Company number: 2382161

Everything Everywhere Limited

Annual Report

Group and Company Financial Statements

Year ended 31 December 2012

Everything Everywhere Limited

Contents

Everything Everywhere Limited

Directors and advisers

Directors

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Business Review

Introduction

Everything Everywhere Limited ("EE" or "the Group") is the UK's largest mobile communications provider with nearly 26.8 million customers and mobile subscriber market share of 33%. The Group, which operates exclusively in the UK, runs three of Britain's most famous brands – EE (newly established in 2012), Orange and T-Mobile. It offers mobile services (consisting of voice, messaging and data services) and fixed voice and broadband services to both retail and business customers through multiple telecommunications technologies. It is the first UK mobile network operator to launch a 4G network, introducing superfast consumer and business tariffs on 30 October 2012 on the new EE brand.

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

Strategy

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

The Group aims to be the number one for customer loyalty in the UK. It looks to deliver exceptional customer service through its retail networks, customer operations and on-line channels. The Group's leading network infrastructure allows it to deliver superior coverage and capacity, positively differentiating its network experience in the wider mobile marketplace. The Group focuses relentlessly on its customers' experience, driving their satisfaction and loyalty.

The Group continually invests in new capabilities to lead its industry's development, meet evolving customer demand and provide the platform from which to drive and optimise future growth opportunities.

Results

In 2012 the Group made progress, executing on its business strategy while maintaining commercial momentum against a background of macroeconomic weakness, regulatory pressures and a highly competitive environment. The Group maintained its financial and operational performance, improving the quality of the customer base, driving greater efficiencies in its operations with a 3% reduction in indirect costs, and continuing to invest in its network, differentiating EE in the market and underpinning its future growth and profitability.

Group revenue for the year was £6.7 billion (year ended 31 December 2011: £6.8 billion), a 1.9% decline, with the impact of regulatory rate cuts partially offset by growth in the post paid customer base. Adjusted EBITDA, which excludes restructuring costs, brand and management fees, was £1,410 million (year ended 31 December 2011: £1,416 million).

Operating Review

In the year, EE gained permission from Ofcom to launch the UK's first mobile 4G network using existing 1800MHz spectrum. By the end of 2012, the 4G network covered 43% of the population, in 18 towns and cities including the 4 capitals of London, Cardiff, Edinburgh and Belfast, with the fibre network passing 11 million premises.

The 4G service was launched with five price plans, ranging from £36 to £56 per month, all offering unlimited voice calls and texts, with bundled data ranging from 500MB to 8GB to effectively monetise the data opportunity. Innovative services, such as Clone Phone and Deezer (data back-up and music products) were also included to enhance the customer experience. 4G was also launched for business customers enabling technology, improving their efficiency and delivering their business solutions. The plans were made available on a range of smartphones from the leading manufacturers, including Apple, Nokia and Samsung. We also launched T-Mobile Full Monty, which gives unlimited voice, texts and data and promoted Orange The Works, a high value package for smartphone users, with many value-added extras such as WiFi and unlimited push email.

Business Review (continued)

Driving Customer Loyalty

Underlying service growth was driven by a 5.9% increase in the post paid (PAYM) customer base over the year. PAYM customers at the year end represented 52% of EE's mobile customer base, up from 48% a year ago.

The Group during the year achieved high levels of PAYM customer retention, with PAYM customer churn (the number of customers leaving the customer base divided by the average customer base) maintained at a low 1.2% (monthly average in the quarter) throughout the year.

This strong level of customer loyalty has been driven by a number of initiatives to improve their mobile experience. These included launching the UK's first mobile 4G network and 3G smart signal sharing to enable seamless cross network roaming.

Ensuring Operational Excellence

During the year, the Group continued to make substantial progress simplifying and streamlining the business to reduce costs and improve efficiencies. The Group started the process of decommissioning redundant network sites, with 2,659 switched off by the end of 2012, 39% of which were switched off in the fourth quarter 2012.

Adjusted EBITDA margin for the year improved 0.3ppts compared to the previous year to 21.2%. The Group has also now achieved an annual run rate of £369 million in annual gross operating expenditure savings, more than 83% of the £445 million annual run rate goal by 2014, and is on track for achieving a net present value in excess of £3.5 billion in synergy savings.

Creating the Platform for Long Term Growth

A key opportunity for EE is the accelerating growth in data across the mobile market. During 2012, the Group continued to advance its goal of significantly increasing smartphone penetration, with the percentage of PAYM customers using smartphones rising to 78% at the year end from 69% a year ago. Non-voice revenues (data and messaging) rose rapidly, as evidenced by an increase to 50% in the fourth quarter of 2012 against 43% in the fourth quarter of 2011.

EE received competition clearance for the mobile payments joint venture with O2 (Telefónica UK Limited) and Vodafone (Vodafone UK Limited) in the year, resulting in the launch of Weve in October 2012. Weve will create and accelerate the development of mobile marketing and cross network payment services in the UK. Through Weve, advertisers, retailers, banks and many other organisations can connect to a large-scale mobile commerce platform via a consistent set of technologies and standards, without having to duplicate effort.

EE's future revenue growth will be driven by participating in a number of areas of the mobile telecommunications, such as the business sector and telemetry, and personal technology sectors, sometimes in collaboration with other leading industry companies.

Capital Structure

In 2012, EE continued to establish its presence in the capital markets with three issuances under its Euro Medium Term Note (EMTN) programme totalling £1,349 million and agreement of a £350 million term loan with the European Investment Bank ("EIB").

In February 2012, EE concluded its inaugural capital market transaction with the issue of Euro 500 million notes with a coupon of 3.5% due 2017 under its EMTN programme. This transaction was followed in March by a £450 million note issue with a coupon of 4.375% due in 2019 and in August 2012, Euro 600 million notes with a coupon of 3.25% due 2018 both issued under the EMTN programme. The proceeds of the Euro denominated issuances and resulting cash interest liabilities were swapped to sterling as detailed in notes 26 and 33 below in accordance with the Group's financial risk management objectives and policies.

The EIB loan was signed in December 2012, and provides a £350 million five year facility to the Group to fund 3G and 4G network equipment expenditure.

Business Review (continued)

The Group established a financial policy aiming to achieve, in the medium term, a leverage ratio of below 1.75 - 2.0 times Net Debt to EBITDA as detailed in note 33. The above fund raising represents continued diversification of the Group's funding sources whilst maintaining the ownership structure of the Group with France Telecom and Deutsche Telekom each continuing to own 50% of the Group respectively.

Outlook

EE's focus for the current year will be to deliver a further solid commercial performance, driving continued margin improvement, market leading customer retention, network leadership and enhanced customer service and experience. Against a background of continued economic uncertainty and regulatory pressures, the Group remains well placed to make good progress towards delivering on its 2013 goals.

Risks and uncertainties

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

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

Level of competitive activity

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

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

Spectrum factors

The Group's operations may be affected by the ability to obtain additional spectrum for its existing and future networks. As a result, the Group monitors any developments from the European Commission, the UK Government and the independent regulator and competition authority for the UK communications industries ("Ofcom") in relation to the allocation of mobile network spectrum in the UK. Ofcom is in the process of auctioning further mobile network spectrum, needed to provide high speed mobile broadband services. Bidding commenced in January 2013. The exact length of the auction and the timing of the award of spectrum is unclear. Following the auction, Ofcom will consult on the basis on which it charges for originally allocated 2G services taking into account the results of the auction (so called "annual licence fees").

As part of the clearance from the European Commission to form the Group, the Group made a commitment to relinquish part of its 1800 MHz spectrum. It divested that spectrum to Hutchison 3G UK Limited and the disposal was approved by both Ofcom and the European Commission.

The Group's business and operations may be adversely affected by the ability of Hutchison 3G UK Limited to use the spectrum which the Group disposed of and will cease to use under its agreement with the European Commission and/or its failure to secure further mobile network spectrum in the current auction. It is also possible that EE could face increased annual licence fees for the usage of its current spectrum.

Regulatory factors

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

Business Review (continued)

In respect of international roaming charges, the European Commission adopted, in June 2012, a new Regulation amending the existing international roaming regulations with significantly lower price ceilings, an inclusion of a retail data tariff ceiling and structural measures to foster increased competition. The Group, together with other operators, is required to publish a reference offer which will permit third party operators to access its network on a wholesale basis to provide services to UK consumers and by July 2014 will have to decouple its domestic and roaming services. The price controls and structural measures apply only within the EU (and the EEA) but certain transparency obligations extend to the rest of the world. This expansion of the existing regulation may have a negative effect on the Group's international roaming revenues although decoupling will also provide the opportunity to target roaming customers of other UK operators.

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. As a result of appeals against Ofcom's decision there has been a further reduction in such charges.

Ofcom completed its latest review of this market on 15 March 2011 and imposed further reductions in the amount the Group is able to charge over the next four years. Ofcom adopted a new methodology in determining the amount of the charge ceiling applicable to the Group, implementing a recommendation by the European Commission which does not allow for the recovery of most common costs, particularly network costs, incurred in relation to the provision of the call termination service. The reduced charges have been applied since 1 April 2011. Consolidated appeals against Ofcom's decision were considered by the Competition Appeal Tribunal ("CAT"). These combined the appeals by Vodafone UK Limited, the Group, Hutchison 3G UK Limited ("Hutchison") and British Telecommunications plc ("BT"), and the interventions by O2 and each of the appellants in each of the appeals. As these appeals relate to a price control matter the CAT is obliged to refer it to the Competition Commission. The Competition Commission has determined that Ofcom erred in setting a four year glide path to reduce charges to the level determined by the cost methodology used by Ofcom and it should be replaced by a three year glide path. It has also disagreed with some cost modelling of base station costs by Ofcom which would result in a reduction to the ceiling on the amount which the Group is able to charge. A judicial review challenge to the Competition Commission's findings was unsuccessful and new reduced rates were introduced by Ofcom on 10 May 2012. The Group obtained leave to appeal the CAT's decision which was heard by the Court of Appeal in January 2013, although the judgement is not expected for several months. The new call termination charging ceiling and the reduction in the amount of time in which rates may reduce has forced the Group to implement changes to the way in which mobile services are marketed, which affects its pre-pay customers disproportionately and may have a negative impact on the Group's business and operations.

Ofcom is expected to announce changes to the way in which calls to non-geographic numbers are charged, which may reduce the Group's revenue from such numbers, particularly 080 numbers.

Brand risk

It is critical for the Group to maintain and develop its three 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 customer's 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.

Liquidity risk

Long-term funding for the Group is provided by Euro and Sterling denominated bonds issued by Everything Everywhere Finance plc under its Euro Medium Term Note programme, together with a sterling denominated bank facility provided by a consortium of Banks and a European Investment Bank Loan.

Business Review (continued)

The main sources of liquidity are: cash generated from operations, a syndicated loan facility provided by the above mentioned consortium of banks, a shareholder working capital facility and an additional short-term facility provided jointly by the Group's shareholders.

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

Further details of the Group's facilities and long-term funding arrangements are detailed in note 25.

Interest rate risk

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

Other financial risks

Further information on financial risk management including the management of foreign currency related risk is provided in note 33.

Directors' Report

The Directors present their consolidated report and the audited financial statements of the Group and Company for the year ended 31 December 2012.

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 (including customer numbers, churn and adjusted EBITDA), principal business risks and future developments are detailed in the Business Review on pages 2 to 6.

Results for the financial year, dividends and transfer from reserves

The loss after tax for the year ended 31 December 2012 was £191 million (year ended 31 December 2011: £104 million) on revenues of £6,657 million (year ended 31 December 2011: £6,784 million) and has been deducted from reserves. Detailed results for the year are shown in the consolidated income statement on page 13.

Dividends declared and paid during the year totalled £734 million (year ended 31 December 2011: £866 million). This was equivalent to £33.29 per share (2011: £39.27 per share).

Financial position of the Group as at 31 December 2012

The net assets of the Group decreased from £11,251 million at 31 December 2011 to £10,317 million at 31 December 2012. The decrease in net assets during the period was significantly influenced by the £734 million dividend payment.

Directors

The Directors, who held office during the year, and up to the approval of this report, are set out on page 1.

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

Research and development

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

Political and charitable donations

The Group has made charitable donations during the year of £13,272 (year ended 31 December 2011: £44,709).

The Group made no political donations during the year (year ended 31 December 2011: none).

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 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.

The Group is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place that it is reliant upon to remain 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 Group and Company annual financial statements.

Directors' Report (continued)

Supplier payments policy

It is the Group's policy to pay its suppliers within the agreed terms of payment. Supplier payment days at the year end was 47 days (31 December 2011: 45 days).

Events since the balance sheet date

In January 2013 Ofcom started an auction process to sell 100MHz of radio spectrum at 800MHz and 2600MHz frequencies. The Group is one of the seven participants.

On 14 February 2013 the Directors recommended a further interim dividend of £189 million to be paid on 28 March 2013. No liability is recorded in the financial statements in respect of the interim dividend, because it was not approved at the balance sheet date.

Further financing facilities from the shareholders have subsequently been made available to the Group.

Employee involvement

EE ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during 2012, including, regular face to face briefings and email updates from senior managers, 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 engagement plans are developed after each survey as a means of continual enhancement of the process of informing, involving and engaging employees in the future. In addition, engagement champions are appointed for each functional area who are accountable for ensuring engagement plans remain on track and also ensuring additional feedback is given and opportunities taken between the main surveys. These are published for all employees to see and sharing of best practice is encouraged via the Group's Pulse intranet site.

During 2012, comprehensive consultative arrangements were operated 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.

Equal opportunities and disabled employees

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

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 Employers Network for Equality and Inclusion, Business Disability Forum, Business in the Community and Stonewall.

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

Directors' Report (continued)

Disclosure of information to the auditor

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

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

Appointment of the auditor

In accordance with S487(2) of the Companies Act 2006 the Group allows the deemed reappointment of Ernst & Young LLP as auditor.

By order of the Board

Neal Milsom

Director

18 February 2013

Group Statement of Directors' responsibilities

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

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

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

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

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

We have audited the Group financial statements of Everything Everywhere Limited for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Everything Everywhere Limited for the year ended 31 December 2012.

Ernst & Young LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst &Young LLP, Statutory Auditor
London
18 February 2013

Consolidated income statement

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Revenue	7	**6,657**	**6,784**
External purchases	8	(4,615)	(4,724)
Other operating income	10	44	25
Other operating expense	10	(436)	(360)
Staff costs	11	(460)	(479)
Amortisation and depreciation	17, 18	(1,254)	(1,239)
Restructuring expenses	13	(106)	(75)
Group operating loss		**(170)**	**(68)**
Finance income	14	3	3
Finance expense	15	(83)	(48)
Finance costs net		(80)	(45)
Share of profit of associates	19	1	-
Loss before tax		**(249)**	**(113)**
Income tax	16	58	9
Loss for the year attributable to the equity holders of the parent		**(191)**	**(104)**

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Loss for the year attributable to the equity holders of the parent		**(191)**	**(104)**
Other comprehensive income			
Actuarial loss on defined benefit pension scheme	28	(32)	(21)
Deferred tax relating to defined benefit pension scheme	16	7	6
Cash flow hedges			
- Loss recycled through profit and loss in the year	26	(15)	(2)
- Fair value gain/(loss) arising in the year	26	36	(18)
Deferred tax relating to cash flow hedges	16	(5)	4
Other comprehensive loss for the year		**(9)**	**(31)**
Total comprehensive loss for the year attributable to the equity holders of the parent		**(200)**	**(135)**

Everything Everywhere Limited

Consolidated statement of financial position

As at 31 December 2012

Company number: 2382161

	Notes	31 December 2012 £m	31 December 2011 £m
Non current assets			
Intangible assets	17	10,496	11,249
Property, plant and equipment	18	2,163	2,058
Associates and joint ventures	19	16	12
Other financial assets	22	111	91
Deferred tax asset	16	167	113
Derivative financial instruments	26	24	-
Other non current assets	21	25	48
Total non current assets		**13,002**	**13,571**
Current assets			
Inventories	20	125	130
Trade and other receivables	21	1,180	1,271
Derivative financial instruments	26	8	-
Cash and cash equivalents	23	846	290
Total current assets		**2,159**	**1,691**
Total assets		**15,161**	**15,262**
Current liabilities			
Trade and other payables	24	(2,128)	(2,101)
Provisions	27	(160)	(192)
Interest bearing loans and borrowings	25	(8)	(374)
Derivative financial instruments	26	(4)	(18)
Current income tax liability		-	(7)
Total current liabilities		**(2,300)**	**(2,692)**
Non current liabilities			
Derivative financial instruments	26	(7)	-
Provisions	27	(335)	(363)
Interest bearing loans and borrowings	25	(2,122)	(870)
Pension liability	28	(77)	(52)
Other non current liabilities	24	(3)	(34)
Total non current liabilities		**(2,544)**	**(1,319)**
Total liabilities		**(4,844)**	**(4,011)**
Total net assets		**10,317**	**11,251**

Consolidated statement of financial position (continued)
As at 31 December 2012

	Notes	31 December 2012 £m	31 December 2011 £m
Capital and reserves			
Share capital	29	22	22
Share premium account		1,638	1,638
Capital contribution reserve		196	196
Cash flow hedge reserve		2	(14)
Retained earnings		(2,604)	(1,654)
New basis reserve		11,063	11,063
Total equity		**10,317**	**11,251**

These consolidated financial statements were approved by the board of Directors on 14 February 2013 and were signed on its behalf by

Neal Milsom
Director

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital	Share premium account	Capital contribution reserve	New basis reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2010	**22**	**1,638**	**196**	**11,063**	**(669)**	**2**	**12,252**
Loss for the financial year	-	-	-	-	(104)		(104)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(21)	-	(21)
Deferred tax relating to defined benefit pension scheme	-	-	-	-	6	-	6
Cash flow hedges							
Loss recycled through profit & loss in the year	-	-	-	-	-	(2)	(2)
Fair value loss arising in the year	-	-	-	-	-	(18)	(18)
Deferred tax relating to cash flow hedges	-	-	-	-	-	4	4
Other comprehensive income & expense	-	-	-	-	(119)	(16)	(135)
Dividends declared and paid	-	-	-	-	(866)	-	(866)
At 31 December 2011	**22**	**1,638**	**196**	**11,063**	**(1,654)**	**(14)**	**11,251**
Loss for the financial year	-	-	-	-	(191)	-	(191)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(32)	-	(32)
Deferred tax relating to defined benefit pension scheme	-	-	-	-	7	-	7
Cash flow hedges							
Losses recycled through the profit or loss account	-	-	-	-	-	(15)	(15)
Fair value gain arising in the year	-	-	-	-	-	36	36
Deferred tax relating to cash flow hedges	-	-	-	-	-	(5)	(5)
Other comprehensive income & expense	-	-	-	-	(216)	16	(200)
Dividends declared and paid	-	-	-	-	(734)	-	(734)
At 31 December 2012	**22**	**1,638**	**196**	**11,063**	**(2,604)**	**2**	**10,317**

Everything Everywhere Limited

Consolidated statement of cash flows

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Operating activities			
Loss for the year		(191)	(104)
Adjustments to reconcile the loss for the year to cash generated from operations			
Depreciation and amortisation	17, 18	1,254	1,239
Change in other provisions (excluding discount unwind)	27	(77)	(83)
Difference between pension contributions and amounts recognised in the income statement		(7)	(12)
Income tax	16	(58)	(9)
Net finance expense	14, 15	80	45
Share of profits of associates	19	(1)	-
Changes in working capital requirements			
Decrease in inventories	20	5	14
Decrease / (increase) in trade and other receivables	21	85	(14)
(Decrease)/increase in trade and other payables	24	(55)	57
Decrease in other long-term assets	21	23	11
Interest income received		6	6
Foreign exchange (paid)/ received		(3)	1
Interest (paid) and interest rates effects on derivatives		(29)	(29)
Income tax (paid)/received		(1)	51
Net cash provided by operating activities		**1,031**	**1,173**
Investing activities			
Purchases of property, plant and equipment and intangible assets	17-18	(586)	(503)
Investment in joint venture	19	(3)	-
Increase in non-current loans receivable	22	(20)	(31)
Net cash used in investing activities		**(609)**	**(534)**

Consolidated statement of cash flows (continued)
For the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Financing activities			
Proceeds from new borrowings			
Non-current borrowings	25	1,686	875
Transaction costs paid		(15)	(5)
Cash collateral received	25	8	-
Redemptions and repayments			
Decrease in long term borrowings		(437)	-
Decrease in short term borrowings		(374)	(876)
Dividends paid	30	(734)	(866)
Net cash used in financing activities		**134**	**(872)**
Net change in cash and cash equivalents	23	**556**	**(233)**
Cash and cash equivalents at the beginning of the year	23	290	523
Cash and cash equivalents at the end of the year	23	**846**	**290**

Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 14 February 2013. The consolidated statement of financial position was signed on behalf of the board by Neal Milsom. The Group is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

The Group's principal activities are set out in the directors' report at page 7.

2.1 Basis of preparation

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

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

The Group has elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards. These are presented on pages 75 to 103, and the accounting policies in respect of the Company are set out on pages 81 to 84.

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 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.

The Group is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place that it is reliant upon to remain 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 Group and Company annual financial statements.

New basis reserve

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

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

Notes to the consolidated financial statements (continued)

2.1 Basis of preparation (continued)

New basis reserve (continued)

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

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

Significant estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment in future periods, to the carrying amounts of assets or liabilities affected.

Judgements

Operating lease commitments - the Group as lessee

The Group has entered into property leases relating to mast sites, office space and retail shops. The Group has determined on the basis of an evaluation of the terms and conditions of the arrangements that the landlords retain all the significant risks and rewards of ownership and accordingly it has accounted for these items as operating leases. Details of the Group's commitments are set out in note 32.

Estimates and assumptions

The key assumptions regarding the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however may change due to market circumstances, or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the provisions within the next financial year are as follows:

Restructuring provision: This relates to the costs of employee redundancy or one off costs following restructuring within the Group. These costs are expected to be incurred within 12 months of recognition of the provision. Provisions for restructuring costs are recognised only when restructuring has been announced and the Group has started to implement a detailed formal plan. The formal plan includes assumptions concerning the employees affected. As the plans are finalised variances to the detailed plan may occur.

Notes to the consolidated financial statements (continued)

2.1 Basis of preparation (continued)

Significant estimates and judgements (continued)

Onerous lease provision: This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under the lease contracts, being the difference between rentals paid and the sub lease rentals received. Assumptions are made about the value of future payments and receipts based on market conditions and the timing concerning any future sub letting of space. The provision is calculated at net present value using a discounted cash flow model.

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (WEEE): The Group is required to dismantle equipment and restore sites and properties under operating leases. The ARO provision is based on the best estimate of the amount required to settle the obligation. This estimate is revised annually and adjusted against the asset to which it relates, which is then subject to an impairment assessment. These costs are expected to be incurred over a period of up to 20 years. The WEEE Directive was introduced into UK Law in 2007 and requires organisations to finance the costs of collection, treatment, recovery and disposal of EEE (Electrical and Electronic Equipment) once it reaches the end of its life. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled at an average cost per ton. Both provisions are calculated at net present value using a discounted cash flow model.

Network share and other network: This represents the liabilities arising from restructuring obligations relating to network share agreements, both before and after the combination of the T-Mobile and Orange businesses. The obligations involve estimates of both operational costs and vacant site rentals. These costs are of a long term nature. The provision is calculated at net present value using a discounted cash flow model. The provision also includes an amount to cover ongoing legal disputes with other network operators. The directors, having taken legal advice have established provisions according to the facts of each case. The timing of cash flows associated with legal cases is uncertain.

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. Additional information is disclosed in note 28.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Consequently, the determination of the Group's taxation position requires the directors to make significant judgements and estimates. Differences arising between the actual results and the assumptions made, or future changes to such assumptions could necessitate future adjustment to tax income and expense already recorded.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available, against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future profit, together with future tax planning strategies.

Goodwill impairment

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

Notes to the consolidated financial statements (continued)

2.1 Basis of preparation (continued)

Significant estimates and judgements (continued)

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Everything Everywhere Limited and its subsidiaries as at 31 December 2012.

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

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

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

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

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

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

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

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

2.3 Summary of significant accounting policies

a) Goodwill and business combinations

Goodwill arises from the combination of the subsidiary businesses that formed the Group (refer to section 2.1). Goodwill is initially measured at cost being the excess of the equity value transferred into the Group upon formation over the net fair value of the identifiable assets and liabilities assumed.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

a) Goodwill and business combinations (continued)

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

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

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

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

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

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

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

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

(ii) revenue and EBITDA multiples for comparable transactions.

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

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

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

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

b) Cash generating unit ("CGU")

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

c) Interests in joint ventures

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

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

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is included in the carrying value of the investment and neither amortised nor individually tested for impairment. The overall investment is tested for impairment on an annual basis.

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

d) Interests in associates

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

e) Foreign currency translation

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

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

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

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

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

f) Revenue recognition

Revenue includes:

- amounts invoiced for airtime and related services supplied to subscribers, together with airtime income earned but not invoiced;
- amounts invoiced for interconnect in respect of calls terminating on the EE 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. 08-01 'Accounting for Revenue Arrangements with Multiple Deliverables' (EITF 08-01) as permitted by IAS 8.12.

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

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

Sales of bundled offers in the mobile business frequently include a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the

telecommunications service to be delivered. As the amount attributable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognised for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

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

Equipment sales

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

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.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

f) Revenue recognition (continued)

Promotional offers

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

Penalties

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

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

Subscriber acquisition and retention costs

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

Loyalty programs

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

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

g) Advertising and related costs

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

h) Borrowing costs

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

i) Operating and finance leases

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

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

j) Intangible assets

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

Intangible assets acquired subsequent to the formation of the Group are initially recognised at cost.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

j) Intangible assets (continued)

Customer relationships

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

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

- Pre-pay relationships — 4 years
- Post-pay relationships — 9 years
- Mobile Virtual Network Operator relationships ("MVNO") — 6 to 14 years (based upon contract period)

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

Spectrum

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

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

Other - Software and research and development costs

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

The Group's research and development projects mainly concern:

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

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

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

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

j) Intangible assets (continued)

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.

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

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

Other - Licences

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

Other – rights to use

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

k) Property, plant and equipment

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

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

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

Cost

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

k) Property, plant and equipment (continued)

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

Network share assets

Certain assets have been contributed to a network share arrangement by both the Group and Hutchison, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement, and the Group's share of the assets are initially recognised at fair value within tangible assets, and depreciated according to Group policy. For further information see note 18.

Finance leases

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

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

Government grants

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

Depreciation

Property, plant and equipment are depreciated to write off their cost less any residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed.

Therefore, the straight-line basis is usually applied over the following estimated useful lives:

- Freehold land: Not depreciated
- Freehold buildings: 50 years
- Short-term leasehold improvements: shorter of 10 years or lease team
- Network: 5 to 20 years
- Fixtures, fittings and equipment: 3 to 6 years

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

l) Impairment of non-current assets other than goodwill

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

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

m) Financial assets and liabilities

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are:

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

m) Financial assets and liabilities (continued)

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

With the exception of financial liabilities carried 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.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss except for the effective portion of cash flow hedges which is recognised in other comprehensive income.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows which is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedging relationship, the Group formally documents and designates the hedge relationship for which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will; assess the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as described below:

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

m) Financial assets and liabilities (continued)

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement as finance costs. The change in the fair value of the hedged item and is also recognised in the income statement as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate (EIR) method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes to its fair value attributable to the risk being hedged.

If the hedged item is de-recognised, the unamortized gain value is recognised immediately in profit or loss.

When an unrecognised commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised in the income statement.

The Group uses forward currency contracts as hedges to its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in finance costs.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or expenses is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial assets or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non current classification

Derivative instruments are classified as current or non-current or separated into current and non-current portions based upon the underlying contracted cash flows:

- When the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classed as non-current (or separated in to current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives which are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

n) Equipment inventories

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

o) Provisions

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

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

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

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

p) Employee benefits

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

Defined Contribution Scheme

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

Defined Benefit Scheme

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

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

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

Notes to the consolidated financial statements (continued)

2.3 Summary of significant accounting policies (continued)

q) Share capital

Ordinary shares are classified as equity.

r) Current income tax

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

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

s) Deferred taxes

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

t) Cash and cash equivalents

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

u) Prior year comparatives

The directors have reclassified certain small balances in the prior year comparatives to more clearly reflect classifications in the accounts to aid a better understanding for the reader of the financial statements for consistency for the current year.

3. New and revised IFRSs applied

The following revised IFRSs have been adopted in these consolidated financial statements and have no material effect on the financial statements:

IFRS 7 'Financial instruments: Disclosures' – Enhanced derecognition disclosure requirements

These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

The amendment is effective for accounting periods commencing on or after 1 July 2011. The Group has no assets with these characteristics and there has been no effect on the presentation of its financial statements.

IAS12 'Income taxes (Amendment)' – Deferred Taxes: recovery of underlying assets

The amendment clarified the determination of deferred tax on investment properties and introduces a rebuttable presumption that deferred tax on investment property. Measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis.

The amendment is effective for financial periods commencing on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

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

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after 1 July 2012.

IAS 1 'Financial statement presentation' regarding other comprehensive income

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are ultimately reclassifiable to profit or loss subsequently. The amendments do not address which items are presented in other comprehensive income. The effective date is 1 July 2012.

IAS 19 'Employee benefits'

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The effective date is 1 January 2013.

IFRS 7 'Financial Instruments: Disclosures' – offsetting financial assets and liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosure would provide users with information which is useful in evaluating the effect of netting off arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments which are set off in accordance with IAS 32 Financial instruments: Presentation. The disclosures also apply to recognised financial instruments which are subject to an enforceable netting master arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not affect the Group's financial position or performance. The effective date is 1 January 2013.

Notes to the consolidated financial statements (continued)

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

IFRS 9 'Financial Instruments'

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends upon the entities business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The effective date is 1 January 2015.

Annual improvements 2011

These annual improvements address six issues in the reporting cycle. It includes changes to:

- IAS 1- Financial Statement Presentation;
- IAS 16 – Property, Plant & Equipment;
- IAS 32 – Financial Instruments; Presentation; and
- IAS 34 – Interim Financial Reporting.

The effective date is 1 January 2013.

IFRS 10 'Consolidated financial statements'

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. The effective date is 1 January 2013.

IFRS 11 'Joint arrangements'

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations exist where an operator has the rights to the assets and obligations relating to the arrangement and hence accounts for its interest in the assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The effective date is 1 January 2013.

IFRS 12 'Disclosures of interests in other entities'

IFRS 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The effective date is 1 January 2013.

Amendment to IFRSs 10, 11 and 12 on transition guidance

These amendments provide additional transition relief to IFRSs 10, 11 and 12 limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures relating to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The effective date is 1 January 2012.

IFRS 13 'Fair value measurement'

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The effective date is 1 January 2013.

Notes to the consolidated financial statements (continued)

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

IAS 27 (revised 2011) 'Separate financial statements'

IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The effective date is 1 January 2013.

IAS 28 (revised 2011) Associates and joint ventures

IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates to be equity accounted following the issue of IFRS 11. The effective date is 1 January 2013.

IAS 32 'Financial Instruments' Presentation on asset and liability offsetting

These amendments are to the application guidance in IAS 32 Financial Instruments: Presentation, and clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet. The effective date is 1 January 2014.

The Group will normally adopt new standards at the effective date.

The Group is currently evaluating the impact of the application of IFRS 11 on the accounting for Mobile Broadband Network Limited ("MBNL") when it is adopted on 1 January 2013. The application of IFRS 11 may materially change how the Group accounts for the joint venture, which is currently accounted for by the equity accounting method.

The Group considered the effect of the above standards and revisions and with the exception of the accounting for MBNL, it has been concluded that there will be no significant impact apart from the additional disclosures.

5. Segment Information

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

6. EBITDA

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Loss before tax	(249)	(113)
Add back:		
Net finance costs	80	45
Amortisation and depreciation	1,254	1,239
EBITDA	1,085	1,171
Add back:		
Management and brand fees	219	170
Restructuring costs	106	75
Adjusted EBITDA	1,410	1,416

Notes to the consolidated financial statements (continued)

6. EBITDA (continued)

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

The Group's management believes that EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation, and share of profits (losses) of associates) is meaningful for investors because it provides an analysis of operating results and profitability using the same measure used by management. As a consequence, EBITDA is presented in addition to operating income.

Together with adjusted EBITDA, it is one of the key measures of operating profitability used to i) implement investments and resource-allocation strategy, and ii) assess the performance of the Executive Management.

7. Revenue

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Mobile service revenue	5,953	6,112
Other	704	672
Total revenue	6,657	6,784

Other revenue consists of equipment, fixed broadband and wholesale revenues.

8. External purchases

External purchases comprise:

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

Notes to the consolidated financial statements (continued)

8. External purchases (continued)

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Commercial expenses	2,582	2,392
Service fees and inter-operator costs	1,290	1,536
Other network charges, IT charges	299	309
Other external purchases	444	487
Total external purchases	4,615	4,724

9. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	1,200	1,610
Fees payable to the company's auditor and its associates for other services:		
- the audit of the company's subsidiaries pursuant to legislation	52	-
- half year review	113	125
- other assurance services	296	59
	1,661	1,794

10. Other operating income / expense

Other operating income	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Other operating income	44	18
Foreign exchange gains on trade payables	-	7
Total other operating income	44	25

Notes to the consolidated financial statements (continued)

10. Other operating income / expense (continued)

Other operating expense	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Property rates	93	52
Spectrum fees	34	40
Bad debt expense	77	98
Management and brand fees	219	170
Foreign exchange losses on trade payables	7	-
Other charges	6	-
Total other operating expense	436	360

11. Employees

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

	Year ended 31 December 2012 No.	Year ended 31 December 2011 No.
Operations	1,615	1,734
Selling and distribution	4,407	4,726
Customer care and administration	7,682	8,144
	13,704	14,604

The costs incurred in respect of these employees are:

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Wages and salaries	430	476
Social security costs	52	56
Pension costs		
- Defined benefit	13	12
- Defined contribution	14	17
Own work capitalised (development costs)	(46)	(48)
Total employee cost	463	513

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

Notes to the consolidated financial statements (continued)

12. Directors emoluments

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Remuneration	2,664	2,258
Pension costs	49	46
Amounts accrued under long term incentive schemes	758	253
	3,471	2,557

Employer's National Insurance contributions in respect of key management personnel were £459,000 (2011: £543,000).

During the year payments of £nil (31 December 2011: £1,967,000) were made in respect of compensation for loss of office.

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Total emoluments	2,672	936
Pension costs	-	-
	2,672	936

Retirement benefits in the form of defined contribution schemes are accruing for one director at 31 December 2012 (31 December 2011: one).

13. Restructuring expenses

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Lease exit costs	12	30
Employee costs	3	34
Other	91	11
Total restructuring expenses	106	75

Other includes IT integration, advertising, retail store rebranding and new brand launch costs.

Notes to the consolidated financial statements (continued)

14. Finance income

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Finance income on loans and receivables measured at amortised cost	3	1
Fair value movements of derivative financial instruments classified at fair value through consolidated income statement	-	1
Foreign exchange gains	-	1
Total finance income	3	3

15. Finance expense

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Finance costs (calculated using effective interest rate) on financial liabilities measured at amortised cost	63	30
Unwinding of discount	17	18
Foreign exchange losses	3	-
Total finance expense	83	48

16. Taxation

(a) Income tax charged in the consolidated income statement

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Current income tax:		
UK corporation tax	-	1
Adjustments in respect of previous periods	(6)	(57)
Total current income tax income	(6)	(56)
Deferred tax:		
Origination and reversal of temporary differences	(26)	17
Impact of tax rate change on deferred tax asset	13	10
Adjustments in respect of previous periods	(39)	20
Total deferred tax (income) / expense	(52)	47
Income tax (income) / expense in the consolidated income statement	(58)	(9)

Notes to the consolidated financial statements (continued)

16. Taxation (continued)

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

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

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Deferred tax related to items charged or credited directly to the consolidated statement of comprehensive income:		
Deferred tax on actuarial gains on pension liability	(7)	(6)
Deferred tax on cash flow hedges	5	(4)
Deferred tax (income) / expense in the consolidated statement of comprehensive income	(2)	(10)

(c) Reconciliation of the total income tax expense

The income tax expense for the year differs from the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below:

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Accounting loss before income tax	(249)	(113)
Accounting loss multiplied by the UK average standard rate of corporation tax of 24.5% (2011: 26.5%)	(61)	(30)
Non-deductible expenses	35	48
Impact of tax rate change on the deferred tax asset	13	10
Current income tax adjustments in respect of previous periods	(6)	(57)
Deferred tax adjustments in respect of previous periods	(39)	20
Total income tax (income) / expense at the effective tax rate of 23.3% (2011: 8.0%)	(58)	(9)

(d) Change in Corporation Tax rate

Announcements were made during 2011 and 2012 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Group. The change in the corporation tax rate, effective 1 April 2012, from 26% to 24% was substantively enacted in two steps, initially to 25% on 5 July 2011 and then subsequently to 24% on 29 March 2012. A further reduction to 23%, effective 1 April 2013, was substantively enacted on 3 July 2012. A further reduction to 21%, effective from 1 April 2014, has been announced but not substantively enacted at the balance sheet date.

Notes to the consolidated financial statements (continued)

16. Taxation (continued)

The tax rate reduction to 26%, and 25% substantively enacted during 2011, resulted in a decrease in the Group's net deferred tax asset of £10 million all of which was reported in the 2011 consolidated income statement. The further reductions to 26% and 25%, both substantively enacted during 2011, resulted in a further decrease in the Group's net deferred tax asset of £13 million all of which has been reported in the 2012 consolidated income statement. The Group estimates that the future tax rate reductions to 21% would result in an additional £14 million decrease in the net deferred tax asset.

(e) Deferred tax asset / (liability)

The deferred tax in the consolidated statement of financial position, calculated at a tax rate of 23% (31 December 2011: 25%, 31 December 2010: 27%), is as follows:

	31 December 2012 £m	31 December 2011 £m
Deferred tax liability		
Accelerated tax depreciation	(293)	(421)
Cash flow hedges	(1)	-
	(294)	(421)
Deferred tax asset		
Trading tax losses	386	450
Pension scheme liabilities	18	13
Provisions deductible on a paid basis	57	67
Cash flow hedges	-	4
	461	534
Disclosed in the consolidated statement of financial position		
Net deferred tax asset	167	113

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

Notes to the consolidated financial statements (continued)

16. Taxation (continued)

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Opening balance at 1 January	113	150
Deferred tax (expense) / income in the consolidated income statement		
Accelerated tax depreciation	128	82
Trading tax losses	(64)	(104)
Pension scheme liabilities	(2)	(5)
Provisions deductible on a paid basis	(10)	(20)
Deferred tax (expense) / income in the consolidated statement of comprehensive income		
Pension scheme liabilities	7	6
Cash flow hedges	(5)	4
Closing balance at 31 December	167	113

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

Although the Group was loss making in the year ended 31 December 2012, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

Notes to the consolidated financial statements (continued)

17. Intangible assets

	Goodwill	Customer relationships	Spectrum	Other	Total
	£m	£m	£m	£m	£m
Cost:					
At 31 December 2010	5,692	2,600	3,682	662	12,636
Additions	-	-	-	138	138
At 31 December 2011	5,692	2,600	3,682	800	12,774
Additions	-	-	-	124	124
Disposals	-	-	-	(2)	(2)
At 31 December 2012	5,692	2,600	3,682	922	12,896
Amortisation:					
At 31 December 2010	-	(277)	(251)	(118)	(646)
Charge during the year	-	(369)	(335)	(175)	(879)
At 31 December 2011	-	(646)	(586)	(293)	(1,525)
Charge during the year	-	(369)	(335)	(173)	(877)
Disposals	-	-	-	2	2
At 31 December 2012	-	(1,015)	(921)	(464)	(2,400)
Net book value at 31 December 2012	5,692	1,585	2,761	458	10,496
Net book value at 31 December 2011	5,692	1,954	3,096	507	11,249
Net book value at 31 December 2010	5,692	2,323	3,431	544	11,990

Goodwill

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

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 2012, and resulted in no impairment to the carrying value of Goodwill.

As disclosed in note 2.3 Significant Accounting Policies, the Group has determined that the business comprises a single operating segment to which all the Goodwill is allocated. The method used for establishing the recoverable amount was a value in use calculation derived from conventional discounted cash flow projections. In 2011 the method used was fair value less cost to sell, based upon discounted cash flow calculations, with a post tax discount rate.

Notes to the consolidated financial statements (continued)

17. Intangible assets (continued)

Measurement of the cash-generating unit is based upon historical information, together with financial plans which have been approved by management and are used for internal purposes. 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. Cash flows beyond this planning horizon are extrapolated using appropriate growth rates.

The value in use projections used a long term growth rate of 1% (2011: 1%), and a pre tax discount rate of 9.03% (2011: 7.58% post tax). The discount rate used was based upon an estimated cost of capital (calculated using the capital asset pricing model) taking into account relevant sector information.

There were a number of key assumptions which affected the cash flow forecast of the business. These included assumptions about the synergies to be achieved following the formation of the Group in 2010, the development of the UK market and the market size, the Group's share of the market, customer revenues, operating margins and network maintenance expenditure. Any significant future changes in these assumptions would have an impact on the fair value of the cash-generating unit.

The Group applied the following sensitivities to the discount rate and the growth rate:

- an increase in the discount rate by 0.5% to 9.53%
- a reduction in the long term growth rate by 1% to 0%.

In each case, no indication of impairment was identified.

Customer relationships

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.

Other

During 2011 the Group entered into a 7 year outsourcing contract with T-Systems Limited, a related party, for Information, Communication and Telecommunications services. In 2012 the contract was extended by a further year. During 2011, transformation costs of £51 million were capitalised as intangibles, representing a 'right to use'. These costs are being amortised on a straight line basis over the life of the contract.

Assets under construction

As at 31 December 2012, the above included assets under construction of £173 million (31 December 2011: £105 million).

Notes to the consolidated financial statements (continued)

18. Property, plant and equipment

	Freehold land & buildings	Short term leasehold improvements	Network	Fixtures & fittings	Total
	£m	£m	£m	£m	£m
Cost:					
At 31 December 2010	53	110	1,955	91	2,209
Additions	-	12	399	8	419
Disposals	-	(1)	(33)	(3)	(37)
At 31 December 2011	53	121	2,321	96	2,591
Additions	-	31	446	5	482
Disposals	-	-	(58)	(2)	(60)
At 31 December 2012	53	152	2,709	99	3,013
Depreciation:					
At 31 December 2010	(1)	(8)	(188)	(13)	(210)
Charge during the year	(1)	(13)	(326)	(20)	(360)
Disposals	-	1	33	3	37
At 31 December 2011	(2)	(20)	(481)	(30)	(533)
Charge during the year	(2)	(16)	(342)	(17)	(377)
Disposals	-	-	58	2	60
At 31 December 2012	(4)	(36)	(765)	(45)	(850)
Net book value at 31 December 2012	49	116	1,944	54	2,163
Net book value at 31 December 2011	51	101	1,840	66	2,058
Net book value at 31 December 2010	52	102	1,767	78	1,999

Network Share Arrangement

As part of a shared network agreement (see note 19), selected network assets are jointly controlled with Hutchison 3G UK Limited. The Group's share of the jointly controlled assets is £689 million at 31 December 2012 (31 December 2011: £658 million) and is shown within network assets.

Additionally, the Group is recognising cost of £54 million (31 December 2011: £111 million) as its share of jointly controlled network assets in the course of construction.

Notes to the consolidated financial statements (continued)

18. Property, plant and equipment (continued)

Sale of rights

The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International by the former T-Mobile business from prior to the formation of the Group. Due to the fact that the Group still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the plant, property and equipment of the Group. The net book amount of these assets as at 31 December 2012 was £19 million (31 December 2011: £21 million).

Fully depreciated assets

Included above are fully depreciated assets with an original cost of £59 million (2011: £68 million) which are still in use.

Assets under construction

As at 31 December 2012, included within Network assets are £211 million (31 December 2011: £323 million) of assets under construction.

19. Principal subsidiaries, associates and joint venture investments

a) Interests in subsidiaries

On 11 November 2011, a new entity, Everything Everywhere Finance Plc ("EEF") was incorporated. EE has a 100% shareholding in EEF. The new entity is used as a financing entity for the Group and has been used to raise finance on public markets and to raise a £350 million loan facility from the European Investment Bank. See note 25 for further details.

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

Name	Country of incorporation	Year end	Principal activities	Percentage shareholding
Orange Services India Private Limited	India	31 March	Management support	100%
Orange Personal Communications Services Limited	UK	31 December	Dormant	100%
EE Group Limited (formerly Orange Retail Limited)	UK	31 December	Dormant	100%
Orange Home UK Limited	UK	31 December	Dormant	100%
Orange Jersey Limited	Jersey	31 December	Dormant	100%
Everything Everywhere Pension Trustee Limited	UK	31 December	Pension Trustee	100%
Orange Pension Trustees Limited	UK	5 April	Pension Trustee	100%
Orange FURBS Trustees Limited	UK	31 December	Pension Trustee	100%
Everything Everywhere Finance Plc	UK	31 December	Finance Company	100%
EE Communications Limited	UK	31 December	Dormant	100%
Tee Tree Ltd	UK	31 March	Dormant	See below

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

Notes to the consolidated financial statements (continued)

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

a) Interests in subsidiaries (continued)

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

Tee Tree Ltd is a subsidiary by virtue of control.

b) Interests in associates and joint ventures

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

The Group's share as at	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Investment at start of year	12	12
Formation of new joint venture	3	-
Share of profit and loss for the year	1	-
	16	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 year were as follows:

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

The Group's share of the aggregated financial results of the equity accounted associates at 31 December 2012 and 31 December 2011 was in aggregate £1 million.

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

Joint ventures

The Group and Hutchison (together "the Companies") each have a 50% share in the joint venture company, Mobile Broadband Network Limited ("MBNL"). MBNL's ongoing purpose is the consolidation of the legacy networks, acquiring assets relevant to the shared network on behalf of the Companies, and managing network and operational services as their agent in respect of the Shared Network, unilateral deployments (being network assets or services specific to one company only) and the 2G network. The Group is committed to incurring 50% of costs in respect of restructuring the Shared Network.

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

Notes to the consolidated financial statements (continued)

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

The Group's share as at	31 December 2012 £m	31 December 2011 £m
Revenue	28	18
Profit on ordinary activities before tax	(1)	-
Tax on profit on ordinary activities	1	-
Profit for the financial year	-	-
Fixed assets	153	126
Current assets	15	10
Creditors: amounts falling due within one year	(46)	(35)
Creditors: amounts falling due after more than one year	(111)	(90)
Net assets	11	11

The Group, Vodafone UK Limited and O2 (Telefónica UK Limited) each have a 33.3% share in the newly formed joint venture company, Weve Limited, formed in September 2012. The joint venture was formed to create and accelerate the development of mobile marketing services together with a cross-network mobile payment service. The service will provide a single contact point for media agencies, retailers and brands, enabling them to create campaigns that will reach millions of opted-in mobile users and to connect to a large-scale mobile commerce and payment platform via a consistent set of technologies and standards.

The Group's shares of the profits of Weve Limited as at 31 December 2012 was £nil. The Group's share of Weve Limited's net assets was:

	31 December 2012 £m
Fixed assets	1
Current assets	3
Creditors: amounts falling due within one year	(2)
Net assets	2

Together with Hutchinson 3G UK Limited, O2 (Telefónica UK Limited) and Vodafone UK Limited, the Group has a 25% shareholding in Digital Mobile Spectrum Limited. The Company was formed on 10 October 2012 and there were no material transactions during the year ended 31 December 2012.

Notes to the consolidated financial statements (continued)

20. Inventories

	31 December 2012 £m	31 December 2011 £m
Inventories of handsets	145	153
Gross value	145	153
Provision for obsolescence	(20)	(23)
Total inventories at the lower of cost and net realisable value	125	130

The amount of inventory included within external purchases was £1,414 million (2011: £1,226 million). This includes write-downs on new inventory of £6 million (2011: £6 million).

21. Trade and other receivables

	31 December 2012 £m	31 December 2011 £m
Current:		
Trade receivables	791	880
Prepaid external purchases	380	369
Other assets and prepaid operating expenses	9	16
Accrued interest	-	6
Total other current assets and prepaid expenses	1,180	1,271

	31 December 2012 £m	31 December 2011 £m
Non-current:		
Prepayments	25	48

Included within trade receivables is £28 million (31 December 2011: £4 million) due from joint ventures. These trading balances are unsecured, interest free and have no fixed date of repayment. The remaining balance relates to receivables that are non-interest bearing, are generally on 15 or 30 days' terms, and are shown net of a provision for impairment. During the year, a non-recurring operating gain of £17 million was recognised as a result of the re-evaluation of certain aged balances.

As at 31 December 2012, trade receivables at nominal value of £130 million (31 December 2011: £135 million) were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for.

Notes to the consolidated financial statements (continued)

21. Trade and other receivables (continued)

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

	31 December 2012 £m	31 December 2011 £m
Opening balance	135	174
Decrease in provision	(5)	(39)
Closing balance	130	135

Trade receivables that were past due but not impaired may be analysed as follows:

	31 December 2012 £m	31 December 2011 £m
Neither past due nor impaired	721	809
Past due but not impaired		
30 days	20	20
60 days	50	51
	791	880

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

22. Other financial assets

	31 December 2012 £m	31 December 2011 £m
Non-current loans		
- Joint ventures	110	90
- Franchises	1	1
Total non-current loans	111	91

Non-current loans to joint ventures of £110 million (31 December 2011: £90 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.

23. Cash and cash equivalents

	31 December 2012 £m	31 December 2011 £m
Cash at bank	166	55
Cash pooling	680	235
	846	290

Notes to the consolidated financial statements (continued)

23. Cash and cash equivalents (continued)

Cash and cash equivalents also include the cash pooling account. On a daily basis the Group upstreams cash to each Shareholder on an equal 50:50 basis. The account also earns interest at the overnight LIBOR rate minus 15 b.p.

24. Trade and other payables

	31 December 2012 £m	31 December 2011 £m
Current:		
Trade payables	1,583	1,598
VAT payable	185	168
Other taxes	22	6
Employee related payables	31	40
Deferred income	238	250
Interest payable	33	2
Other	36	37
	2,128	2,101

	31 December 2012 £m	31 December 2011 £m
Non-current:		
Other	3	34

During 2011, a non-recurring operating gain of £35 million arose from the settlement of certain historical operational accruals.

25. Financial liabilities and net financial debt

	Interest rate %	Maturity	31 December 2012 £m	31 December 2011 £m
Interest bearing loans and borrowings				
Current:				
Amount due to France Telecom S.A	LIBOR plus 0.6%	On demand	-	187
Amounts due to Deutsche Telecom A.G	LIBOR plus 0.6%	On demand	-	187
			-	374
Cash collateral received	SONIA		8	-
			8	374

Notes to the consolidated financial statements (continued)

25. Financial liabilities and net financial debt (continued)

	Interest rate %	Maturity	31 December 2012 £m	31 December 2011 £m
Non-current				
Euro medium term notes – five year bond	3.5	6 February 2017	408	-
Euro medium term note – seven year bond	4.375	28 March 2019	444	--
Euro medium term note – six year bond	3.25	3 August 2018	486	-
Revolving credit facility	LIBOR plus 1.05%	November 2016	-	437
Syndicated loan facilities	LIBOR plus 1.3%	November 2014	434	433
European Investment Bank loan	2.21	December 2017	350	-
			2,122	870

The carrying amounts for financial liabilities approximate their fair value.

Loans to France Telecom S.A. and Deutsche Telekom A.G.

The loans to France Telecom S.A and Deutsche Telekom A.G. were unsecured and were repayable on demand.

Cash collateral received

Cash collateral is received or paid depending upon the valuation of derivative financial instruments. Interest accrues at the Sterling Overnight Interbank Rate (“SONIA”).

Euro medium term note programme

On 11 January 2012, the Group established a £3,000 million Euro Medium Term Note (“EMTN”) programme to enable it to issue debt securities in the form of corporate bonds to the capital markets. Corporate bonds issued under the EMTN programme are traded on the London Stock Exchange main market.

The Group has capitalised £17 million of costs that were directly attributable to the bond issuances. These are being expensed through the profit and loss account over the life of the bonds using the effective interest rate method.

In relation to the two bond issuances denominated in Euros, the Group also entered into cross currency interest rate swaps to hedge the exposure to foreign exchange movements. The hedging relationships have been formally designated as cash flow hedges and accounted for in accordance with the accounting policies of the financial statements for the year ended 31 December 2012. Under the terms of the credit support agreements entered into with the swap counterparties, the Group receives or pays collateral based upon the mark to market valuation of the swap. At 31 December 2012, the Group had received a net amount of £8.5 million. This is recognised as a liability on the balance sheet in “Other financial liabilities”.

During the year, the Group has fully repaid the £437.5 million revolving credit facility outstanding at 31 December 2011 and £374 million of loans outstanding to France Telecom S.A and Deutsche Telekom A.G.

Notes to the consolidated financial statements (continued)

25. Financial liabilities and net financial debt (continued)

European Investment Bank (EIB) Loan

On 5 December 2012, the Group signed a £350 million loan agreement with the European Investment Bank to fund investment in 3G and 4G mobile network equipment. The loan is repayable in full on 28 December 2017 and incurs interest at a fixed rate of 2.21% payable quarterly in arrears.

Net financial debt

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

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

	31 December 2012 £m	31 December 2011 £m
Amounts due to France Telecom S.A.	-	187
Amounts due to Deutsche Telekom A.G.	-	187
Euro 500m 3.5% notes due 2017	409	-
Euro 600m 3.25% notes due 2018	490	-
£450m 4.375% notes due 2019	450	-
Finance lease liability	1	3
Revolving credit facility	-	437
Syndicated bank loans (nominal amount)	438	438
European Investment Bank Loan	350	-
Cash collateral received	8	-
Financial liabilities	2,146	1,252
Cash & cash equivalents	(846)	(290)
Net financial debt	1,300	962

26. Financial instruments

	31 December 2012 £m	31 December 2011 £m
Derivative assets		
Current		
Forward foreign currency contracts	8	-
Total current derivative assets	8	-
Non-current		
Cross currency interest rate swaps – cash flow hedge	24	-
Total non-current derivative assets	24	-

Notes to the consolidated financial statements (continued)

26. Financial instruments (continued)

	31 December 2012 £m	31 December 2011 £m
Derivative liabilities		
Current		
Forward foreign currency contracts	(4)	(18)
Total current derivative liabilities	(4)	(18)
Non-current		
Cross currency interest rate swaps – cash flow hedge	(7)	-
Total current derivative liabilities	(7)	-

Cash flow hedges

To hedge the exposure of some of its operating cash flows in foreign currencies, the Group has set up risk hedging policies. Financial risk management is described in note 33.

Currency	Hedged nominal amount (£m)	Maturity date of hedged item	Hedging instrument	Hedged risk
EUR	490	2013	Forward FX contracts	Purchases in Euros
USD	63	2013	Forward FX contracts	Purchases in Dollars

Cross currency interest rate swaps are utilised to mitigate risks associated with variable rate loans designated in foreign currency. These are as follows:

	Notional	Rate	Maturity
	£m	%	
Cross-currency interest rate swaps	887	€ Receivable 3.36	2017 - 2018
		£ Payable 3.81	

The notional principal amount of cross-currency interest rate swaps as at 31 December 2012 was £887m (2011: £nil).

Gains and losses associated with hedging activities are as follows:

	31 December 2012 £m	31 December 2011 £m
Loss recycled through the profit or loss account	(15)	-
Gain / (loss) recognised in equity during the year	36	(20)
	21	(20)
(Finance costs, net) / ineffectiveness	-	(3)

Notes to the consolidated financial statements (continued)

26. Financial instruments (continued)

Financial assets and liabilities by category

All the Group's financial assets and liabilities are held at amortised cost with the exception of derivative financial instruments which are held at fair value.

As at 31 December 2012	Available for sale £m	Held for trading £m	Designated as cash flow hedges £m	Loans, receivables and financial liabilities at amortised cost £m	Total £m
Current assets					
Cash and cash equivalents	-	-	-	846	846
Trade and other receivables		-	-	791	791
Forward foreign currency contracts	-	-	8	-	8
Non-current assets					
Other financial assets				111	111
Cross current interest rate swaps	-	-	24	-	24
Liabilities					
Current liabilities					
Trade and other payables	-	-	-	(1,652)	(1,652)
Forward foreign currency contracts	-	-	(4)	-	(4)
Cross current interest rate swaps	-	-	(7)	-	(7)
Cash collateral received	-	-	-	(8)	(8)
Non-current borrowings	-	-	-	(2,122)	(2,122)
Total	-	-	21	(2,034)	(2,013)
As at 31 December 2011					
Current assets					
Cash and cash equivalents	-	-	-	290	290
Trade and other receivables	-	-	-	880	880
Forward foreign currency contracts					
Non-current assets					
Other financial assets	-	-	-	91	91
Liabilities					
Current liabilities					
Trade and other payables	-	-	-	(1,637)	(1,637)
Current borrowings	-	-	-	(374)	(374)
Forward foreign currency contracts	-	-	(18)	-	(18)
Non-current liabilities					
Non-current borrowings	-	-	-	(875)	(875)
Total	-	-	(18)	(1,625)	(1,643)

Notes to the consolidated financial statements (continued)

26. Financial instruments (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical; assets or liabilities).

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques that use inputs that have a significant effect on the recorded fair value, which are not based upon observable market data.

As at 31 December 2012 the Group held the following financial instruments carried at fair value in the statement of financial position:

31 December 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Foreign exchange forward contracts	-	8	-	8
Derivatives in effective hedges	-	24	-	24
Financial liabilities				
Foreign exchange rate forward contracts	-	(4)	-	(4)
Derivatives in effective hedges	-	(7)	-	(7)
Total	-	21	-	21

31 December 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
Foreign exchange rate forward contracts	-	(18)	-	(18)
Total liabilities	-	(18)	-	(18)

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward currency contracts has been based upon discounted market forward currency exchange rates at the balance sheet date.

There are no material differences between the carrying values of the Group's non-derivative financial assets and financial liabilities and their fair value at the balance sheet date.

Notes to the consolidated financial statements (continued)

27. Provisions

	Restructuring Provision £m	Onerous Leases £m	ARO / WEEE £m	Network share and other network £m	Total £m
At 31 December 2011	27	93	209	226	555
Increase in year	-	13	1	-	14
Decrease in year	(2)	-	-	(7)	(9)
Utilisation	(23)	(22)	(10)	(27)	(82)
Discount unwind	-	2	9	6	17
At 31 December 2012	2	86	209	198	495

	Restructuring Provision £m	Onerous Leases £m	ARO / WEEE £m	Network share and other network £m	Total £m
Analysis of provisions by maturity:					
At 31 December 2012					
Short term	2	33	22	103	160
Long term	-	53	187	95	335
	2	86	209	198	495
At 31 December 2011					
Short term	27	25	17	123	192
Long term	-	68	192	103	363
	27	93	209	226	555

Restructuring provision

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

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, for periods up to 10 years, 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)

The Group is required to dismantle equipment and restore sites and properties under operating leases. The ARO 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. These costs are expected to be incurred over a period of up to 20 years.

The WEEE Directive was introduced into UK Law in 2007 and requires organisations to finance the costs of collection, treatment, recovery and disposal of EEE (Electrical and Electronic Equipment) once it reaches the end of its life. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled at an average cost per ton and discounted as it will be settled at a future date.

Notes to the consolidated financial statements (continued)

27. Provisions (continued)

Network share and other network

This represents the liabilities arising from restructuring obligations relating to network share agreements, both before and after the combination of the T-Mobile and Orange businesses. The obligations involve both operational costs and vacant site rentals and have been discounted to present value. These costs are expected to be incurred over a period of up to 20 years.

The provision also includes an amount to cover ongoing legal disputes with other network operators. The directors, having taken legal advice have established provisions according to the facts of each case. The timing of cash flows associated with legal cases is uncertain. A Supreme Court order, issued in February 2013, granted BT leave to appeal in relation to some of the disputes and the provisions associated with them will be reassessed once the Court process is complete.

28. Pensions

Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Group, amounted to £14 million (year ended 31 December 2011: £17 million). Included in other creditors is £1 million (31 December 2011: £3 million) in respect of contributions payable to the scheme.

Defined benefit pension scheme

The following summarises the movement in the Everything Everywhere Pension Trustee Limited pension scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2012. The DB pension scheme was established on 1 March 2000 with benefits based on final remuneration and length of service. Assets are held in separately administered trusts. A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out as at 31 December 2009 and updated to 31 December 2012 by actuaries AON Hewitt Associates Limited.

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

	31 December 2012 %	31 December 2011 %
Inflation assumptions - RPI	3.0	3.1
Inflation assumptions - CPI	2.3	2.1
Expected return on plan assets	5.2	5.8
Rate of increase in salaries	4.0	4.1
Rate of increase for pensions in payment – accrued pre 6 April 2006	2.9	3.0
Rate of increase for pensions in payment – accrued post 6 April 2006	2.1	2.1
Discount rate	4.8	4.9

Notes to the consolidated financial statements (continued)

28. Pensions (continued)

The mortality assumptions used were as follows:

	31 December 2012 Years	31 December 2011 Years
Longevity at age 65 for current pensioners:		
- Men	22.7	22.3
- Women	23.5	23.1
Longevity at age 65 for future pensioners:		
- Men	25.0	24.1
- Women	25.9	25.0

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 2012 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:

	31 December 2012		31 December 2011	
	Long-term rate of return expected % p.a.	Value £m	Long-term rate of return expected % p.a.	Value £m
UK equity and unit trusts	6.7	138	7.2	119
Property	6.7	49	7.2	50
Hedge funds	6.7	22	8.9	21
Index linked gilts	2.7	78	2.8	79
Bonds	4.1	103	4.9	75
Cash / net current assets	2.7	1	n/a	12
Fair value of the scheme assets		391		356
Present value of scheme obligations		(468)		(408)
Liability in the consolidated statement of financial position		(77)		(52)

Reconciliation of present value of scheme obligations:

	31 December 2012 £m	31 December 2011 £m
At 1 January	408	365
Current service cost	13	16
Interest cost	20	20
Benefits paid	(6)	(5)
Actuarial loss	33	16
Curtailments	-	(4)
At 31 December	468	408

Notes to the consolidated financial statements (continued)

28. Pensions (continued)

Reconciliation of fair value of scheme assets:

	31 December 2012 £m	31 December 2011 £m
At 1 January	356	322
Expected return on pension scheme assets	20	22
Actuarial gain/(loss)	2	(5)
Benefits paid	(6)	(5)
Company contributions	19	22
At 31 December	391	356

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:

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Operating loss		
Current service cost	13	16
Gain on curtailment	-	(4)
Pension costs	13	12
Other income		
Expected return on pension scheme assets	20	22
Interest on pension scheme liabilities	(20)	(20)
Net return	-	2

The actual return on plan assets was a £23 million gain (2011: £17 million gain).

Movement in the deficit in the year:

	31 December 2012 £m	31 December 2011 £m
Opening deficit in the scheme at 1 January	(52)	(43)
Current year service cost	(13)	(16)
Contributions	19	22
Other finance income / (loss)	-	2
Curtailments	-	4
Actuarial (loss) / gain	(31)	(21)
Closing deficit in scheme at 31 December	(77)	(52)

Notes to the consolidated financial statements (continued)

28. Pensions (continued)

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

	31 December 2012 £m	31 December 2011 £m
Actual return less expected return on pension scheme assets	2	(5)
Experience gains and losses arising on the scheme liabilities	(7)	(1)
Changes in assumptions underlying the present value of the scheme liabilities	(27)	(15)
Actuarial gain recognised in the consolidated statement of comprehensive income	(32)	(21)

The cumulative amount of actuarial gains recognised in the consolidated statement of changes in equity, is £22 million loss (2011: £9 million gain).

Under the current schedule of contributions the Group is expected to contribute £20 million to the scheme in the twelve months to 31 December 2013.

The effect of a 0.1% movement in the discount rate used of 4.8% would be as follows:

Discount rate	4.7% £m	4.9% £m
Deficit in scheme at end of year	(92)	(63)

The effect of a 0.1% movement in the inflation rate (RPI) assumption of 3.0% would be as follows:

Inflation rate	2.9% £m	3.1% £m
Deficit in scheme at end of year	(64)	(91)

The effect of a 0.1% movement in the inflation rate (CPI) assumption of 2.3% would be as follows:

Inflation rate	2.2% £m	2.3% £m
Deficit in scheme at end of year	(64)	(91)

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

Notes to the consolidated financial statements (continued)

28. Pensions (continued)

The history of asset values, defined benefit obligation is as follows:

	2012 £m	2011 £m	2010 £m
Plan assets	391	356	322
Defined benefit obligations	(468)	(408)	(365)
Deficit	(77)	(52)	(43)

The history of experience gains and losses is as follows:

	2012 £m	2011 £m	2010 £m
Experience gains/(losses) on scheme assets	2	(6)	11
Experience gains/(losses) on scheme liabilities	(7)	(1)	50

29. Share capital and reserves

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

Share capital

	31 December 2012 £m	31 December 2011 £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

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 £1.638 million was recognised, along with the issue of the £1 ordinary ‘A’ shares above.

Capital contribution reserve

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

New basis reserve

The new basis reserve arises on consolidation and includes all previously recognised retained earnings of the subsidiaries contributed to the Group as well the fair value adjustments made on formation of the new reporting entity as at 1 April 2010.

Notes to the consolidated financial statements (continued)

29. Share capital and reserves (continued)

Cash flow hedge reserve

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

30. Dividends paid

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Dividends declared and paid	734	866
Dividend per share (£ / share)	£33.29	£39.27

31. Related party transactions

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

Related party transactions with joint ventures

MBNL charges the Group fees in relation to the management and use of the shared network. Charges from MBNL during the year totalled £28 million (2011: £18 million). At 31 December 2012 MBNL was holding £2 million (2011: £10 million) of restricted cash on behalf of the Group. The net amount owed to The Group at the end of the year was £28 million (2011: £4 million). Formal loan funding was provided by the Group to MBNL. As at 31 December 2012 the outstanding balance receivable in respect of this loan amounted to £110 million (2011: £90 million), there was accrued interest of £1 million (2011: £nil). The loan was provided on an arm's length basis and attracts interest at a rate of LIBOR plus 1.75%. Interest received in the year totalled £2 million (2011: £2 million).

Related party transactions with companies within the France Telecom SA group

FT charges the Group for a series of services including Information, Technology 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 for the year amounted to £140 million (2011: £141 million), and the balance outstanding at 31 December 2012 was £28 million (2011: £30 million).

FT provided a loan to the Group through its subsidiary, Atlas Services Belgium SA. The outstanding balance at 31 December 2012 was £nil million (2011: £187 million), during the year £187 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £nil (2011: £12 million). Working capital funds deposited with FT totalled £340 million at 31 December 2012 (2011: £117 million). Interest is received at LIBOR minus 0.15% and totalled £nil for the year (2011: £nil).

Notes to the consolidated financial statements (continued)

31. Related party transactions (continued)

Related party transactions with companies within the Deutsche Telekom AG group

DT charges the Group for a series of services including Information, Communication and Telecommunication outsource fees; Information, Technology 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 £289 million (2011: £215 million), and the balance outstanding at 31 December 2012 was £88 million (2011: £97 million). DT provided a loan to the Group. The outstanding balance at 31 December 2012 was £nil (2011: £187 million), during the year £187 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £nil (2011: £12 million).

Working capital funds deposited with DT totalled £340 million at 31 December 2012 (2011: £117 million. Interest is received at LIBOR minus 0.15% and totalled £nil for the year (2011: £nil).

Key management personnel

The Directors of the Group are considered to be key management personnel. Disclosure of their compensation is given in note 12.

Defined benefit pension scheme

Transactions with the defined benefit scheme Everything Everywhere Pension Trustee Limited are disclosed in note 28.

There were no material transactions with any other related parties.

32. Capital and financial commitments

Finance leases

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

	31 December 2012 £m	31 December 2011 £m
Not later than one year	1	1
After one year but not more than five years	-	2
After five years	-	-
	1	3
Less finance charges allocated to future periods	-	-
Present value of minimum lease payments	1	3

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

	31 December 2012 £m	31 December 2011 £m
Not later than one year	1	1
After one year but not more than five years	-	2
After five years	-	-
Present value of minimum lease payments	1	3

Notes to the consolidated financial statements (continued)

32. Capital and financial commitments (continued)

Operating leases

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

	31 December 2012 £m	31 December 2011 £m
Not later than one year	265	248
After one year but not more than five years	871	907
After five years	474	479
	1,610	1,634

The financial commitments shown above include the Group's share of the MBNL joint venture's financial commitments under operating leases, which is £451 million (31 December 2011: £429 million).

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

Minimum lease payments for operating leases expensed in the year was £296 million (year ended 31 December 2011: £300 million).

The Group has £230 million of handset commitments (31 December 2011: £222 million).

Capital commitments

The Group has £279 million of capital commitments at 31 December 2012 (31 December 2011: £161 million).

In addition, the Group's share of the MBNL joint venture's capital commitments is £30 million (31 December 2011: £7 million).

Contingent liabilities

The Group had no significant contingent liabilities or guarantees at 31 December 2012 (31 December 2011: £nil).

33. Financial risk management, objectives and policies

The Group's principal non-derivative financial liabilities 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 risk includes 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.

Notes to the consolidated financial statements (continued)

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

The sensitivity analyses in the following sections relate to the position as at 31 December 2012 and 31 December 2011.

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 2012 and 31 December 2011.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is financed through long term loans from financial institutions. The interest charged on these loans is linked to LIBOR. The Group also has cash assets and loans receivables from joint ventures which are charged at a variable rate. A sensitivity analysis has been presented to demonstrate the impact of a reasonably possible change in the interest rates. With all other variables held constant, the Group's loss before tax and equity is affected through the impact on borrowing as follows:

	Change in interest rate	Effect on loss before tax £m	Effect on equity £m
31 December 2012	+1%	(3)	-
	-1%	3	-
31 December 2011	+1%	(13)	-
	-1%	13	-

During the year ended 31 December 2012, the Group established the EMTN facility described in note 25 above.

In order to manage its interest rate risk, the Group has engaged in cross-currency interest swaps. Its interest rate swap portfolio is summarised in note 26.

Financial liabilities and assets

The interest rate profiles of financial liabilities were as follows:

	31 December 2012			31 December 2011		
	Fixed	Floating	Total	Fixed	Floating	Total
Financial liabilities	£m	£m	£m	£m	£m	£m
Sterling	800	438	1,238	-	1,249	1,249
Euro	899	-	899	-	-	-
	1,699	438	2,137	-	1,249	1,249

The weighted average interest rate on fixed rate borrowings at 31 December 2012 was 3.396% (2011: nil%), with the weighted average time for which rates are fixed being 5.23 years (2011: 0 years). Floating rate borrowings are based upon LIBOR. Cash deposits are interest bearing at rates based upon LIBOR.

£8.5 million (2011: £nil) has been received as collateral in respect of the cross-currency interest rate swaps and forward foreign currency contracts.

Notes to the consolidated financial statements (continued)

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

	31 December 2012			31 December 2011		
	Floating	Non-interest bearing	Total	Floating	Non-interest bearing	Total
Financial assets	£m	£m	£m	£m	£m	£m
Sterling	680	166	846	235	55	290

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.

As at 31 December 2012 the Group had £899 million (2011: £nil) of long term loans designated in Euros. The foreign currency risk attached to these loans is managed using cross currency interest rate swaps. This is described under interest rate risk above.

The Group mitigates its exposure to short term 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.

A sensitivity analysis of the Group's exposure to foreign exchange risk is as follows:

	31 December 2012		31 December 2011	
	Income statement gain/(loss)	Effect on equity	Income statement gain/(loss)	Effect on equity
	£m	£m	£m	£m
5% weakening of sterling against the Euro	(26)	-	(27)	-
5% weakening of sterling against the US dollar	(3)	-	(2)	-

Equity price risk

The Group does not hold listed or unlisted equity securities except for associates and joint ventures as disclosed in note 19 and therefore there is minimal exposure to equity price risk.

Credit risk

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

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

Notes to the consolidated financial statements (continued)

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

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 26 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 2012 £m	31 December 2011 £m
Trade and other receivables	791	880
Cash at bank and in hand	846	290
Non current loans	111	91

The disclosure regarding financial assets that are past due or impaired is given in note 21.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due owing to insufficient financial resources. The Group manages liquidity risk through a combination of sourcing current funding requirements with long term financing arrangements from financial institutions and capital markets.

The table below summarises the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments. Interest rates on variable rate loans have been based on the rates in effect at the year end.

At 31 December 2012	On demand £m	Less than 12 months £m	1 to 3 years £m	3 to 5 years £m	More than 5 years £m
Interest bearing loans and borrowings	-	39	562	881	970
Derivative financial instruments	-	4	7	7	1
Payments under onerous contracts undiscounted	2	36	48	4	3
Trade and other payables	-	1,652	-	-	-
	2	1,731	617	892	974

Notes to the consolidated financial statements (continued)

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

At 31 December 2011	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years
	£m	£m	£m	£m	£m
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G.	-	380	-	-	-
Interest bearing loans and borrowings	-	17	473	460	-
Derivative financial instruments	-	18	-	-	-
Payments under onerous contracts	-	18	36	11	-
Trade and other payables	-	1,676	-	-	-
	-	2,109	509	471	-

Capital management

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

The Group has established a financial policy aiming to achieve, in the medium term, a leverage ratio of below 1.75 - 2.0 times Net Debt to EBITDA. The leverage ratio was 1.2 at 31 December 2012 (31 December 2011: 0.8). The Group's general dividend distribution policy is to pay to its shareholders 90% of free cash flow.

Hedges

Details of the Group's cash flow hedging arrangements are included in note 26.

34. Events after the balance sheet date

In January 2013 Ofcom started an auction process to sell 100MHz of radio spectrum at 800MHz and 2600MHz frequencies. The Group is one of the seven participants.

On 14 February 2013 the Directors recommended a further interim dividend of £189 million to be paid on 28 March 2013. No liability is recorded in the financial statements in respect of the interim dividend, because it was not approved at the balance sheet date.

Further financing facilities from the shareholders have subsequently been made available to the Group.

Everything Everywhere Limited

UK GAAP financial statements

Year ended 31 December 2012

Company statement of Directors' responsibilities

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

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

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

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

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

Company independent auditor's report to the members of Everything Everywhere Limited

We have audited the Parent Company financial statements of Everything Everywhere Limited for the year ended 31 December 2012 which comprise the Company balance sheet, the reconciliation of movements in shareholders' funds and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 76, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Everything Everywhere Limited for the year ended 31 December 2012.

Ernst & Young LLP

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 February 2013

Everything Everywhere Limited

Company balance sheet

As at 31 December 2012

Company number: 2382161

	Notes	31 December 2012 £m	31 December 2011 £m
Fixed assets			
Intangible assets	4	3,896	4,380
Tangible fixed assets	5	2,395	2,631
Investments	6	13	10
		6,304	7,021
Current assets			
Stock	7	125	130
Debtors amounts falling due within one year	8	1,187	1,268
Debtors amounts falling due after more than one year	9	160	140
Deferred tax asset	3	429	408
Cash at bank and in hand		846	290
		2,747	2,236
Creditors amounts falling due within one year	10	(4,274)	(3,368)
Net current liabilities		(1,527)	(1,132)
Total assets less current liabilities		4,777	5,889
Creditors amounts falling due after more than one year	11	-	(18)
Provisions for liabilities	12	(495)	(555)
Net assets excluding pension deficit		4,282	5,316
Pension deficit	16	(59)	(39)
Net assets including pension deficit		**4,223**	**5,277**
Capital and reserves			
Called up share capital	13	22	22
Share premium account	14	1,638	1,638
Capital contribution	14	196	196
Profit and loss reserve	14	2,367	3,421
Total shareholders' funds		**4,223**	**5,277**

These financial statements were approved by the Board of Directors on 14 February 2013 and were signed on its behalf by

Neal Milsom

Neal Milsom
Director

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
(Loss) for the financial year		(296)	(180)
Actuarial (losses) on the Company's pension scheme during the year	16	(31)	(21)
Deferred tax on actuarial losses on the company's pension scheme	16	7	6
Dividend payment		(734)	(866)
Net change in shareholders' funds		(1,054)	(1,061)
Opening shareholders' funds		5,277	6,338
Closing shareholders' funds		**4,223**	**5,277**

Notes to the Company financial statements

1. Accounting policies

1.1 Basis of preparation

The financial statements of the Company were approved for issue on 14 February 2013, 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, however the Company's profit or loss account has been approved by the Board of Directors. 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 Group's Business review. 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.

The Company is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place that it is reliant upon to remain 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.

1.2 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.

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.3 Derivative instruments

The Company uses derivative financial instruments including forward currency contracts and cross currency interest rate swaps to mitigate foreign currency and interest rate exposure.

Derivative financial instruments 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 a period of 17 to 18 years.

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

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

Other intangibles represent an Information, Communication and Telecommunications outsourcing contract with T-Systems Limited, a related party. Transition costs have been capitalised representing a 'right to use' and are being amortised over a period of 8 years. This has been extended by one year in line with the extension of the contract described in note 4.

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 buildings: 50 years
- Short-term leasehold improvements: shorter of 10 years or lease team
- Network: 5 to 20 years
- Fixtures, fittings and equipment: 3 to 6 years
- Computer software and development costs 3 to 5 years

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

Notes to the Company financial statements (continued)

1. Accounting policies (continued)

1.5 Tangible fixed assets and depreciation (continued)

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. Development expenditure associated to the Company's network software is written off as incurred.

1.6 Investments

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

1.7 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.

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

1.12 Pensions (continued)

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 in the statement of total recognised gains and losses.

1.13 Taxation

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

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

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

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

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

1.14 Network share assets

Certain assets have been contributed to the network share arrangement by both the Company and Hutchison 3G UK Limited (“Hutchison”), with legal title remaining with the contributor. This is considered to be a Joint Arrangement that is not an Entity, and in accordance with FRS 9, the Company's share of the assets are initially recognised at cost within tangible assets, and depreciated according to Company policy.

1.15 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.

Notes to the Company financial statements (continued)

2. Loss attributable to the Company

The loss dealt with in the financial statements of the Company is £296 million (2011: loss £180 million).

3. Taxation

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

	31 December 2012 £m	31 December 2011 £m
Current tax		
Current tax (expense) / income for the year	-	(1)
Current tax (expense) / income for previous years	6	57
	6	56
Deferred tax		
Origination and reversal of timing differences	19	(58)
Adjustments in respect of prior periods	38	-
Impact of tax rate change on deferred tax	(38)	(35)
	19	(93)
Tax income / (expense) on profit on ordinary activities	**25**	**(37)**

(b)Tax included directly in shareholders' funds

	31 December 2012 £m	31 December 2011 £m
Deferred tax		
Origination and reversal of timing differences	7	6
Recognition of deferred tax previously treated as irrecoverable	-	-
Impact of tax rate change on deferred tax	-	-
Tax income included directly in shareholders' funds	7	6

(c) Factors affecting the current tax credit

The tax assessed for the year was lower (2011 - lower) than the average standard rate of corporation tax in the UK applicable to the Company of 24.5% (2011: 26.5%). The differences are explained below:

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

(c) Factors affecting the current tax credit (continued)

	31 December 2012 £m	31 December 2011 £m
Loss on ordinary activities before tax	(321)	(143)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	79	38
Effects of:		
Expenses not deductible for tax purposes	(61)	(76)
Capital allowances in excess of depreciation	(71)	(44)
Other timing differences	5	19
Tax losses utilised / (carried forward)	48	62
Adjustment in respect of previous years	6	57
Current tax income for the year	**6**	**56**

(d) Factors that may affect future tax charges

Announcements were made during 2011 and 2012 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Company. The change in the corporation tax rate, effective 1 April 2012, from 26% to 24% was substantively enacted in two steps, initially to 25% on 5 July 2011 and then subsequently to 24% on 26 March 2012. A further reduction to 23%, effective 1 April 2013, was substantively enacted on 3 July 2012. A further reduction to 21%, effective from 1 April 2014, has been announced but not substantively enacted at the balance sheet date.

The tax rate reduction to 26% and 25% substantively enacted during 2011, resulted in a decrease in the Company's net deferred tax asset of £35 million all of which was reported in the 2011 profit and loss account. The further reductions to 24% and 23%, both substantively enacted during 2012, resulted in a further decrease in the Company's net deferred tax asset of £38 million, all of which has been reported in the 2012 profit and loss account. The Company estimates that the future tax rate reductions to 21% would result in an additional £39 million decrease in the net deferred tax asset.

Notes to the Company financial statements (continued)

3. Taxation (continued)

(e) Deferred tax

The Company's gross deferred tax assets and (liabilities), measured on a non-discounted basis using a tax rate of 23% (2011: 25%), are analysed as follows:

	Accelerated depreciation	Other timing differences	Tax losses	Total
	£m	£m	£m	£m
At 1 January 2012 - recognised	(108)	79	450	421
Deferred tax (expense) / income in the profit and loss account	63	(12)	(32)	19
Deferred tax income recognised directly in shareholders' funds	-	7	-	7
Reclassification between categories	-	32	(32)	-
At 31 December 2012 - recognised	(45)	106	386	447

The deferred tax in the balance sheet is as follows:	Accelerated depreciation	Other timing differences	Tax losses	Total
	£m	£m	£m	£m
Deferred tax asset	(108)	66	450	408
Included within pension deficit (note 16)	-	13	-	13
At 31 December 2011 - recognised	(108)	79	450	421
Deferred tax asset	(45)	88	386	429
Included within pension deficit (note 16)	-	18	-	18
At 31 December 2012 - recognised	(45)	106	386	447

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

Although the Company was loss making in the year ended 31 December 2012, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

Notes to the Company financial statements (continued)

4. Intangible fixed assets

	Licence	Goodwill	Other intangibles	Total
	£m	£m	£m	£m
Cost				
At 1 January 2012	8,101	2,729	51	10,881
Additions	-	-	-	-
Disposals	-	(4)	-	(4)
At 31 December 2012	8,101	2,725	51	10,877
Accumulated amortisation				
At 1 January 2012	(4,405)	(2,092)	(4)	(6,501)
Charge for the year	(370)	(107)	(7)	(484)
Disposals	-	4	-	4
At 31 December 2012	(4,775)	(2,195)	(11)	(6,981)
Net book value				
At 31 December 2012	3,326	530	40	3,896
At 31 December 2011	3,696	637	47	4,380

During 2011, the Company entered into a 7 year outsourcing contract with T-Systems Limited, a related party, for Information, Communication and Telecommunications services. In 2012 the contract was extended by a further year. During 2011, transformation costs of £51 million were capitalised as intangibles, representing a ‘right to use’. These costs are being amortised on a straight line basis over the life of the contract.

5. Tangible fixed assets

	Land & buildings	Fixtures & fittings	Computer & software development costs	Network assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2012	259	141	1,611	8,112	10,123
Additions	31	4	28	443	506
Disposals	-	(2)	(33)	(378)	(413)
At 31 December 2012	290	143	1,606	8,177	10,216
Accumulated depreciation					
At 1 January 2012	(144)	(103)	(1,294)	(5,951)	(7,492)
Charge for the year	(14)	(9)	(90)	(628)	(741)
Disposals	-	2	33	377	412
At 31 December 2012	(158)	(110)	(1,351)	(6,202)	(7,821)
Net book value					
At 31 December 2012	132	33	255	1,975	2,395
At 31 December 2011	115	38	317	2,161	2,631

Notes to the Company financial statements (continued)

5. Tangible fixed assets (continued)

a) The net book value of land and buildings includes £38 million (2011: £39 million) of freehold land and buildings and £94 million (2011: £76 million) of short leaseholds.

b) As part of a shared network agreement, selected network assets are jointly controlled with Hutchison. The Company's share of the jointly controlled assets is £745 million at 31 December 2012 (31 December 2011: £796 million) and is shown within network assets.

Additionally, the Company is recognising cost of £54 million (31 December 2011: £111 million) as its share of jointly controlled network assets in the course of construction.

c) The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International. Due to the fact that the Company still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the tangible assets of the Company. The net book amount of these assets as at 31 December 2012 was £15 million (2011: £21 million).

d) Included above are fully depreciated assets with an original cost of £4,318 million (2011: £4,579 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 2012 is £158 million (2011: £163 million).

Assets under construction

As at 31 December 2012, included in Network assets are £211 million (31 December 2011: £356 million) of assets under construction.

6. Investments

	Shares in subsidiaries and joint ventures
	£m
Cost	
At 1 January 2012	21
Additions	3
At 31 December 2012	24
Impairment	
At 1 January 2012	(11)
Charge for the year	-
At 31 December 2012	(11)
Net book value	
Net book value at 31 December 2012	13
Net book value at 31 December 2011	10

Notes to the Company financial statements (continued)

6. Investments (continued)

Subsidiary undertakings

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

Name	Country of incorporation	Principal activities	Percentage shareholding
Subsidiaries			
Everything Everywhere Pension Trustee Limited	UK	Pension trustee	100%
Orange Jersey Limited	Jersey	Dormant	100%
Everything Everywhere Finance Plc	UK	Finance Company	100%
Tee Tree Ltd	UK	Dormant	See below

Tee Tree Ltd is a subsidiary by virtue of control.

Interests in joint ventures are as follows:

Joint venture			
Mobile Broadband Network Limited	UK	Network communications	50%
Weve Limited	UK	Marketing & payment services	33.3%
Digital Mobile Spectrum Limited	UK		25%

Joint venture

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

The Company, Vodafone UK Limited and O2 (Telefónica UK Limited) each have a 33.3% share in the newly formed joint venture company, Weve Limited, formed in September 2012. The joint venture was formed to create and accelerate the development of mobile marketing services together with a cross-network mobile payment service. The service will provide a single contact point for media agencies, retailers and brands, enabling them to create campaigns that will reach millions of opted-in mobile users and to connect to a large-scale mobile commerce and payment platform via a consistent set of technologies and standards.

Together with Hutchinson 3G UK Limited, O2 (Telefónica UK Limited) and Vodafone UK Limited, the Company has a 25% shareholding in Digital Mobile Spectrum Limited. The company was formed on 10 October 2012.

7. Stocks

	31 December 2012 £m	31 December 2011 £m
Equipment for sale to customers	125	130

Notes to the Company financial statements (continued)

8. Debtors amounts falling due within one year

	31 December 2012 £m	31 December 2011 £m
Trade debtors	777	866
Amounts due from Group undertakings	19	12
Amounts due from joint ventures	21	4
Other debtors	7	28
Prepayments and accrued income	363	358
	1,187	1,268

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. During the year, a non-recurring operating gain of £17 million was recognised as a result of the re-evaluation of certain aged balances.

9. Debtors amounts falling due after more than one year

	31 December 2012 £m	31 December 2011 £m
Amounts due from joint ventures	110	90
Prepayments and accrued income	50	50
	160	140

Amounts due from joint ventures are unsecured with an interest rate of 1 month LIBOR with a margin based on a leverage cover ratio, and are to be repaid on the 5th anniversary of the agreement or by giving prior notice.

10. Creditors amounts falling due within one year

	31 December 2012 £m	31 December 2011 £m
Trade creditors	845	756
Amounts owed to Group undertakings	8	4
Amounts owed to joint ventures	8	-
Tax and social security	196	191
Other creditors	36	17
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G.	-	374
Loan payable to subsidiary	2,163	875
Corporation tax	-	7
Accruals and deferred income	1,018	1,144
	4,274	3,368

Notes to the Company financial statements (continued)

10. Creditors amounts falling due within one year (continued)

Loans to France Telecom S.A. and Deutsche Telekom A.G.

The loans to France Telecom S.A and Deutsche Telekom A.G. were unsecured and were repayable on demand.

Loans payable to subsidiary

The parent has loans payable to its subsidiary which mirrors the following borrowings within the subsidiary's accounts.

	Interest Rate %	Maturity	31 December 2012 £m	31 December 2011 £m
Euro medium term notes – five year bond	3.5	6 February 2017	416	-
Euro medium term note – seven year bond	4.375	28 March 2019	450	-
Euro Medium term note – six year bond	3.25	3 August 2018	470	-
Revolving credit facility	LIBOR plus 1.3%	November 2016	-	437
Syndicated loan facilities	LIBOR plus 1.05%	November 2014	438	438
European Investment Bank loan	2.21	December 2017	350	-
			2,124	875
Interest accrued			39	-
			2,163	875

Details of the above are set out in note 25 of the Everything Everywhere Limited consolidated financial statements.

The loan payable to the subsidiary is treated as current because no formal agreements exist between Everything Everywhere Limited and its funding vehicle and subsidiary Everything Everywhere Finance plc. The loan is therefore technically repayable on demand.

11. Creditors amounts falling due after more than one year

	31 December 2012 £m	31 December 2011 £m
Other creditors	-	18
	-	18

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

	31 December 2012 £m	31 December 2011 £m
In more than one year but not more than two years	-	2
In more than two years but not more than five years	-	7
In more than five years	-	9
	-	18

Notes to the Company financial statements (continued)

12. Provisions for liabilities

	Restructuring Provision	Onerous Leases	ARO / WEEE	Network share and other network	Total
	£m	£m	£m	£m	£m
At 31 December 2011	27	93	209	226	555
Increase in year	-	13	1	-	14
Decrease in year	(2)	-	-	(7)	(9)
Utilisation	(23)	(22)	(10)	(27)	(82)
Discount unwind	-	2	9	6	17
At 31 December 2012	2	86	209	198	495

Analysis of provisions by maturity:					
At 31 December 2012					
Short term	2	33	22	103	160
Long term	-	53	187	95	335
	2	86	209	198	495
At 31 December 2011					
Short term	27	25	17	123	192
Long term	-	68	192	103	363
	27	93	209	226	555

Restructuring provision

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

Onerous lease provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations, for periods up to 10 years, 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)

The Company is required to dismantle equipment and restore sites. The ARO 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. These costs are expected to be incurred over a period of up to 20 years.

The WEEE Directive was introduced into UK Law in 2007 and requires organisations to finance the costs of collection, treatment, recovery and disposal of EEE (Electrical and Electronic Equipment) once it reaches the end of its life. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled at an average cost per ton and discounted as it will be settled at a future date.

Notes to the Company financial statements (continued)

12. Provisions for liabilities (continued)

Network share and other network

This represents the liabilities arising from restructuring obligations relating to network share agreements, both before and after the combination of the T-Mobile and Orange businesses. The obligations involve both operational costs and vacant site rentals and have been discounted to present value. These costs are expected to be incurred over a period of up to 20 years.

The provision also includes an amount to cover ongoing legal disputes with other network operators. The directors, having taken legal advice have established provisions according to the facts of each case. The timing of cash flows associated with legal cases is uncertain. A Supreme Court order, issued in February 2013, granted BT leave to appeal in relation to some of the disputes and the provisions associated with them will be reassessed once the Court process is complete.

13. Called up share capital

	31 December 2012 £m	31 December 2011 £m
Allotted and fully paid		
11,025,153 ordinary 'A' shares of £1 each	11	11
11,025,153 ordinary 'B' shares of £1 each	11	11
	22	22

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

14. Reserves

	Capital contribution £m	Share premium account £m	Profit and loss account £m
At 1 January 2011	**196**	**1,638**	**4,482**
Loss for the financial year	-	-	(180)
Actuarial loss on pension schemes net of taxes	-	-	(15)
Dividends declared and paid	-	-	(866)
At 31 December 2011	**196**	**1,638**	**3,421**
Loss for the financial year	-	-	(296)
Actuarial loss on pension schemes net of taxes	-	-	(24)
Dividends declared and paid	-	-	(734)
At 31 December 2012	**196**	**1,638**	**2,367**

Notes to the Company financial statements (continued)

15. Capital and financial commitments

Annual commitments under non cancellable operating leases are as follows:

	Land & building		Other	
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	31 December 2011 £m
Expiring within 1 year	12	11	11	1
Expiring between 2 to 5 years	61	52	32	19
Expiring in over 5 years	160	170	4	5
	233	233	47	25

The net obligation under finance leases is analysed as follows:

	31 December 2012 £m	31 December 2011 £m
Not later than one year	-	1
After one year but not more than five years	-	2
After five years	-	-
Present value of minimum lease payments	-	3

Capital commitments

The Company has £279 million of capital commitments at 31 December 2012 (2011: £161 million). The Company has £230 million of handset commitments (2011: £222 million).

Other

The Company had no significant contingent liabilities or guarantees at 31 December 2012 (2011: £nil).

The Company's share of MBNL's annual financial commitments under operating leases is £75 million (2011: £71 million). In addition the company's share of MBNL's capital commitments is £30 million (2011: £7 million).

16. Pension commitments

Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Company, amounted to £17 million during the year (2011: £12 million). Included in other creditors is £1 million (31 December 2011: £3 million) in respect of contributions payable to the scheme.

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

Defined benefit pension scheme

The following summarises the movement in the Everything Everywhere Pension Trustee Limited pension scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2012. 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 2012 by actuaries AON Hewitt Associates Limited. The main financial assumptions used in the actuarial valuation of the pension scheme were as follows:

	31 December 2012 %	31 December 2011 %
Inflation assumptions – RPI	3.0	3.1
Inflation assumptions – CPI	2.3	2.1
Expected return on plan assets	5.2	5.8
Rate of increase in salaries	4.0	4.1
Rate of increase for pensions in payment – accrued pre 6 April 2006	2.9	3.0
Rate of increase for pensions in payment – accrued post 6 April 2006	2.1	2.1
Discount rate	4.8	4.9

The mortality assumptions used were as follows:

	31 December 2012 Years	31 December 2011 Years
Longevity at age 65 for current pensioners:		
- Men	22.7	22.3
- Women	23.5	23.1
Longevity at age 65 for future pensioners:		
- Men	25.0	24.1
- Women	25.9	25.0

The Company employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied, and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the benchmark asset allocation for the DB pension scheme at 31 December 2012 rounded to the nearest 0.1% per annum.

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

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

	31 December 2012		31 December 2011	
	Long-term rate of return expected % p.a.	Value £m	Long-term rate of return expected % p.a.	Value £m
UK equity and unit trusts	6.7	138	7.2	119
Property	6.7	49	7.2	50
Hedge funds	6.7	22	8.9	21
Index linked gilts	2.7	78	2.8	79
Bonds	4.1	103	4.9	75
Cash / net current assets	2.7	1	n/a	12
Fair value of the scheme assets		391		356
Present value of scheme obligations		(468)		(408)
Deficit in the scheme		(77)		(52)
Related deferred tax asset (see note 3)		18		13
		(59)		(39)

Reconciliation of present value of scheme obligations:

	31 December 2012 £m	31 December 2011 £m
At 1 January	408	365
Current service cost	13	16
Interest cost	20	20
Benefits paid	(6)	(5)
Actuarial loss / (gain)	33	16
Curtailments	-	(4)
At 31 December	468	408

Reconciliation of fair value of scheme assets:

	31 December 2012 £m	31 December 2011 £m
At 1 January	356	322
Expected return on pension scheme assets	20	22
Actuarial (loss) / gain	2	(5)
Benefits paid	(6)	(5)
Contributions	19	22
At 31 December	391	356

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

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

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

	31 December 2012 £m	31 December 2011 £m
Operating loss		
Current service cost	13	16
Gain on curtailment	-	(4)
Pension costs	13	12
Other income / (expense)		
Expected return on pension scheme assets	20	22
Interest on pension scheme liabilities	(20)	(20)
Net return	-	2

The actual return on plan assets was a £23 million gain (2011: £17 million gain).

Movement in the deficit in the year:

	31 December 2012 £m	31 December 2011 £m
Opening deficit in the scheme at 1 January	(52)	(43)
Current year service cost	(13)	(16)
Contributions	19	22
Other finance income / (loss)	-	2
Curtailments	-	4
Actuarial (loss)	(31)	(21)
Closing deficit in scheme at 31 December	(77)	(52)

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

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

	31 December 2012 £m	31 December 2011 £m
Actual return less expected return on pension scheme assets	2	(5)
Experience gains and losses arising on the scheme liabilities	(7)	(1)
Changes in assumptions underlying the present value of the scheme liabilities	(26)	(15)
Actuarial gain recognised in the statement of gains and losses	(31)	(21)
Less: deferred tax impact	7	6
Total amount recognised in statement of gains and losses	(24)	(15)

The cumulative amount of actuarial gains recognised in shareholder funds is a £35 million loss (2011: £4 million loss).

Under the current schedule of contributions the Company is expected to contribute £20 million to the schemes in the twelve months to 31 December 2012.

The effect of a 0.1% movement in the discount rate used of 4.8% would be as follows:

Discount rate	4.7% £m	4.9% £m
Deficit in scheme at end of year	92	63

The effect of a 0.1% movement in the inflation rate (RPI) assumption of 3.0% would be as follows:

Inflation rate	2.9% £m	3.1% £m
Deficit in scheme at end of year	64	91

The effect of a 0.1% movement in the inflation rate (CPI) assumption of 2.3% would be as follows:

Inflation rate	2.2% £m	2.4% £m
Deficit in scheme at end of year	64	91

Notes to the Company financial statements (continued)

16. Pension commitments (continued)

History of gains and losses in the scheme is as follows:

	2012	2011	2010	2009	2008
Defined benefit obligations (£m)	(468)	(408)	(365)	(404)	(327)
Plan assets (£m)	391	356	322	274	312
Deficit (£m)	(77)	(52)	(43)	(130)	(15)
Difference between the expected and actual return on scheme assets:					
Amount (£m)	2	(5)	11	(82)	47
Percentage of scheme assets	0.5%	(1.4)%	3.4%	(29.9)%	14.9%
Experience gains and losses on scheme liabilities:					
Amount (£m)	(7)	(1)	50	7	3
Percentage of the present value of the scheme liabilities	(1.5)%	(0.2)%	13.7%	1.8%	1.0%
Total amount recognised in shareholders' funds:					
Amount (£m)	(31)	(21)	84	(121)	84
Percentage of the present value of the scheme liabilities	(6.6)%	(5.1)%	23.0%	(30.0)%	25.8%

Assets values are at bid prices.

17. Derivative financial instruments

The parent company has a number of derivative financial instruments which have the following fair values:

	31 December 2012 £m	31 December 2011 £m
Forward foreign currency contracts	4	(18)
Cross currency interest swaps	17	-
Total contracts	21	(18)

To hedge the exposure of some of its operating cash flows in foreign currencies, the Company has set up risk hedging policies. Foreign currency hedges are as follows:

Currency	*Hedged nominal amount (£m)*	*Maturity date of hedged item*	*Hedging instrument*	*Hedged risk*
EUR	490	2013	Forward FX contracts	Purchases in Euros
USD	63	2013	Forward FX contracts	Purchases in Dollars

Notes to the Company financial statements (continued)

17. Derivative financial instruments (continued)

In order to manage its interest rate risk, the Company has engaged in cross-currency interest swaps. Its interest rate swap portfolio is summarised as follows:

	Notional	Rate	Maturity
	£m	%	
Cross-currency interest rate swaps	887	€ Receivable 3.36	2017 - 2018
		£ Payable 3.81	

The notional principal amount of cross-currency interest rate swaps as at 31 December 2012 was £887 million (2011: £nil).

18. Related Party Transactions

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

Related party transactions with joint ventures

MBNL charges the Company fees in relation to the management and use of the shared network. Charges from MBNL during the year totalled £27 million (2011: £18 million). At 31 December 2012 MBNL was holding £2million (2011: £10 million) of restricted cash on behalf of the Company. The net amount owed to the Company at the end of the year was £28 million (2011: £4 million). Formal loan funding was provided by the Company to MBNL. As at 31 December 2012 the outstanding balance receivable in respect of this loan amounted to £110 million (2011: £90 million), there was accrued interest of £1 million (2011: £nil). The loan was provided on an arm's length basis and attracts interest at a rate of LIBOR plus 1.75%. Interest received in the year totalled £2 million (2011: £2 million).

Related party transactions with companies within the France Telecom SA Group

FT charges the Company for a series of services including Information, Technology 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 for the year amounted to £140 million (2011: £141 million), and the balance outstanding at 31 December 2012 was £28 million (2011: £30 million).

FT provided a loan to the Company through its subsidiary, Atlas Services Belgium SA. The outstanding balance at 31 December 2012 was £nil (2011: £187 million), during the year £187 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £nil (2011: £12 million). Working capital funds deposited with FT totalled £340 million at 31 December 2012 (2011: £117 million). Interest is received at LIBOR minus 0.15% and totalled £nil for the year (2011: £nil).

Related party transactions with companies within the Deutsche Telekom AG Group

DT charges the Company for a series of services including Information, Communication and Telecommunication outsource fees; Information, Technology 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 £289 million (2011: £215 million), and the balance outstanding at 31 December 2012 was £88 million (2011: £97 million). DT provided a loan to the Company. The outstanding balance at 31 December 2012 was £nil (2011: £187 million), during the year £187 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £nil (2011: £12 million) and the outstanding interest balance payable was £nil (2011: £nil). Working capital funds deposited with DT totalled £340 million at 31 December 2012 (2011: £117 million). Interest is received at LIBOR minus 0.15% and totalled £nil for the year (2011: £nil).

Notes to the Company financial statements (continued)

18. Related Party Transactions (continued)

Defined benefit pension scheme

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

Key management personnel

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Remuneration	2,664	2,258
Pension costs	49	46
Amounts accrued under long term incentive schemes	758	253
	3,471	2,557

During the year payments of £nil (2011: £1,967,000) were made in respect of compensation for loss of office.

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Total emoluments	2,672	936
Pension costs	-	-
	2,672	936

No retirement benefits in the form of defined benefit schemes are accruing for Directors at 31 December 2012 (31 December 2011: none). Retirement benefits in the form of defined contributions schemes are accruing for one director at 31 December 2012 (2011: one).

Other

There were no material transactions with any other related parties.

19. Post Balance Sheet Events

In January 2013 Ofcom started an auction process to sell 100MHz of radio spectrum at 800MHz and 2600MHz frequencies. The Company is one of the seven participants.

On 14 February 2013 the Directors recommended a further interim dividend of £189 million to be paid on 28 March 2013. No liability is recorded in the financial statements in respect of the interim dividend, because it was not approved at the balance sheet date.

Further financing facilities from the shareholders have subsequently been made available to the Company.

Notes to the Company financial statements (continued)

20. Ultimate Parent Shareholders

At 31 December 2012 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 or on its website at www.telecom.com.

Orange Telecommunications Group Limited ("OTGL"). The registered office for OTGL is 3 More London Riverside, London SE1 2AQ, 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 Headquarters: 78 rue Olivier de Serres, Paris 75015, France, or on its website at www.orange.com and on the French Autorité des marchés financiers website www.amf-france.org.