(g) Impairment

If a significant indicator of a possible impairment is noted, the need for any fixed asset impairment provision is assessed by comparison of the carrying value of the asset against the higher of net realisable value and value in use. The value in use is determined from estimated discounted future cash flows. Discount rates are based on the circumstances applicable in each case.

(h) Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(i) Leased assets

Lease payments made under operating leases are charged to the profit and loss account in the periods during which they are payable.

(j) Pension and other post retirement obligations

The parent company Orange Holdings (UK) Limited and its subsidiaries operate a defined contribution scheme for its eligible employees and directors. The company’s contributions to the pension scheme are charged to the profit and loss account in the year to which they relate.

2. Cash flow statement and related party disclosures

The results of the company are included in the consolidated financial statements of France Telecom S.A., which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the France Telecom S.A. group, the ultimate parent company, or investees of the France Telecom S.A. group.

3. Turnover

Turnover represents sales to third parties of mobile phone equipment and services, and includes commissions received from Orange Personal Communications Services Limited for obtaining contractual commitments to the Orange network.

4. Operating profit

	2009	2008
Operating profit is stated after charging:	£'000	£'000
Amortisation of intangible fixed assets	1,059	768
Depreciation of tangible fixed assets – owned	7,353	9,877
Employee costs (note 6)	56,735	49,839
Operating lease rentals – land and buildings	33,225	29,701

5. Auditor's remuneration

The auditor's remuneration for audit services of £45,000 (2008: £45,000) has been borne and paid for by Orange Personal Communications Services Limited, a fellow subsidiary undertaking of the France Telecom S.A. group.

6. Employees

Orange in the United Kingdom is managed on a unified basis. All UK group companies adhere to the employment policies and procedures issued from time to time by the UK Group. Orange Personal Communications Services Limited hosts the employment contracts and operates the payroll on behalf of the company and other holding companies in the UK. The company directs the activities and bears the costs of the relevant UK Group employees whose main activities relate to the object and operation of the company.

The average number of persons employed by the company during the year was as follows:

	2009	2008
	Number	Number
Retail telecommunications	2,090	1,838

	2009	2008
The aggregate payroll costs of these persons were as follows:	£'000	£'000
Wages and salaries	51,531	45,326
Social security costs	4,387	3,831
Other pension costs	817	682
	56,735	49,839

7. Director's remuneration

The corporate director received no remuneration.

8. Pensions

The parent company Orange Holdings (UK) Limited and its subsidiaries operate a defined contribution pension scheme for its employees and directors.

The pension cost for defined contribution scheme, which represents contributions payable by Orange Retail Limited amounted to £817,000 (2008: £682,000). Included in creditors is £nil (2008: £nil) in respect of contributions to the scheme.

9. Interest receivable and similar income

	2009	2008
	£'000	£'000
Other interest receivable	2	8

10. Interest payable and similar charges

	2009	2008
	£'000	£'000
Other interest payable	27	8

11.

(a) Tax on profit on ordinary activities

	2009	2008
	£'000	£'000
Current tax		
UK corporation tax on profit for the year	2,675	2,118
Adjustments in respect of previous years	(1,624)	2,324
Total current tax charge (note 11(b))	1,051	4,442
Deferred tax		
Origination and reversal of timing differences	470	(3,139)
Tax charge on profit on ordinary activities	1,521	1,303

(b) Factors affecting the current tax charge

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28% (2008: 28.5%). The differences are explained as follows:

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	7,081	4,101
Profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28% (2008: 28.5%)	1,983	1,168
Factors affecting the charge:		
Permanent differences	733	650
Depreciation in (arrears) / excess of capital allowances	(41)	300
Adjustments in respect of previous years	(1,624)	2,324
Current tax charge for the year (note 11(a))	1,051	4,442

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for the year ended 31 December 2009 have been taxed at 28% (2008: average rate of 28.5%).

(d) Deferred taxation

The deferred tax asset provided in the financial statements is analysed as follows:

	2009 £'000	2008 £'000
Decelerated capital allowances	1,030	1,577
Short term timing differences	1,268	1,191
Deferred tax asset provided	2,298	2,768

	2009 £'000
Deferred tax asset provided at 1 January 2009 (note 15)	2,768
Released to profit and loss account during the year	(470)
Deferred tax provided at 31 December 2009 (note 15)	2,298

There is no unprovided deferred taxation.

12. Intangible fixed assets

	Goodwill	Property Premium	Total
	£'000	£'000	£'000
Cost			
1 January 2009 and 31 December 2009	2,875	1,577	4,452
Depreciation			
1 January 2009	(990)	(545)	(1,535)
Charged in the year	(786)	(273)	(1,059)
31 December 2009	(1,776)	(818)	(2,594)
Net Book Amount			
31 December 2009	1,099	759	1,858
31 December 2008	1,885	1,032	2,917

13. Tangible fixed assets

	Leasehold Improvements	Fixtures, fittings and equipment	Total
	£'000	£'000	£'000
Cost			
1 January 2009	13,152	63,665	76,817
Additions	3,628	5,237	8,865
Disposals	(1,695)	(11,527)	(13,222)
31 December 2009	15,085	57,375	72,460
Depreciation			
1 January 2009	(6,771)	(41,248)	(48,019)
Charged in the year	(2,314)	(5,039)	(7,353)
Disposals	1,695	11,527	13,222
31 December 2009	(7,390)	(34,760)	(42,150)
Net Book Amount			
31 December 2009	7,695	22,615	30,310
31 December 2008	6,381	22,417	28,798

14. Stocks

	2009 £'000	2008 £'000
Finished goods and goods for resale	25,327	23,361

Stocks principally comprise handsets and prepaid airtime vouchers for use with the Orange Network.

15. Debtors

	2009 £'000	2008 £'000
Trade debtors	-	1
Amounts owed by group undertakings	36,544	18,275
Deferred tax asset	2,298	2,768
Other debtors	377	1,388
Prepayments and accrued income	12,733	12,826
	51,952	35,258

Amounts owed by group undertakings include £nil (2008: £nil) which is due to the company after more than one year.

16. Creditors: Amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	2,904	3,112
Amounts owed by group undertakings	51,809	39,165
Corporation tax	6,399	5,347
Other creditors	2,564	417
Accruals and deferred income	13,377	14,767
	77,053	62,808

17. Provisions for liabilities and charges

	Dilapidation provision £'000
1 January 2009	4,196
Utilised during the year	(47)
Increase in provision	47
31 December 2009	4,196

Dilapidation provision

The dilapidation provision relates to the estimated costs the company expects to incur as stipulated in the legal contracts for each retail store.

18. Share capital

	2009		2008	
	Number	£'000	Number	£'000
Authorised ordinary shares of £1	1,000	-	1,000	-
Allotted, called up and fully paid ordinary shares of £1	2	-	2	-

19. Profit and loss account

	£'000
At 1 January 2009	25,328
Profit for the financial year	5,560
At 31 December 2009	30,888

20. Reconciliation of movements in equity shareholder's funds

	2009 £'000	2008 £'000
Profit for the year	5,560	2,798
Net increase in equity shareholder's funds	5,560	2,798
Opening equity shareholder's funds	25,328	22,530
Closing equity shareholder's funds	30,888	25,328

21. Operating lease commitments

Annual commitments due under operating leases:

	2009 £'000	2008 £'000
Land and buildings		
Within one year	1,126	1,898
Between one and five years	8,512	6,520
After five years	23,452	21,822
	33,090	30,240

22. Immediate and ultimate parent undertaking

The immediate parent undertaking at 31 December 2009 was Orange Holdings (UK) Limited. Orange Holdings (UK) Limited is a company incorporated in the United Kingdom.

The ultimate parent undertaking and controlling party at 31 December 2009 is France Telecom S.A., which is the parent undertaking of the smallest and largest group to consolidate these financial statements. France Telecom S.A. is a company incorporated in France. Copies of France Telecom S.A. consolidated financial statements can be obtained from the General Counsel at 6 place d'Alleray, 75505 Paris Cedex 15, France.

23. Post balance sheet event

The company was sold by its parent Orange Holdings (UK) Limited to Orange Personal Communications Services Limited on the 15 January 2010 for £27,000,000.

9. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF ORANGE HOME UK LIMITED FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010

In this set of accounts the term the "company" refers to Orange Home UK Limited.

Directors' Report

The directors present their annual report and the audited financial statements of Orange Home UK Limited ("the company") for the year ended 31 December 2010.

Principal activities, review of the business and future developments

The principal activities of the company during the first half of the year were the provision of broadband, narrowband and voice access products. The company was also the provider of the popular portals orange.co.uk and Orange World which it sold to a subsidiary of France Telecom S.A. on 1 April 2010 for £1. On 19 March 2010 Wanadoo Limited sold the company to Orange Personal Communications Services Limited for £1. On 1 July 2010 the trade of the company was hived up to its ultimate parent Everything Everywhere Limited. The directors expect that the company will remain dormant for the foreseeable future.

The company's financial and other performance indicators during the year were as follows:

	2010 £'000	2009 £'000	Change %
Turnover	92,994	203,043	(54)%
Operating loss	(99,510)	(77,085)	29%
Loss after tax	(48,880)	(54,273)	(10)%
Shareholders' funds	-	50,215	(100)%
Current assets as % current liabilities	nil%	170%	(100)%

Turnover declined to £93m due to the transfer of trade and assets to Everything Everywhere on 1 July 2010. Underlying revenues declined due to a decline in the broadband and dial up customer base. The increase in operating losses compared to 2009 reflects a one-off restructuring charge relating to a network closure.

Prior to the hive up of the trade the company's strategy was to stem the decline in its customer base whilst continuing to reduce operating losses.

During the period to 30 June 2010 Orange Personal Communications Services Limited provided business support and finance functions for the company (note 3).

Going concern review

After making enquiries, the directors have a reasonable expectation that as the company will not trade in the foreseeable future, and it has no liabilities, it will not require any further resources to continue in existence. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Principal risks and uncertainties

During the period to 30 June 2010 the company had a comprehensive risk management process in place, which was designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls were conducted by the Board. The key risks associated with the company's activities ceased to be applicable following the transfer of the trade.

External

The Orange Home business was directly impacted by the external environment and in particular the regulatory environment and competitive marketplace that the company operated in.

Level of competitive activity

The broadband market in the UK is highly competitive. Competitive pressures on the company increased as existing operators and other service providers sought to strengthen their market position. Close monitoring of customer trends and competitor activity enabled the company to respond by developing innovative customer propositions and retention campaigns.

Regulatory factors

The company's operations were subject to stringent regulatory requirements. The company monitored regulatory developments and maintained a strong compliance regime. Regular reviews and audits were carried out to ensure compliance.

Results for the year, dividends and transfer to reserves

The loss for year ended 31 December 2010 was £48,880,000 (2009: loss £54,273,000) and has been transferred to reserves. Detailed results for the year are shown in the profit and loss account on page 350.

No dividends were paid during the year under review (2009: £nil). The directors do not recommend the payment of a final dividend for the year under review (2009: £nil).

Directors

The directors, who held office during the year, and up to the date of signature, are given below:

	Appointed	Resigned
Orange Limited		1 April 2010
James Blendis	28 May 2010	
Colin Caldwell	5 October 2010	
Alexander Lunshof	1 April 2010	1 July 2010
Gavin Moore	5 October 2010	
Gavin Moore (alternate director)		1 July 2010
Michael Newnham		1 July 2010

There are no directors’ interests requiring disclosure under the Companies Act 2006.

Research and development

There were no research and development activities undertaken by the company during the year (2009: £nil).

Political and charitable contributions

The company has not made any political or charitable donations during the year (2009: £nil).

Creditor payment policy

During the period to 30 June 2010 all invoices were processed and paid by Orange Personal Communications Services Limited on behalf of the company. The company did not have its own purchase ledger.

The policy of Orange Personal Communications Services Limited in respect of the payment of its trade creditors is to reflect local practice in the United Kingdom. Standard payment terms are 60 days but may be varied by negotiation with individual suppliers.

For all trade creditors, the policy is to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment;
- pay in accordance with its contractual and other legal obligations whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The company had trade creditors at 31 December 2010 of £nil (31 December 2009: £nil).

Events after the balance sheet date

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

The auditor, Ernst & Young LLP, has indicated its willingness to continue in office.

By order of the board

……………………………..
Charles Mowat
Company Secretary

Date: 22/09/2011

St James Court
Great Park Road
Almondsbury Park
Bradley Stoke

Bristol
BS32 4QJ

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Orange Home UK Limited

We have audited the financial statements of Orange Home UK Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 17. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 347, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. 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 financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended;

- 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 financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Naresh Alimchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

26 September 2011

Profit and loss account

For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Turnover	2	92,994	203,043
Cost of sales		(1,179)	(2,342)
Gross profit		91,815	200,701
Distribution expenses		-	-
Administration expenses		(221)	3,340
Restructuring expenses		(59,470)	-
Management recharge	3	(131,634)	(281,126)
Operating loss	3	(99,510)	(77,085)
Profit from sale and assets		44,554	-
Interest receivables and similar charges	4	126	656
Loss on ordinary activities before taxation		(54,830)	(76,429)
Tax on loss on ordinary activities	6	5,950	22,156
Loss for the financial year	11	(48,880)	(54,273)

All activities relate to discontinued operations.

There are no recognised gains or losses for the current and previous financial periods other than the loss stated in the profit and loss account. Accordingly, no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

Balance Sheet
As at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed Assets			
Investments	7	-	-
		-	-
Current Assets			
Debtors	8	-	120,622
Cash at bank and in hand		-	871
		-	121,493
Creditors: Amounts falling due within one year	9	-	(71,278)
Net Current Assets		-	50,215
NET ASSETS		-	50,215
Capital and Reserves			
Called up share capital	10	301,352	301,352
Share premium account	11	158,632	158,632
Equity settled stock opinion plan liability	15	-	1,335
Profit and Loss Account	11	(459,984)	(411,104)
Total Equity Shareholders Funds	12	-	50,215

The financial statements on pages 350 to 358 were approved by the board of directors on 22 September 2011 and are signed on its behalf by:

....

Gavin Moore
Director

Notes to the financial statements
for the year ended 31 December 2010

1. Accounting Policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

The principal accounting policies have been applied consistently throughout the period under review and preceding period.

1.1 Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS'): "Accounting Policies", the directors have reviewed the accounting policies set out below and are of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of the company for the year ended 31 December 2010.

After making enquires, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

1.2 Revenue recognition

Turnover comprises revenue from internet service provider (ISP) subscriptions, connectivity, online advertising and e-commerce, stated net of sales tax and agency commissions.

ISP subscription revenues are recognised rateably over the period to which the revenue relates. Discounts given to customers during a contract period with the company are spread evenly over the duration of the contract.

Advertising revenues are recognised rateably over the period in which the advertisement is displayed provided that no significant obligations remain at the end of the period and collection of the resulting debtor is probable. The company occasionally takes part in barter advertising deals whereby partners' banner advertisements are shown in unsold space on the company's sites, in exchange for Orange Home banners appearing in unsold space on their sites. Both the revenue and cost elements of these transactions are deemed to be £Nil.

Sponsorship revenue is recognised rateably over the contract period or the period to which the payment relates. All other e-commerce revenue is recognised as earned.

1.3 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax, with the exception of deferred tax assets, which are only recognised to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.4 Operating leases

Rentals payable under property leases are charged to the profit and loss account in equal instalments up to each market rent review date, throughout the lease term. Lease incentives are recognised over the full length of the lease term.

1.5 Foreign exchange

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at each balance sheet date at the month-end exchange rate and the resulting transaction differences are taken to profit and loss account.

1.6 Cash flow statement and related party transactions

The company has taken advantage of the exemption in FRS 1. A cash flow statement has not been prepared as:

(i) until 31 March 2010 the company was a wholly owned subsidiary of France Telecom S.A., registered in France, which prepares a group cash flow statement, and;

(ii) from 1 April 2010 the company was a wholly owned subsidiary of Everything Everywhere Limited, registered in England, which prepares a group cash flow statement.

The company is exempt under the terms of FRS 8 from disclosing related party transactions in the period to 31 March 2010 with entities that are part of the France Telecom S.A. group, the ultimate parent company, or investees of the France Telecom S.A. group.

The company is also exempt under the terms of FRS 8 from disclosing related party transactions in the period from 1 April 2010 with entities that are part of the Everything Everywhere group, or investees of the Everything Everywhere group.

1.7 Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.8 Consolidated accounts

Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of a company registered in England and Wales. Accordingly the company’s financial statements present information about it as an individual undertaking and not as a group.

2. Segmental Information

Turnover represents amounts derived from the provision of services which fall within the company’s ordinary activities after deduction of sales taxes, agency commission and partner revenue share. The company is engaged in one line of business as an internet service provider. All turnover is derived from activities in the UK.

3. Operating Loss

	2010 £000	2009 £000
Operating loss is stated after charging:		
Rentals paid under operating leases		
- Office rental	-	516
Auditor's remuneration – audit fees	-	65
Unrealised exchange loss / (gain)	36	(5,228)

The profit and loss account includes unrealised exchange losses of £36,000 (2009: gains £5,228,000) arising from unsettled short-term monetary items. The directors consider this disclosure necessary in order for the financial statements to give a true and fair view.

In 2010 management recharges of £131,634,000 (2009: £281,126,000) relate to charges from Orange Personal Communications Services Limited for providing business services to the company.

The auditor's remuneration for audit services of £65,000 in 2010 has been borne and paid for by Everything Everywhere Limited, a fellow group company.

4. Interest Receivable and Similar Charges

	2010 £000	2009 £000
Group loan interest receivable	126	656
	126	656

5. Employee Costs and Directors' Remuneration

(a) Employee costs

The company had no employees in 2010 (2009: nil) and as a result no employee related costs have been incurred (2009: £nil).

(b) Directors' remuneration

The emoluments of the directors were as follows:	2010 £000	2009 £000
Aggregate emoluments (including benefits)	292	-
Compensation for loss of office	459	-
Contributions to defined contribution pension schemes	41	-
	792	-

The emoluments of the highest paid director were as follows:	£000	£000
Aggregate emoluments (including benefits)	292	-
Compensation for loss of office	459	-
Contributions to defined contribution pension schemes	41	-
	792	-

The corporate director did not receive any remuneration (2009: £nil).

6. *Corporation Tax*

(a) Tax on loss on ordinary activities

	2010 £000	2009 £000
Current Tax		
UK corporation tax on loss for the year	(5,977)	(21,469)
Adjustment in respect of prior periods	-	(755)
Total current tax credit (note 6 (b))	(5,977)	(22,224)
Deferred tax		
Origination and reversal of timing differences	27	68
Total deferred tax charge (note 6 (d))	27	68
Tax credit on loss on ordinary activities	(5,950)	(22,156)

(b) Factors affecting the current tax credit

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28% (2009: 28%). The differences are as follows:

	2010 £000	2009 £000
Loss on ordinary activities before taxation	(54,830)	(76,429)
Profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28% (2009: 28%)	(15,352)	(21,400)
Factors affecting the credit:		
Non-taxable expenses	1,811	(1)
Accelerated capital allowances	(27)	(68)
Non-taxable sale of assets	(12,475)	-
Group relief for nil payment	20,066	-
Adjustments in respect of prior periods	-	(755)
Corporation tax credit for the year (note 6(a))	(5,977)	(22,224)

(c) Factors that may affect future tax charges

Announcements were made during and after the year by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the company. The change in the corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010, whereas further reductions to 23% have been announced but were not substantively enacted at the balance sheet date.

On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

(d) Deferred taxation

The deferred tax asset recognised in the accounts is as follows:

	2010 £000	2009 £000
Decelerated capital allowances	-	274
Total recognised deferred tax asset (note 8)	-	274

The movements in deferred tax during the year were as follows:

	2010 £000
Deferred tax asset recognised at 1 January 2010	274
Amount transferred to Everything Everywhere Limited	(247)
Amount charged to the profit and loss account	(27)
Deferred tax asset recognised at 31 December 2010	-

As a result of the company's trade having been transferred to Everything Everywhere Limited on 1 July 2010, there is no unrecognised deferred tax asset at 31 December 2010 (2009: £5,618,000 consisting of £4,971,000 trading losses and £647,000 capital losses). The losses were not recognised at 31 December 2009 as the recognition criteria set out in FRS 19 had not been met.

7. Investments

On 15 January 2010 the company sold its investment in Freeserve Investments Limited to Orange Limited, a sister company, for the book value of £2.

8. Debtors

	2010 £000	2009 £000
Due within one year:		
Trade debtors	-	7,987
Corporation tax	-	14,681
Deferred tax (note 6 (d))	-	274
Amounts owed by group undertakings	-	97,680
	-	120,622

9. Creditors – amounts falling due within one year

	2010 £000	2009 £000
Bank overdraft	-	1,066
Other creditors	-	4,533
Accruals and deferred income	-	11,418
Amounts owed to group undertakings	-	54,261
	-	71,278

10. Share Capital

	2010 £000	2009 £000
Authorised:		
400,000,000 Ordinary shares of £1.00 each	400,000	400,000
	400,000	400,000
Called up, allotted and fully paid:		
301,351,620 Ordinary shares of £1.00 each	301,352	301,352
	301,352	301,352

11. Movement in Reserves

	Equity settled stock option plan liability £000	Share premium account £000	Profit and loss account £000
At 1 January 2010	1,335	158,632	(411,104)
Movement in the year	(1,335)	-	(48,880)
At 31 December 2010	-	158,632	(459,984)

12. Reconciliation of Shareholders' Funds

	2010 £000	2009 £000
Shareholders' funds at 1 January 2010	50,215	59,388
Loss for the financial year	(48,880)	(54,273)
Transfer of Equity settled stock option liability	(1,335)	-
Increase in share capital	-	45,100
Shareholders' funds at 31 December 2010	-	50,215

13. Contingent Liabilities / Assets

The company had £nil (2009: £106,750) of e-commerce contracts and £nil (2009: £580,270) of advertising deals commitments which were not provided at the year end.

The company had no contingent liabilities at 31 December 2010 (2009: £nil).

14. Operating Lease Commitments

At 31 December 2010 the company was committed to the following annual payments in respect of operating leases:

	31 December 2010 £000	31 December 2009 £000
Leases which expire		
Within one year	-	14,516
Within two to five years	-	28,649
Over five years	-	-
	-	43,165

- None of the above relate to land and buildings

15. Share-Based Payments

	2010	2010	2009	2009
	£000	£000	£000	£000
	Expense for the year	Liability recognised	Expense for the year	Liability recognised
Former Wanadoo stock option plans	-	-	-	1,335

16. Ultimate Parent Undertaking

The immediate parent undertaking at 31 December 2009 was Wanadoo Limited, a company incorporated in the United Kingdom. On 19 March 2010, Wanadoo Limited sold the company to Orange Personal Communications Services Limited.

The immediate parent undertaking at 31 December 2010 was Orange Personal Communications Services Limited, a company incorporated in the United Kingdom.

At 31 December 2010, the ultimate parent undertaking was Everything Everywhere Limited, a company incorporated in the United Kingdom. Copies of Everything Everywhere Limited's consolidated financial statements can be obtained from The Company Secretary, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

At 31 December 2010 the immediate shareholders of Everything Everywhere Limited, 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. Copies 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 published consolidated financial statements can be obtained from the General Counsel at 6 Place d'Alleray, 75505, Paris, Cedex 15, France.

17. Events after the Balance Sheet Date

On 23 March 2011 the Chancellor of the Exchequer announced further reductions in the corporation tax rate to 23%. On the basis that there is no deferred taxation balance in the 31 December 2010 balance sheet, the company considers that the cumulative rate reductions to 23% will have no impact on deferred taxation in its reported figures.

10. AUDITED UK GAAP STATUTORY FINANCIAL STATEMENTS OF ORANGE HOME UK LIMITED FOR THE PERIOD 1 JANUARY 2009 TO 31 DECEMBER 2009

In this set of accounts the term the "company" refers to Orange Home UK Limited

Directors' Report

The directors present their report and the audited financial statements of Orange Home UK Limited ("the company") for the year ended 31 December 2009.

Principal activities and review of the business

The principal activities of the company are the provision of broadband, narrowband and voice access products. The company is also the provider of the popular internet portal orange.co.uk.

On 28 April 2009 the company re-registered as a private limited company and changed its name from Orange Home UK PLC to Orange Home UK Limited.

The company's financial and other performance indicators during the year were as follows:

	2009 £'000	2008 £'000	Change %
Turnover	203,043	169,830	20%
Operating loss	(77,085)	(186,585)	59%
Loss after tax	(54,273)	(61,834)	13%
Shareholders' funds	50,215	59,388	(15)%
Current assets as % current liabilities	170%	157%	8%

The growth in revenues of £33.2m year on year, was due to the transfer of the wholesale call and line rental customer bases in April 2009 and the transfer of wholesale internet and dial up services in June 2008. Underlying revenues declined by £37m due to decline in broadband and dial up customer bases.

The operating loss improved 13% year on year due to the tighter control of operational spend and landline voice margins offsetting the decline in dial up internet access.

The company strategy is to stem the decline in its customer base whilst continuing to reduce operating losses.

On 28 April 2009 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the wholesale calls and wholesale line rental customer base. The consideration was £730,286 which was fully expensed during the year.

During 2009 Orange Personal Communications Services Limited provided business support and finance functions for the company (note 4).

Going concern review

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 this Directors' Report.

The current environment for the company is difficult and the company has reported an operating loss for the year. The directors consider that the outlook will also be challenging.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate with its current level of resources.

On the basis of their assessment of the company's financial position, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties

The company has a comprehensive risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted by the Board.

External

The Orange Home business is directly impacted by the external environment and in particular the regulatory environment and competitive marketplace the company operates in.

Level of competitive activity

The broadband market in the UK is highly competitive. 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 company to respond by developing innovative customer propositions and retention campaigns.

Regulatory factors

The company's operations are subject to stringent regulatory requirements. The company monitors regulatory developments and has a strong compliance regime. Regular reviews and audits are carried out to ensure compliance.

Results for the year, dividends and transfer to reserves

The loss for year ended 31 December 2009 was £54,273,000 (2008: loss £61,834,000) and has been transferred to reserves. Detailed results for the year are shown in the profit and loss account on page 366.

No dividends were paid during the year under review (2008: £nil). The directors do not recommend the payment of a final dividend for the year under review (2008: £nil).

Directors

The directors, who held office during the year, and up to the date of signature, are given below:

Orange Limited
Michael Newnham
Gavin Moore (alternate director)

There are no directors interests.

The ultimate parent is France Telecom S.A, a body corporate incorporated outside of Great Britain. As such, the directors are not required to disclose their interest in shares in, or debentures of, that or any other body corporate incorporated outside of Great Britain.

Research and development

There were no research and development activities undertaken by the company during the year (2008: £nil).

Future prospects

The company expects to continue to develop its business operations during 2010, trading remains challenging although the management is working to improve the situation.

Political and charitable contributions

The company has not made any political or charitable donations during the year (2008: £nil).

Creditor payment policy

All invoices are processed and paid by Orange Personal Communications Services Limited on behalf of the company. The company does not have its own purchase ledger.

Orange Personal Communications Services Limited's policy concerning the payment of its trade creditors is to reflect local practice in the United Kingdom. Standard payment terms are 60 days but may be varied by negotiation with individual suppliers.

For all trade creditors, the policy is to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment;
- pay in accordance with its contractual and other legal obligations whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The company had trade creditors at 31 December 2009 of £nil (31 December 2008: £nil).

Events after the balance sheet date

The company was sold by its parent Wanadoo Limited to Orange Personal Communications Services Limited on 19 March 2010 for £1.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

The auditor, Ernst & Young LLP, has indicated its willingness to continue in office.

By order of the board

……………………………..

Charles Mowat

Company Secretary

Date: 31/03/2010

St James Court
Great Park Road
Almondsbury Park
Bradley Stoke
Bristol
BS32 4QJ

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the members of Orange Home UK Limited

We have audited the financial statements of Orange Home UK Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, 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 363, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended;
- 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 financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Naresh Alimchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

31 March 2010

Profit and Loss Account

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
TURNOVER	2	203,043	169,830
Cost of sales		(2,342)	(108,743)
GROSS PROFIT		200,701	61,087
Distribution expenses		-	(824)
Administration expenses		3,340	(3,924)
Management recharge	4	(281,126)	(242,924)
OPERATING LOSS	4	(77,085)	(186,585)
Exceptional item	5	-	72,957
Interest receivable & similar charges	6	656	301
Interest payable & similar charges	7	-	(3,909)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(76,429)	(117,236)
Tax on loss on ordinary activities	9	22,156	55,402
LOSS FOR THE FINANCIAL YEAR	14	(54,273)	(61,834)

All activities relate to continuing operations.

There are no recognised gains or losses for the current and previous financial periods other than the loss stated in the profit and loss account. Accordingly, no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

Balance Sheet

As at 31 December 2009

	Notes	2009 £000	2008 £000
FIXED ASSETS			
Investments	10	-	-
CURRENT ASSETS			
Debtors	11	120,622	162,700
Cash at bank and in hand		871	595
		121,493	163,295
CREDITORS: Amounts falling due within one year	12	(71,278)	(103,907)
NET CURRENT ASSETS		50,215	59,388
NET ASSETS		50,215	59,388
CAPITAL AND RESERVES			
Called up share capital	13	301,352	256,252
Share premium account	14	158,632	158,632
Equity settled stock option plan liability	14	1,335	1,335
Profit and Loss Account	14	(411,104)	(356,831)
TOTAL EQUITY SHAREHOLDERS FUNDS	15	50,215	59,388

The financial statements on pages 366 to 374 were approved by the board of directors on 31 March 2010 and are signed on its behalf by:

....

Neal Milsom

For and on behalf of Orange Limited, Director

Notes to the financial statements for the year ended 31 December 2009

1. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

The principal accounting policies have been applied consistently throughout the period under review and preceding period.

1.1 Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS'): "Accounting Policies", the directors have reviewed the accounting policies set out below and are of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of the company for the year ended 31 December 2009.

After making enquires, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

1.2 Revenue recognition

Turnover comprises revenue from internet service provider (ISP) subscriptions, connectivity, online advertising and e-commerce, stated net of sales tax and agency commissions.

ISP subscription revenues are recognised rateably over the period to which the revenue relates. Discounts given to customers during a contract period with the company are spread evenly over the duration of the contract.

Advertising revenues are recognised rateably over the period in which the advertisement is displayed provided that no significant obligations remain at the end of the period and collection of the resulting debtor is probable. The company occasionally takes part in barter advertising deals whereby partners' banner advertisements are shown in unsold space on the company's sites, in exchange for Orange Home banners appearing in unsold space on their sites. Both the revenue and cost elements of these transactions are deemed to be £Nil.

Sponsorship revenue is recognised rateably over the contract period or the period to which the payment relates. All other e-commerce revenue is recognised as earned.

1.3 Research and development

With the exception of the cost of building websites for new businesses, part of which are capitalised, the development of new products and enhancements to existing products are charged to profit and loss account as they are incurred.

1.4 Investments

Fixed asset investments are stated at cost less provision for impairment.

1.5 Impairments

In accordance with FRS 11, the company has reviewed the carrying value of all of its investment for indicators of impairment in their value. Where evidence of impairment is considered to have been significant a provision has been made against the carrying value of these investments so to reflect the net realisable value of investments. The net realisable value is calculated on the basis of the continuing cash flows that are expected to be generated from these investments less any debt. Discount rates are based on the circumstances applicable in each case.

1.6 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax, with the exception of deferred tax assets, which are only recognised to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.7 Operating leases

Rentals payable under property leases are charged to the profit and loss account in equal instalments up to each market rent review date, throughout the lease term. Lease incentives are recognised over the full length of the lease term.

1.8 Foreign exchange

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at each balance sheet date at the month-end exchange rate and the resulting transaction differences are taken to profit and loss account.

1.9 Cash flow statement and related party transactions

The company has taken advantage of the exemption in FRS 1. A cash flow statement has not been prepared as the company was, throughout the year, a wholly owned subsidiary of France Telecom S.A., registered in France, which prepares a group cash flow statement.

The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the France Telecom S.A. group, the ultimate parent company, or investees of the France Telecom S.A. group.

1.10 Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.11 Consolidated accounts

Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of a company registered in England and Wales. Accordingly the company's financial statements present information about it as an individual undertaking and not as a group.

2. Segmental Information

Turnover represents amounts derived from the provision of services which fall within the company's ordinary activities after deduction of sales taxes, agency commission and partner revenue share. The company is engaged in one line of business as an internet service provider. All turnover is derived from activities in the UK.

3. Acquisition

On 28 April 2009 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the wholesale calls and wholesale line rental customer base. The consideration was £730,286 which was fully expensed during the year.

In the prior year on 18 June 2008 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the Orange broadband customer base that is on the BT owned IPStream network. The consideration was £77,033,000. This was expensed in the year within cost of sales.

4. Operating Loss

	2009 £000	2008 £000
Operating loss is stated after charging:		
Rentals paid under operating leases		
- Office rental	516	587
- Broadband network	-	50
Auditors remuneration – audit fees	65	60
Unrealised exchange (gain) / loss	(5,228)	5,688

The profit and loss account includes unrealised exchange gains of £5,228,000 (2008: losses £5,688,000) arising from unsettled short-term monetary items. The directors consider this disclosure necessary in order for the financial statements to give a true and fair view.

In 2009 management recharges of £281,126,000 (2008: £242,924,000) relate to charges from Orange Personal Communications Services Limited for providing business services to the company.

5. Exceptional Items

In the prior year Wanadoo Limited held a meeting dated 30 October 2008, at which it resolved to issue a loan waiver for the company's debt of £72,956,713.

No tax charge is attributable to the waiver.

6. Interest receivable & similar charges

	2009 £000	2008 £000
Group loan interest receivable	656	301
	656	301

7. Interest payable & similar charges

	2009 £000	2008 £000
Group loan interest payable	-	3,909
	-	3,909

8. Employees and Directors Remuneration

The company had no employees in 2009 (2008: nil) and as a result no employee related costs have been incurred (2008: £nil).

Michael Newnham, Gavin Moore and the corporate director did not receive any emoluments for their services as directors of the company.

9. Corporation Tax

a) Tax on loss on ordinary activities

	2009 £000	2008 £000
Current tax		
UK corporation tax on loss for the year	(21,469)	(54,299)
Adjustment in respect of prior periods	(755)	(3,843)
Total current tax credit (note 9(b))	(22,224)	(58,142)
Deferred tax		
Origination and reversal of timing differences	68	2,740
Total deferred tax charge (note 9(d))	68	2,740
Tax credit on loss on ordinary activities	(22,156)	(55,402)

b) *Factors affecting the current tax charge*

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28% (2008: 28.5%). The differences are as follows:

	2009 £000	2008 £000
Loss on ordinary activities before taxation	(76,429)	(117,236)
Profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28% (2008: 28.5%)	(21,400)	(33,412)
Factors affecting the credit:		
Non-taxable expenses	(1)	-
Accelerated capital allowances	(68)	(95)
Non-taxable connected party debt forgiveness	-	(20,792)
Adjustments in respect of prior periods	(755)	(3,843)
Corporation tax charge for the year (Note 9(a))	(22,224)	(58,142)

c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's losses for the year ended 31 December 2009 have been taxed at 28% (2008: average rate of 28.5%).

d) Deferred taxation

The deferred tax asset recognised in the accounts is as follows:

	2009 £000	2008 £000
Decelerated capital allowances	274	342
Total recognised deferred tax asset (note 11)	274	342

The movements in deferred tax during the year were as follows:

	2009 £000
Deferred tax asset recognised at 1 January 2009	342
Amount charged to the profit and loss account	(68)
Deferred tax asset recognised at 31 December 2009	274

The company also has an unrecognised deferred tax asset of £5,618,000 (2008: £5,618,000) consisting of trading losses of £4,971,000 (2008: £4,971,000) and capital losses of £647,000 (2008: £647,000). These losses have not been recognised as the recognition criteria set out in FRS 19 have not been met.

10. Investments

	Subsidiaries £'000	Other shares £'000	Total £'000
Cost			
At 01 January 2009	1,033	466	1,499
Disposal	(1,033)	(466)	(1,499)
At 31 December 2009	-	-	-
Provision			
At 01 January 2009	(1,033)	(466)	(1,499)
Disposal	1,033	466	1,499
At 31 December 2009	-	-	-
Net book value			
At 31 December 2008 and 31 December 2009	-	-	-

The company's direct subsidiary undertakings at 31 December 2009 are listed below. Percentages shown relate to the proportion of ordinary share capital held by the company:

Name of company	Country of incorporation	Principal activity	Percentage shareholding
Freeserve Investments Limited	England	Dormant	100%

The company sold its investment in Freeserve Investments Limited to a sister company, Orange Limited on 15 January 2010 for the book value of £2. It was previously held at £1,033,000 although fully impaired.

Other shares in Orange World Inc also fully impaired were disposed of during the year for £nil profit.

11. Debtors

	2009 £000	2008 £000
Due within one year:		
Trade debtors	7,987	7,857
Corporation tax	14,681	34,923
Deferred tax (note 9(D))	274	342
Prepayments and accrued income	-	1,306
Amounts owed by group undertakings	97,680	118,272
	120,622	162,700

12. Creditors – amounts falling due within one year

	2009 £000	2008 £000
Bank overdraft	1,066	-
Other creditors	4,533	5,717
Accruals and deferred income	11,418	46,972
Amounts owed to group undertakings	54,261	51,218
	71,278	103,907

13. Share capital

	2009 £'000	2008 £'000
Authorised:		
400,000,000 Ordinary shares of £1.00 each	400,000	400,000
	400,000	400,000
Called up, allotted and fully paid:		
256,251,620 Ordinary shares of £1.00 each	-	256,252
301,351,620 Ordinary shares of £1.00 each	301,352	-
	301,352	256,252

On 15 July 2009 the company issued 45,100,000 £1 ordinary shares at par to Wanadoo Limited.

14. Movement in Reserves

	Equity settled stock option plan liability £'000	Share premium account £'000	Profit and loss account £'000
At 01 January 2009	1,335	158,632	(356,831)
Movement in the year	-	-	(54,273)
At 31 December 2009	1,335	158,632	(411,104)

15. Reconciliation of Shareholders Funds

	2009 £'000	2008 £'000
Shareholders funds as at 1 January 2009	59,388	(135,072)
Loss for the financial year	(54,273)	(61,834)
Movement on the share based payment plan	-	294
Increase in share capital	45,100	256,000
Shareholders funds as at 31 December 2009	50,215	59,388

16. Contingent Liabilities/Assets

The company had £106,750 (2008: £333,000) of e-commerce contracts and £580,270 (2008: £1,020,000) of advertising deals commitments which were not provided at the year end.

The company had no contingent liabilities at 31 December 2009 (31 December 2008: £nil).

17. Operating Lease Commitments

At 31 December 2009 the company was committed to the following annual payments in respect of operating leases:

	31 December 2009 £'000	31 December 2008 £'000
Leases which expire		
Within one year	14,516	11,118
Within two to five years	28,649	13,010
Over five years	-	-
	43,165	24,128

None of the above relate to land and buildings

18. Share-Based Payments

	2009	**£'000**	**2008**	**£'000**
	Expense for the year	Liability recognised	Expense for the year	Liability recognised
Former Wanadoo stock option plans	-	1,335	294	1,335

In 2008 the migration of employees to Orange Personal Communications Services Limited was completed. The equity settled stock option plan liability reserve will unwind as the options vest.

19. Ultimate Parent Undertaking

The company's immediate parent at the year end was Wanadoo Limited. The company's immediate parent at the date of approval of these financial statements is Orange Personal Communications Services Limited.

In the opinion of the directors, the company's ultimate parent and controlling party is France Telecom S.A., a company incorporated in France. Copies of the group financial statements of France Telecom SA may be obtained from the registered office of France Telecom SA at 6, Place d'Alleray, 75505, Paris, Cedex 15, France.

20. Events after the Balance Sheet Date

The company was sold by its parent Wanadoo Limited to Orange Personal Communications Services Limited on 19 March 2010 for £1.

Taxation

United Kingdom Taxation

The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law and HM Revenue & Customs practice describe only the United Kingdom withholding tax treatment of payments in respect of the Notes. They are not intended to be exhaustive. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The Notes issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Notes may be paid without withholding or deduction for or on account of tax where the Notes have a maturity date less than one year from the date of issue provided the Notes are not issued under arrangements the effect of which is to render such Notes part of a borrowing with a total term of a year or more.

Interest on the Notes may also be paid without withholding or deduction for or on account of tax where at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided H.M. Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In other cases, absent any other relief or exemption (such as a direction by H.M. Revenue & Customs that interest may be paid without withholding or deduction for or on account of tax to a specified Noteholder following an application by that Noteholder under an applicable double tax treaty), an amount must generally be withheld on account of income tax at the basic rate (currently 20 per cent.) from payments of interest on the Notes.

Where Notes are issued on terms that a premium is or may be payable on redemption, as opposed to being issued at a discount, then it is possible that any such element of premium may constitute a payment of interest and be subject to withholding on account of income tax as outlined in the preceding paragraphs.

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount element on any such Notes will not be made subject to any withholding or deduction for or on account of income tax.

In certain circumstances, H.M. Revenue & Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to, or receives interest for the benefit of, another person. H.M. Revenue & Customs also has the power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts on the redemption of Notes which are issued at a discount to, or receives such amounts on behalf of, another person, although H.M. Revenue & Customs' published practice indicates that H.M. Revenue & Customs will not exercise its power to acquire this information in respect of amounts payable on redemption where such amounts are paid on or before 5th April, 2012. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained in respect of payments of interest or amounts payable on redemption may, in certain circumstances, be provided by H.M. Revenue & Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

If the Guarantor makes any payments of interest under the Guarantee in respect of the Notes, Receipts or the Coupons (or in respect of other amounts due under the Notes other than the repayment of amounts subscribed for the Notes), such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent), subject to any applicable exemptions or reliefs. Such payments by the Guarantor may not be eligible for the exemptions from United Kingdom withholding tax described above.

As set out in Condition 8 of the Terms and Conditions of the Notes, if the Guarantor is at any time required by law to deduct or withhold an amount in respect of any withholding taxes in respect of payments under the Guarantee, the Guarantor must, subject to certain exemptions, pay such additional amounts as shall result in receipt by the Noteholders, Receiptholders and Couponholders of such amounts as would have been received by them had no such deductions or withholding been required.

EU Savings Directive

Under the Directive, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state, or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Subscription and Sale

The Dealers have in the Dealer Agreement agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, as amended and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the regulations promulgated thereunder.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of such Tranche, as determined and certified to the Issuer by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act. In addition, until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purpose of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21 (1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

General

No representation is made by the Issuer, the Guarantor, the Trustee or the Dealers that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will comply, to the best of its knowledge, with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s), or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer and the Guarantor. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Prospectus.

General Information

Authorisation

The establishment of the Programme has been duly authorised by a resolution of the Board of Directors of the Issuer dated 9 January 2012 and a resolution of the Board of Directors of the Guarantor dated 9 January 2012. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme and the Guarantee relating to the Programme.

Listing of Notes

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. The listing of the Programme in respect of Notes is expected to be granted on or about 13 January 2012.

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Global Certificate, as the case may be, initially representing the Notes of such Tranche. However, unlisted Notes may be issued pursuant to the Programme.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Issuing and Paying Agent for the time being in London:

(i) the Articles of Association of the Issuer; and

(ii) the Dealer Agreement, the Agency Agreement, the Trust Deed which incorporates the forms of the Global Notes, the Notes in definitive form, the Certificates, the Receipts, the Coupons and the Talons.

In addition, copies of (a) the financial statements of the Group and certain members of the Group as set out in the section headed "*Financial Information*", (b) this Prospectus, (c) any future prospectuses, information memoranda and supplements (and any documents incorporated by reference therein) and (d) each Final Terms relating to Notes which are either admitted to trading on a regulated market in the European Economic Area or offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Clearing Systems

The Bearer Notes and Registered Notes represented by a Global Certificate have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. The entities in charge of keeping the records in relation to each Tranche of Notes shall be Euroclear and/or Clearstream, Luxembourg, as applicable. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

Issue Price

The issue price and amount of the Notes of any Tranche will be determined at the time of the offering of such Tranche in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Guarantor or the Group since 30 June 2011 and there has been no material adverse change in the prospects of the Guarantor or the Group since 31 December 2010. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer since its incorporation on 11 November 2011.

Legal Proceedings

Neither the Issuer nor the Guarantor is involved nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Group.

Auditors

The Auditors of the Issuer and Guarantor are Ernst & Young LLP, of 1 More London Place, London SE1 2AF, who have audited the financial statements set out in the section entitled "*Financial Information*" above, without qualification, in accordance with applicable law and International Standards on Auditing (UK and Ireland), with the exception of the financial statements of the Guarantor for the period 1 January 2009 to 31 December 2009, which were audited by PricewaterhouseCoopers LLP on the same basis. The Issuer, having been incorporated on 11 November 2011, has yet to produce any financial statements. The Auditors of the Issuer and the Guarantor have no material interest in the Issuer or the Guarantor. No other information referred to in this Prospectus, save for the Additional Financial Statements discussed below, has been audited by Ernst & Young LLP. Ernst & Young LLP is authorised and regulated by the Financial Services Authority.

All of the financial statements set out in the section entitled "*Financial Information*" above constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (the "**Act**") save for (i) the consolidated unaudited IFRS financial statements of the Guarantor for the period 1 January 2011 to 30 June 2011 on pages 84 to 93 and (ii) the audited UK GAAP financial statements of the Guarantor for the period 1 January 2010 to 31 December 2010 (including the audited UK GAAP profit and loss account for such period for the Guarantor) on pages 180 to 216 (the "**Additional Financial Statements**").

The Directors of the Guarantor are responsible for the preparation of the Additional Financial Statements. The Additional Financial Statements, which were produced at the Issuer's request, have been audited by Ernst & Young LLP, whose business address, qualifications and material interests in the Issuer are disclosed above. Ernst & Young LLP have consented to the inclusion in this Prospectus of their report on page 189, in the form and context in which it is included and authorised the conents of their report for the purposes of Prospectus Rule 5.5.4R(2)(f). This statement is included to comply with item 1.2 of Annex IX of Commission Regulation (EC) 809/2004. Statutory accounts for the Guarantor for the financial years ended 2009 and 2010 have been delivered to the Registrar of Companies in England and Wales and are set out in the section entitled "*Financial Information*" on pages 94 to 179 and 217 to 248. The Guarantor's auditors have made a report under section 495 of the Act on such statutory accounts which was not qualified within the meaning of section 539 of the Act, did not contain a statement made under section 498(2) or section 498(3) of the Act and which contained the following statement: "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".

Certificates and Reports

Any certificate or report of the auditors or any other expert or other person called for by or provided to the Trustee in accordance with or for the purposes of the Notes may be relied upon by the Trustee as sufficient evidence of the facts stated therein whether or not such certificate or report is addressed to the Trustee and whether or not such certificate or report and/or any engagement letter or other document entered in to by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors (or such other expert or other person) in respect thereof.

Post-issuance information

Save as set out in the Final Terms, the Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates, including parent companies, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, and its affiliates in the ordinary course of business.

Definitions

"**Act**" is defined in the "*General Information*",

"**Additional Financial Statements**" is defined in the "*General Information*",

"**Adjusted EBITDA**" means EBITDA excluding management fees, brand fees and restructuring costs,

"**Agency Agreement**" is defined in the "*Terms and Conditions of the Notes*",

"**Alternative Clearing System**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Arranger**" is defined on the front page of this Prospectus,

"**Auditors**" means Ernst & Young LLP,

"**Bearer Notes**" is defined in the "*Terms and Conditions of the Notes*",

"**BT**" is defined in the "*Risk Factors*",

"**C Rules**" means the U.S. Treas. Reg. §1.163-5(c)(2)(i)(C),

"**CAGR**" is defined in the "*Description of the Issuer and the Group*",

"**Calculation Agent**" is defined in the "*Terms and Conditions of the Notes*",

"**Certificates**" is defined in the "*Terms and Conditions of the Notes*",

"**CGN**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January,

"**Common Depositary**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Common Safekeeper**" means, in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes,

"**Communications Market Report**" is defined in the "*Description of the Issuer and the Group*",

"**Conditions**" is defined in the "*Terms and Conditions of the Notes*",

"**Couponholders**" are defined in the "*Terms and Conditions of the Notes*",

"**Coupons**" are defined in the "*Terms and Conditions of the Notes*",

"**CRA Regulation**" is defined on the front page of this Prospectus,

"**Dealer**" is defined on the front page of this Prospectus,

"**Dealer Agreement**" means the dealer agreement between the Dealers and the Issuer dated 11 January 2012,

"**Definitive Note**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Directive**" is defined in the "*Risk Factors*",

"**DT**" is defined in the "*Description of the Issuer and the Group*",

"**EBITDA**" means adjusted earnings before interest, tax, depreciation and amortisation,

"**EEA**" is defined on the front page of this Prospectus,

"**euro**" and "**€**" is defined on the fourth page of this Prospectus,

"**Exchange Date**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Extraordinary Resolution**" means a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent of the votes cast,

"**Final Terms**" is defined on the front page of this Prospectus, “**Financial Instruments and Exchange Act**” is defined in the “*Subscription and Sale*”,

“**FSMA**” means the Financial Services and Markets Act 2000,

“**FT**” is defined in the “*Description of the Issuer and the Group*”,

“**Global Certificates**” means a Certificate representing Registered Notes of one or more Tranches of the same Series,

“**Global Note**” means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require,

“**Group**” is defined on the second page of this Prospectus,

“**Guarantee**” is defined in the “*Terms and Conditions of the Notes*”,

“**Guarantor**” is defined on the front page of this Prospectus,

“**holder**” is defined in the “*Terms and Conditions of the Notes*”,

“**Hutchison**” is defined in the “*Risk Factors*”,

“**Investor’s Currency**” is defined in the “*Risk Factors*”,

“**Issue Date**” is defined in the “*Terms and Conditions of the Note*”,

“**Issuer**” is defined on the front page of this Prospectus,

“**Issuing and Paying Agent**” is defined in the “*Terms and Conditions of the Notes*”,

“**LIBOR**” means the London Interbank Offered Rate,

“**listed**” is defined on the front page of this Prospectus,

“**LLU**” is defined in the “*Description of the Issuer and the Group*”,

“**London Stock Exchange**” is defined on the front page of this Prospectus,

“**LTE**” is defined in the “*Description of the Issuer and the Group*”,

“**Market**” is defined on the front page of this Prospectus,

“**Material Subsidiary**” is defined in the “*Terms and Conditions of the Notes*”,

“**MBNL**” is defined in the “*Description of the Issuer and the Group*”,

“**MMS**” is defined in the “*Risk Factors*”,

“**Moody’s**” is defined on the front page of this Prospectus,

“**MTR**” is defined in the “*Description of the Issuer and the Group*”,

“**MVNOs**” is defined in the “*Risk Factors*”,

“**NGN**” is defined in the “*Summary of Provisions Relating to the Notes While in Global Form*”,

“**NIA**” is defined in the “*Description of the Issuer and the Group*”,

“**Noteholder**” is defined in the “*Terms and Conditions of the Notes*”,

“**Notes**” is defined on the front page of this Prospectus,

“**NSS**” is defined in the “*Summary of the Provisions Relating to the Notes While in Global Form*”,

“**Ofcom**” is defined in the “*Risk Factors*”,

“**offer of Notes to the public**” is defined in the “*Subscription and Sale*”,

“**Official List**” is defined on the front page of this Prospectus,

“**OPCS**” is defined in the “*Description of the Issuer and the Group*”,

“**OTGL**” is defined in the “*Description of the Issuer and the Group*”

“**O2**” **means Telefonica UK Limited***,*

“**PAYG**” is defined in the “*Risk Factors*”, "**Paying Agents**" is defined in the "*Terms and Conditions of the Notes*",

"**PAYM**" is defined in the "*Risk Factors*",

"**PCI-DSS**" is defined in the "*Risk Factors*",

"**Programme**" is defined on the front page of this Prospectus,

"**Prospectus Directive**" is defined on the front page of this Prospectus,

"**Receipts**" is defined in the "*Terms and Conditions of the Notes*",

"**Register**" is defined in the "*Terms and Conditions of the Notes*",

"**Registered Notes**" is defined in the "*Terms and Conditions of the Notes*",

"**Registrar**" is defined in the "*Terms and Conditions of the Notes*",

"**Regulation S**" is defined on the front page of this Prospectus,

"**relevant Dealer**" is defined on the front page of this Prospectus,

"**Relevant Implementation Date**" is defined in the "*Subscription and Sale*",

"**Relevant Member State**" is defined on the second page of this Prospectus,

"**Securities Act**" is defined on the front page of this Prospectus,

"**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms of issue and are expressed to have the same series number,

"**SIM**" is defined in the "*Description of the Issuer and the Group*",

"**SMS**" is defined in the "*Risk Factors*",

"**Specified Currency**" is defined in the "*Terms and Conditions of the Notes*",

"**Stabilising Managers**" is defined on the fourth page of this Prospectus,

"**Standard & Poor's**" is defined on the front page of this Prospectus,

"**Sterling**", "**pence**" and "**£**" is defined on the fourth page of this Prospectus,

"**Talons**" is defined in the "*Terms and Conditions of the Notes*",

"**TEFRA**" means the Tax Equity and Fiscal Responsibility Act 1982,

"**TMHL**" is defined in the "*Description of the Issuer and the Group*"

"**TMUK**" is defined on the front page of this Prospectus,

"**Tranche**" is defined in the "*Terms and Conditions of the Notes*",

"**Transfer Agent**" is defined in the "*Terms and Conditions of the Notes*",

"**Trust Deed**" is defined in the "*Terms and Conditions of the Notes*",

"**Trustee**" is defined on the front page of this Prospectus,

"**UK Listing Authority**" is defined on the front page of this Prospectus,

"**U.S. dollars**" and "**U.S.$**" is defined on the fourth page of this Prospectus,

"**Virgin Mobile**" is defined in the "*Risk Factors*",

"**Vodafone**" means Vodafone UK Limited,

"**VoIP**" is defined in the "*Risk Factors*", and

"**2010 PD Amending Directive**" is defined in the "*Subscription and Sale*".

ISSUER

Everything Everywhere Finance PLC
Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

GUARANTOR

Everything Everywhere Limited
Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

ARRANGER

Barclays Bank PLC
5 The North Colonnade
London E14 4BB

DEALERS

Barclays Bank PLC
5 The North Colonnade
London E14 4BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ

Lloyds TSB Bank plc
Lloyds Bank Corporate Markets
10 Gresham Street
London EC2V 7AE

Mitsubishi UFJ Securities International plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

TRUSTEE

HSBC Corporate Trustee Company (UK) Limited
8 Canada Square
London E14 5HQ

ISSUING AND PAYING AGENT, REGISTRAR AND TRANSFER AGENT

HSBC Bank plc
8 Canada Square
London E14 5HQ

LEGAL ADVISERS

To the Issuer as to English law

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

To the Dealers and the Trustee as to English law

Linklaters LLP
One Silk Street
London
EC2Y 8HQ

AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF