Company Number: 2382161

Everything Everywhere Limited

Interim Financial Reporting

For the six months ended 30 June 2012

Everything Everywhere Limited

Contents

Everything Everywhere Limited

Consolidated income statement
For the 6 month period ended 30 June 2012

	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m
Revenue	**3,314**	**3,367**
External purchases	(2,320)	(2,356)
Other operating income	18	7
Other operating expense	(212)	(160)
Staff costs	(233)	(250)
Amortisation and depreciation	(619)	(607)
Restructuring expenses	(16)	(26)
Group operating loss	**(68)**	**(25)**
Finance income	1	1
Finance expense	(37)	(15)
Loss before tax	**(104)**	**(39)**
Income tax	3	(11)
Loss for the period attributable to the equity holders of the parent	**(101)**	**(50)**

Consolidated statement of comprehensive income
For the 6 month period ended 30 June 2012

	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m
Loss for the period attributable to the equity holders of the parent	**(101)**	**(50)**
Other comprehensive income		
Cash flow hedges		
- Loss recycled through external purchases in the profit and loss during the period	10	-
- Fair value (loss) / gain arising in the period	(16)	28
Deferred tax relating to cash flow hedges	2	(6)
Other comprehensive (loss) / income for the period	**(4)**	**22**
Total comprehensive loss for the period attributable to the equity holders of the parent	**(105)**	**(28)**

Everything Everywhere Limited

Consolidated statement of changes in equity
For the 6 month period ended 30 June 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 1 January 2011	**22**	**1,638**	**196**	**11,063**	**(669)**	**2**	**12,252**
Total comprehensive loss for the period	-	-	-	-	(50)	22	(28)
Dividends declared and paid	-	-	-	-	(466)	-	(466)
At 30 June 2011	**22**	**1,638**	**196**	**11,063**	**(1,185)**	**24**	**11,758**
At 1 January 2012	**22**	**1,638**	**196**	**11,063**	**(1,654)**	**(14)**	**11,251**
Total comprehensive loss for the period	-	-	-	-	(101)	(4)	(105)
Dividends declared and paid	-	-	-	-	(543)	-	(543)
At 31 June 2012	**22**	**1,638**	**196**	**11,063**	**(2,298)**	**(18)**	**10,603**

Everything Everywhere Limited

Consolidated statement of financial position

As at 30 June 2012 & 31 December 2011

	30 June 2012 £m	31 December 2011 £m
Non current assets		
Intangible assets	10,855	11,249
Property, plant and equipment	2,077	2,058
Associates and joint ventures	13	12
Loans receivable	111	91
Deferred tax asset	119	113
Other non current assets	26	48
Total non current assets	**13,201**	**13,571**
Current assets		
Inventories	114	130
Trade receivables	817	880
Other assets and prepaid expenses	374	391
Other financial assets (see note 4.6)	23	-
Cash and cash equivalents	224	290
Total current assets	**1,552**	**1,691**
Total assets	**14,753**	**15,262**
Current liabilities		
Trade payables	(1,461)	(1,598)
Other liabilities and deferred income	(511)	(503)
Provisions	(165)	(192)
Other financial liabilities (see note 4.5)	(38)	(392)
Current income tax liability	(6)	(7)
Total current liabilities	**(2,181)**	**(2,692)**
Non current liabilities		
Financial liabilities held at amortised cost		
- EMTN programme (see note 4.1)	(853)	-
- Other	(680)	(870)
Provisions	(379)	(363)
Other non current liabilities	(5)	(34)
Pension liability	(52)	(52)
Total non current liabilities	**(1,969)**	**(1,319)**
Total liabilities	**(4,150)**	**(4,011)**
Total net assets	**10,603**	**11,251**

Consolidated statement of financial position (continued)
As at 30 June 2012 & 31 December 2011

	30 June 2012 £m	31 December 2011 £m
Capital and reserves		
Share capital	22	22
Share premium account	1,638	1,638
Capital contribution reserve	196	196
Cash flow hedge reserve	(18)	(14)
Retained earnings	(2,298)	(1,654)
New basis reserve	11,063	11,063
Total equity	**10,603**	**11,251**

These interim financial statements were approved by the board of Directors on 18 July 2012 and were signed on its behalf by

Neal Milsom
Director
Date 19 July 2012

Everything Everywhere Limited

Consolidated statement of cash flows
For the 6 month period ended 30 June 2012

	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m
Operating activities		
Loss for the period	(101)	(50)
Adjustments to reconcile the loss for the period to cash generated from operations		
Depreciation and amortisation	619	607
Change in other provisions (excluding discount unwind)	(20)	(80)
Income tax	(3)	11
Net finance expense	36	14
Change in inventories, trade receivables and trade payables		
Decrease in inventories	16	47
Decrease / (increase) accounts receivable	63	(59)
(Decrease) / increase in trade accounts payable	(137)	173
Other changes in working capital requirements		
Decrease / (increase) in other receivables	12	(183)
(Decrease) in other payables	(22)	(26)
Decrease in other long-term assets	22	7
Interest income received	5	3
Foreign exchange paid	(2)	-
Interest (paid) / received	(10)	27
Income tax (paid) / received	(1)	62
Net cash provided by operating activities	**477**	**553**
Investing activities		
Purchases of property, plant and equipment and intangible assets	(245)	(236)
Increase in non-current loans receivable	(20)	(10)
Net cash used in investing activities	**(265)**	**(246)**

Everything Everywhere Limited

Consolidated statement of cash flows (continued)
For the 6 month period ended 30 June 2012

	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m
Financing activities		
Proceeds from new borrowings		
Non-current borrowings (see note 4.6)	866	-
Transaction costs paid	(8)	-
Cash collateral paid	(21)	-
Redemptions and repayments		
Non-current borrowings (see note 4.6)	(198)	
Current borrowings (see note 4.5)	(374)	-
Dividends paid	(543)	(466)
Net cash used in financing activities	**(278)**	**(466)**
Net change in cash and cash equivalents	**(66)**	**(159)**
Cash and cash equivalents at the beginning of the year	290	523
Cash and cash equivalents at the end of the period	**224**	**364**

Notes to the interim condensed consolidated financial statements

1. General information

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

The financial information for the year ended 31 December 2011 is based on the statutory accounts for that period. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

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

The interim condensed consolidated financial statements for the period ended 30 June 2012 were approved by the directors on 18 July 2012.

2. Background

Everything Everywhere Limited ("EE") 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. EE as a company continues to trade under the brand names Orange and T-Mobile.

Within the 6 months to 30 June 2012 the Group has made net loss of £101 million (6 months ended 30 June 2011: £50 million), and has paid a dividend of £543 million (6 months ended 30 June 2011: £466 million).

3. Accounting policies

3.1 Basis of preparation

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These interim condensed consolidated financial statements have been prepared in accordance with IAS34 "Interim Financial Reporting" as issued by the International Accounting Standards Board and endorsed and adopted for use in the European Union. The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2011, except for the adoption of new and amended standards noted in section 3.3.

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

3.2 Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of Everything Everywhere Limited and its subsidiaries as at 30 June 2012.

3.3 Adoption of new and current standards

The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2011. The following amendments to IFRS did not have any impact on the accounting policies, financial position or performance of the Group

- IAS 12 - Deferred Tax: Recovery of Underlying Assets
- IFRS 7 - Disclosures - Transfers of financial assets
- IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

Notes to the interim condensed consolidated financial statements (continued)

3.4 Going concern

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

The Group has a number of financing arrangements in place that they are reliant upon to remain a going concern.

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 interim condensed consolidated financial statements for the 6 months ended 30 June 2012.

4. Explanatory notes

4.1 Financial risk management

The Group monitors a variety of key performance indicators ("KPIs") as part of its financial risk management. These KPIs are not defined by IFRS and may not be comparable to other similarly-titled indicators used by other companies. They are provided as additional information only.

Earnings before interest, tax, depreciation and amortisation ("EBITDA")

	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m
Loss before tax	(104)	(39)
Add back:		
Net finance costs	36	14
Amortisation and depreciation	619	607
EBITDA	**551**	**582**
Add back:		
Management and brand fees	106	74
Restructuring costs	16	26
Adjusted EBITDA	**673**	**682**

Notes to the interim condensed consolidated financial statements (continued)

4.1 Financial risk management (continued)

Organic cash flow

The Group monitors the organic cash flow ("OCF") of the business. The Group defines OCF as the cash generated from its operating activities less expenditure relating to capital items.

	6 months ended 30 June 2012	6 months ended 30 June 2011
	£m	£m
Organic Cash Flow	**212**	**307**
Reconciliation to statutory cash flow:		
Net cash provided by operating activities	477	553
Net cash used in investing activities	(265)	(246)
	212	307

Net debt

The Group monitors the net debt position on a monthly basis as this forms the basis of a number of covenants. The key sources of finance are as follows:

- a £437.5 million term loan with a maturity date of 30 November 2014
- a £437.5 million revolving credit facility ("RCF") with a maturity date of 30 November 2016
- a £3,000 million euro medium term note programme ("EMTN") under which the Group has made the following issuances:
  - €500 million with a maturity date of 6 February 2017
  - £450 million with a maturity date of 28 March 2019

Net debt is monitored using the principal amounts outstanding and not the amortised cost basis used in the balance sheet.

	30 June 2012	30 June 2011
	£m	£m
Revolving credit facility	240	-
Term loan	438	-
Bonds issued under EMTN programme	866	-
Loans from shareholders	-	1,250
Finance lease liabilities	3	1
Financial indebtedness	**1,547**	**1,251**
Less:		
Cash	(224)	(290)
Cash collateral paid	(21)	-
Net Financial Debt	**1,302**	**961**

Notes to the interim condensed consolidated financial statements (continued)

4.2 Operating segments

The Group supplies communication services and products to the UK market, through a national telecommunications network. This is considered to be a single group of services and products provided by an inter-dependent asset infrastructure, to one geographical area. The Group 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 branded networks. Due to these factors there are not considered to be separable identifiable operating segments for which financial information can be presented.

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

The amount of write-down of inventories recognised as an expense within the income statement is £8.8 million (30 June 2011: £16.4 million). Of this expense £4.1 million (30 June 2011: £6.7 million) relates to 14 day money back returns of handsets, many of which are recycled for use in the business through the Orange Care handset insurance scheme.

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

The cost of acquisitions of items of property, plant and equipment in the interim period totalled £196 million (6 months ended 30 June 2011: £217 million). The vast majority of this value relate to Network and IT.

The Group disposed of property, plant and equipment during the period. These items had an original cost of £48 million (6 months ended 30 June 2011: £21 million) but had been fully depreciated leading to nil gain or loss on the disposal (6 months ended 30 June 2011: nil).

4.5 Related party transactions

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

Related party transactions with joint ventures

Mobile Broadband Network Limited ("MBNL") charges the Group fees in relation to the management and use of the shared network. The Group recharged MBNL for certain costs including staff and commitment fees. In addition the Group has given a loan to MBNL which had an outstanding balance of £110 million on 30 June 2012 (31 December 2011: £90 million).

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

FT and DT charge the Group for a series of services, including IT and network support and licences, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the Orange and T-Mobile brands. Charges from FT totalled £68 million (30 June 2011: £69 million) with £48 million outstanding at the period end (31 December 2011: £30 million). Charges from DT totalled £171 million (30 June 2011: £63 million) with £49 million outstanding (31 December 2011: £97 million).

Working capital funds deposited with DT and FT at 30 June 2012 were £86 million each (31 December 2011: £117 million each).

On 29 February 2012, the £374 million Eurobond loan (£187 million each) was repaid completing the shareholder Eurobond agreement.

Notes to the interim condensed consolidated financial statements (continued)

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

During the period to 30 June 2011, a non-recurring operating gain of £35 million arose from the settlement of certain historical operational accruals.

On 11 January 2012, the Group set up 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.

On 6 February 2012, the Group raised €500 million under the programme with a 5 year bond issuance at a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was the Group's inaugural issue of a corporate bond under the EMTN programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market). The Group also entered into a cross currency interest rate swap and exchanged the €500 million for £416 million to hedge the exposure to foreign exchange movements. The hedging relationship has been formally designated as a cash flow hedge and accounted for in accordance with the accounting policies of the financial statements for the year ended 31 December 2011. Under the terms of the swap, the Group receives or pays collateral depending on the valuation of the swap. At 30 June 2012, the Group had paid a net amount of £21 million. This is recognised as an asset on the balance sheet in "Other financial assets".

On 28 March 2012, the Group raised £450 million under the EMTN programme with a 7 year bond issuance at a fixed rate 4.375% coupon and a maturity date of 28 March 2019. On 28 March 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

The Group has capitalised £8 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.

During the period, the Group has made a net repayment of £198 million in regards to the RCF.

4.7 Subsequent material events

On 3 July 2012, a corporation tax rate reduction to 23%, with effect from 1 April 2013, was substantively enacted. Had the substantive enactment occurred prior to the reporting date, the Group would have further written down its net deferred tax asset by £5 million.

Independent review report to the members of Everything Everywhere Limited

Introduction

We have been engaged by the company to review the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2012 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, and the Consolidated statement of cash flows. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 3.1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed consolidated set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

Ernst & Young LLP

London

19 July 2012