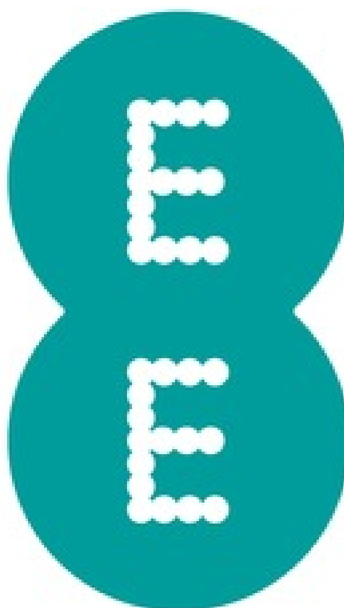
BASE PROSPECTUS



Everything Everywhere Finance PLC

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

Guaranteed by Everything Everywhere Limited

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

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

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

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

In certain circumstances another entity may be substituted for or acquire the rights and obligations of the Issuer under the Notes.

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

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

In relation to any Tranche, the aggregate nominal amount of the Notes of such Tranche, the interest (if any) payable in respect of the Notes of such Tranche, the issue price and certain other information which is applicable to such Tranche will be set out in a final terms document ("**Final Terms**") which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

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

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

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

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

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. federal income tax law

The date of this Prospectus is 28 March 2013

requirements. The Notes may not be offered or sold or, in the case of Bearer Notes, delivered in the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

Arranger
Barclays

Dealers

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

IMPORTANT INFORMATION

This Prospectus constitutes a base prospectus for the purposes of Article 5.4 of Directive 2003/91/EC (and amendments thereto, including Directive 2010/73/EU, to the extent that such amendments have been implemented in a member state of the European Economic Area which has implemented Directive 2003/91/EC (each, a "**Relevant Member State**")) (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, the Guarantor and the Guarantor and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Guarantor and the Group.

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

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

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

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

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

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

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

the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

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

The minimum specified denomination of each Note shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

U.S. INFORMATION

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

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

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

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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

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

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

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

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

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

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

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

STABILISATION

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

PRESENTATION OF INFORMATION

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

DOCUMENTS INCORORATED BY REFERENCE

The following documents, which have previously been published and have been approved by the UK Listing Authority or filed with it or notified to it, shall be deemed to be incorporated in, and to form part of, this Prospectus:

1. the Terms and Conditions of the Notes contained in the previous Prospectus dated 11 January 2012 relating to the Programme (on page 44 to page 67);

2. the Terms and Conditions of the Notes contained in the previous Prospectus dated 11 January 2012 relating to the Programme (on page 44 to page 67) as amended by the Final Terms contained in the Drawdown Prospectus relating to the Programme dated 3 February 2012 (on page 6 to page 16);

3. the Terms and Conditions of the Notes contained in the previous Prospectus dated 11 January 2012 relating to the Programme (on page 44 to page 67) as amended by the Final Terms contained in the Drawdown Prospectus relating to the Programme dated 26 March 2012 (on page 6 to page 16); and

4. the Terms and Conditions of the Notes contained in the previous Prospectus relating to the Programme dated 11 January 2012 (on page 44 to page 67) as amended by the Final Terms contained in the Drawdown Prospectus relating to the Programme dated 1 August 2012 (on page 6 to page 17).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The parts of the above-mentioned documents which are not incorporated by reference into this Prospectus are either not relevant for investors or are covered elsewhere in this Prospectus.

Copies of all documents incorporated by reference in this Prospectus are available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-homes.html.

SUPPLEMENTAL PROSPECTUS

Following publication of this Prospectus, a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new prospectus in accordance with the Prospectus Directive for use in connection with any subsequent issue of Notes.

Any statement made in any such supplement or in a document incorporated therein by reference shall, to the extent applicable, be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any such statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Table of Contents

	Page
Overview of the Programme	9
Risk Factors	15
Summary of Provisions Relating to the Notes While in Global Form	28
Form of Final Terms	34
Terms and Conditions of the Notes	42
Use of Proceeds	67
Description of the Issuer and the Group	68
Financial Information	81
Taxation	302
Subscription and Sale	304
General Information	307
Definitions	309

Overview of the Programme

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

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

Issuer:	Everything Everywhere Finance PLC
Guarantor:	Everything Everywhere Limited
Description of the Issuer and the Guarantor:	The Issuer was incorporated as a public limited company in England and Wales on 11 November 2011 under the Companies Act 2006 with registration number 7844526. The registered office of the Issuer is at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW and its telephone number is 01707 315000. The Guarantor was incorporated as a private limited company in England and Wales on 10 May 1989 under the Companies Act 1985 with registration number 02382161. The registered office of the Guarantor is at Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW and its telephone number is 01707 315000.
Business of the Issuer and the Guarantor:	The Guarantor, which operates exclusively in the UK, is the UK's largest mobile communications provider with c.27 million customers and mobile subscriber market share of approximately 33 per cent. as at September 2012, according to Enders. The Guarantor offers mobile services (consisting of voice, messaging and data services) and fixed broadband services to retail and wholesale customers as well as to businesses through multiple telecommunications technologies and across the UK's largest mobile network. The Issuer acts as a financing vehicle for the Group and has no other operations or subsidiaries.
Risk Factors:	There are certain factors that may affect the Issuer's and the Guarantor's ability to fulfil their respective obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These include the following: (i) adverse macroeconomic conditions, which could impact on the Group's results of operations; (ii) regulatory decisions and changes in the regulatory environment, which could adversely affect the Group's business; (iii) increases in spectrum pricing; (iv) intense competition in all areas of the Group's business, which could lead to reduced prices for its products and services and a decrease in market share in certain service areas; (v) delays in the development of handsets and network compatibility and components, which may hinder the deployment of new technologies; (vi) a potential decline in revenue or profitability notwithstanding the Group's efforts to increase revenue from the introduction of new services; (vii) failure of the Group to realise the expected level of demand for its products and services, or the expected level or timing of revenues generated by its products and services, as a result of lack of market acceptance, technological change or delays from suppliers; (viii) failure to realise the expected benefits from cost reduction initiatives; (ix) changes in assumptions underlying the carrying value of certain Group assets, which could result in impairment; (x) participation in joint ventures, which exposes the Group to operational and financial risk; (xi) failure to realise expected benefits from

investment in networks, licences and new technology; (xii) impairment of the Group's business by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment; (xiii) impairment of the Group's business by the non-supply of equipment and support services by a major supplier; (xiv) impairment of the Group's business by the termination of one or more of its MVNO arrangements; (xv) impairment of the Group's business by disruptions to its telecommunications networks and IT infrastructure; (xvi) introduction of new taxes or levies or increases in the rates of existing taxes, which may adversely impact the Group's business; (xvii) failure by the Group to comply with payment card industry standards on data security; (xviii) exposure to the loss of customer data and the inherent risk to reputation and customer trust; (xix) the Group may be exposed to loss of customers, market share and revenue if it fails to maintain and enhance the recognition and value of its brands; (xx) the continued volatility of worldwide financial markets, which may make it more difficult for the Group to raise capital externally which could have a negative impact on the Group's access to finance; (xxi) the Group may not be able to adequately manage its cash liquidity requirements; (xxii) the Issuer's status as a special purpose financing vehicle which is reliant on the Guarantor for funding; (xxiii) exposure to interest rate risk, foreign exchange risk and hedging risk, which could negatively affect the Group's financial results; (xxiv) exposure to counterparty credit risk, which could adversely affect the Group's operational results; (xxv) risks related to the structure of a particular issue of Notes; (xxvi) risks related to Notes generally; and (xxvii) risks related to the market generally.

Description of the Programme:	Euro Medium Term Note Programme
Arranger:	Barclays Bank PLC
Dealers:	Barclays Bank PLC
	HSBC Bank plc
	J.P. Morgan Securities plc
	Lloyds TSB Bank plc
	Mitsubishi UFJ Securities International plc
	Morgan Stanley & Co. International plc
	The Royal Bank of Scotland plc
	The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers in accordance with the Dealer Agreement.
Trustee:	HSBC Corporate Trustee Company (UK) Limited
Issuing and Paying Agent, Registrar and Transfer Agent:	HSBC Bank plc
Certain Restrictions:	Unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 (or its equivalent in other currencies).

Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealer.
Initial Programme Size:	Up to £3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may change the amount of the Programme in accordance with the terms of the Dealer Agreement.
Use of Proceeds:	The Issuer intends to use the net proceeds from each issue of Notes for general corporate purposes, including the refinancing of current indebtedness. If in respect of any particular issue of Notes there is a particular use of the proceeds, this will be stated in the applicable Final Terms.
Maturities:	Subject to any applicable laws, any maturity as specified in the applicable Final Terms.
Issue Price:	Notes may be issued at any price, as specified in the relevant Final Terms.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue on the Notes at a fixed or floating rate and may vary during the lifetime of the relevant Series of Notes.
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined separately for each Series as follows: i. on the same basis at the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions (in each case, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or ii. by reference to LIBOR or EURIBOR. The margin (if any) relating to such floating rate will be specified in the applicable Final Terms for each Series of Floating Rate Notes.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an event of default) or that such Notes will be redeemable at the option of the Issuer (either in whole or in part) and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. Unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions*".
Denomination of Notes:	Notes will be issued in such denominations as may be specified in the relevant Final Terms (subject to compliance with all applicable legal and/or regulatory

	and/or central bank requirements), save that: i. the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and ii. unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum denomination of £100,000 (or its equivalent in other currencies as at the date of issue of the Notes).
Taxation:	All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of the Issuer or the Guarantor to the extent described under "*Terms and Conditions of the Notes – Condition 8 Taxation*." If any such withholding or deduction is required by law, the Issuer or the Guarantor, as the case may be, will pay additional amounts, subject to the exceptions described in "*Terms and Conditions of the Notes – Condition 8 Taxation*." In certain circumstances another entity may be substituted for or acquire the rights and obligations of the Issuer or the Guarantor under the Notes or the Guarantee. In such case, payments in respect of the Notes or under the Guarantee will be made without withholding or deduction for or on account of taxes of the jurisdiction of incorporation of such entity unless the withholding or deduction is required by law, in which case the substituted entity may pay additional amounts, subject to certain exceptions.
Negative Pledge:	The Notes will contain a negative pledge in the form described in the section headed "*Terms and Conditions of the Notes*".
Events of Default:	The terms of the Notes will contain, amongst others, the following events of default: • default in payment of any principal or interest due in respect of the Notes, continuing for the respective periods of time specified in Condition 10(a); • non-performance or non-compliance by the Issuer or the Guarantor of any of its other obligations under the Notes or the Trust Deed continuing for the period of time, and in the circumstances, specified in Condition 10(b); • a cross-default provision in respect of indebtedness for borrowed money of the Issuer as further described in Condition 10(c); and • certain events relating to the insolvency or winding up of the Issuer, the Guarantor, or any Material Subsidiary of the Guarantor.
Status of the Notes and the Guarantee:	The Notes and Coupons will constitute direct, unconditional and (subject to "*Terms and Conditions of the Notes – Condition 4 Negative Pledge*") unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The Guarantee will constitute a direct, unconditional and (subject to "*Terms and Conditions of the Notes – Condition 4 Negative Pledge*") unsecured obligation of the Guarantor.

	The payment obligations of the Issuer under the Notes and the Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to "*Terms and Conditions of the Notes – Condition 4 Negative Pledge*" at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.
Listing and Admission to Trading:	Application has been made to the UK Listing Authority for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as agreed between the Issuer and the relevant Dealer(s).
Governing Law:	The Notes, Trust Deed and Agency Agreement and all non-contractual obligations arising out of or in connection with the Notes will be governed by English law.
Distribution:	Notes may be distributed on a syndicated or non-syndicated basis.
Form of Notes:	The Notes may be issued as Bearer Notes or Registered Notes. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes. Each Tranche of Bearer Notes having an initial maturity of more than one year will initially be represented on issue by a temporary global note in bearer form and any other such Tranche will be represented by a permanent global note in bearer form. Global Notes may be deposited on the Issue Date (i) if the Global Notes are intended to be issued in NGN form or to be held under the NSS, as stated in the applicable Final Terms, with a Common Safekeeper on behalf of Euroclear and Clearstream, Luxembourg; and (ii) if the Global Notes are not intended to be issued in NGN form and are not held under the NSS, with a Common Depositary on behalf of Euroclear or Clearstream, Luxembourg. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*". Each Tranche of Registered Notes will be represented by registered Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Tranche. Individual definitive Certificates will only be available in certain limited circumstances as described in "*Summary of Provisions Relating to the Notes While in Global Form*".
Clearing Systems:	Euroclear, Clearstream, Luxembourg and/or any other clearing system as may be specified in the relevant Final Terms.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom and elsewhere see the section headed "*Subscription and Sale*".
Ratings:	Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to Notes already issued. A security rating is not a recommendation to buy, sell or hold securities and may be subject to

	suspension, reduction or withdrawal at any time by the assigning rating agency.
Terms and Conditions:	Final Terms will be prepared in respect of each Tranche of Notes, a copy of which, in the case of Notes to be listed on the Official List, will be delivered to the UK Listing Authority on or before the date of issue (the closing date) of such Notes. The terms and conditions applicable to each Note will be those set out herein under "*Terms and Conditions of the Notes*" as completed by the relevant Final Terms.

Risk Factors

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

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

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

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

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

The Group's business is influenced by general economic conditions in the UK and elsewhere. The UK economy continues to be impacted by the global downturn and performed less strongly in 2012 than was expected. The Office for Budget Responsibility, in its Economic and Fiscal Outlook published in December 2012, states that it expects GDP to have fallen by 0.1 per cent. in 2012 and that it is expecting GDP to grow by only 1.2 per cent. in 2013. There is continued exchange rate and financial market volatility, pressure on private consumption owing to high unemployment and risks arising from high levels of UK national debt, all of which present risks for the economic environment.

A major risk to economic forecasts is the current weakness within the Eurozone which in turn has an adverse effect on the UK economy and on business and consumer confidence in the UK and, as a result, the level of demand by the Group's individual customers for its products and services and the willingness of the Group's business customers to invest in the Group's products and services may weaken. In difficult economic conditions, consumers may seek to reduce discretionary spending by reducing their use of the Group's products and services, including data services, or by switching to lower-cost alternatives offered by the Group's competitors. Similarly, under these conditions, the business customers that the Group serves may delay purchasing decisions, delay full implementation of service offerings or reduce their use of the Group's services. This could, in turn, negatively impact on the Group's revenue development, including in the future growth areas on which it plans to focus, and jeopardise the attainment of the Group's growth targets, such as those relating to data services in mobile telecommunications, or those relating to fixed broadband products and services.

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

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

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

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

In respect of international roaming charges, the European Commission adopted a new regulation in June 2012 amending the existing roaming regulations with significantly lower price ceilings, an inclusion of retail data tariff ceilings and structural measures to foster increased competition. The first structural measure came into force on 1 July 2012, requiring the provision of wholesale access to roaming services, and the second, the unbundling of domestic services and international roaming services, will come into force on 1 July 2014. These changes may have a negative effect on the Group's roaming revenues.

With regard to call termination charges, in common with other UK operators, the Group has been found by Ofcom to have a dominant position, or significant market power, in the wholesale market for the termination of calls on its mobile phone networks. As such, Ofcom has imposed various conditions including a ceiling on the amount the Group is able to charge other operators when calls from their customers terminate on its networks. Such regulated charges have been reduced over a number of years as Ofcom has sought to ensure that such charges are cost related. Ofcom completed its latest review of this market on 15 March 2011 and imposed further reductions in the amount the Group is able to charge over the next four years. Ofcom adopted a new methodology in determining the amount of the charge ceiling applicable to the Group, implementing a recommendation by the European Commission which does not allow for the recovery of most common costs, particularly network costs, incurred in relation to the provision of the call termination service. The reduced charges have been applied since 1 April 2011. A consolidated appeal against Ofcom's decision was considered by the Competition Commission. This combined the appeals by Vodafone, the Guarantor, 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. The Competition Commission upheld in part the appeals by BT and Hutchison, in particular the acceleration in the implementation of such charges, and the further reduced charges were introduced on 11 May 2012. The Guarantor and Vodafone unsuccessfully sought to judicially review the Competition Commission's determination before the Competition Appeal Tribunal and an appeal by the Guarantor against this decision has been dismissed by the Court of Appeal. The revised charges may force the Group to implement changes to the way in which mobile services are marketed, which would be likely to affect its pre-pay customers disproportionately and may have a negative impact on the Group's business and operations.

On 3 January 2012, Ofcom published a consultation on whether consumers need additional protection from price rises in fixed term contracts for fixed broadband and mobile services. The Group's revenues are predominantly generated from fixed term post pay contracts. Any additional consumer rights which may be granted as a result of this consultation may have a negative impact on the Group's business and operations.

Increases in spectrum pricing

The Group expects that the basis of the fees it pays for the use of its 1800 MHz spectrum will change as a result of the Wireless Telegraphy Act 2006 (Directions to OFCOM) Order 2010, which requires Ofcom to ensure that spectrum fees payable on the 900 MHz spectrum and 1800 MHz spectrum reflect their full market value taking into account the results of the spectrum auction conducted by Ofcom and for which results were published on 1 March 2013. As a result of such review by Ofcom, the Group may be required to pay substantially increased spectrum usage charges for its current spectrum.

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

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

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

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

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

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

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

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

As part of its strategy, the Group will continue to offer new services to its existing customers and seek to increase mobile non-voice service revenue (including but not limited to such services as SMS, multimedia message service, mobile data, machine to

machine, telemetry, mobile advertising, mobile payments and mobile content such as smartphone applications) as a percentage of total service revenue. However the Group may not be able to introduce these new services commercially or may experience significant delays due to problems such as the availability of new mobile handsets, the ability of handset operating systems to support new services and applications, higher than anticipated prices of new handsets or availability of new content services. In addition, even if these services are introduced in accordance with expected time schedules, there is no assurance that revenue from such services will increase service revenue or maintain profit margins.

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

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

As demand for smartphone products increases around the world, there is a risk that there could be shortages in the volume of handsets produced as a result of insufficient manufacturing capacity or the lack of availability of internal components such as processors. This may result in delays in the supply chain which in turn may have an adverse effect on the Group's business and operations.

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

Expected benefits from cost reduction initiatives may not be realised

The Group has identified significant potential synergies deriving from the combination of the UK businesses of T-Mobile and Orange, with a total net present value which, according to the Guarantor's estimates, amounts to more than £3.5 billion. However there is no assurance that the full extent of the anticipated benefits will be realised in the timeline envisaged or at all.

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

The Group conducts a review of the carrying value of its assets annually or more frequently where the circumstances require, to assess whether those carrying values can be supported by the net present value of future cash flows derived from such assets. This review examines the continued appropriateness of the assumptions in respect of highly uncertain matters upon which the valuations supporting carrying values of certain of the Group's assets are based. This includes an assessment of discount rates and long-term growth rates, future technological developments and timing and quantum of future capital expenditure as well as several factors which may affect revenue and profitability identified within the other risk factors in this section such as intensifying competition, pricing pressures, regulatory changes and the timing for introducing new products or services. Discount

rates are in part derived from yields on government bonds, the level of which may change substantially period to period and which may be affected by political, economic and legal developments which are beyond the Group's control. Due to the Group's substantial carrying value of goodwill under International Financial Reporting Standards, the revision of any of these assumptions to reflect current or anticipated changes in operations or the financial condition of the Group could lead to an impairment in the carrying value of certain assets in the Group.

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

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

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

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

The Group has made substantial investments in the acquisition of licences and in its mobile networks, including the modernisation of its 2G network and upgrade of its 3G network as well as the rollout of a new 4G network which was launched in October 2012. The Group expects to continue to make significant investments in its mobile networks due to increased usage and the need to offer new services and greater functionality afforded by new or evolving telecommunications technologies (such as 4G). It may acquire new spectrum licences in the future with licence conditions which may include network coverage obligations. Accordingly, the rate of the Group's capital expenditures in future years could increase and exceed that which the Group has experienced to date.

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

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

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

Media reports have suggested that radio frequency emissions from wireless mobile devices and mobile telecommunications sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organisation has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below

internationally recognised health and safety standards. However, the Group cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

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

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

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

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

The Group provides MVNO services to various operators in the mobile telecommunications market, including Virgin Mobile Telecoms Limited ("**Virgin Mobile**") the largest MVNO in the UK as at January 2013, which do not have their own mobile telecommunications infrastructure. It is the Group's objective to grow the MVNO business and renew contracts with its MVNO customers. The Group's MVNO services permit these operators to use the Group's network to route calls to and from their customers. The provision of MVNO services are a significant source of income for the Group, and if one or more of the Group's MVNO customers terminated its MVNO arrangements with the Group or was otherwise unable or unwilling to continue to purchase such services from the Group, this could have an adverse effect on the Group's business and operations.

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

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

There is a risk that malicious attacks on the Group's IT infrastructure by an individual or group could be successful and this could lead to a loss of customer data, commercially sensitive data or the availability of systems which may be critical to the operation of the business. Malicious attacks are becoming common place and individuals and groups have been vocal in their threats against established companies and public authorities. If successful, a malicious attack could result in serious damage to the Group's reputation, loss of revenue and customer confidence.

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

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

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

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

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

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

Payments processed for products and services through the Guarantor under the T-Mobile brand have been PCI-DSS compliant since Q1 2010. The EE brand is expected to be confirmed as PCI-DSS compliant as it uses systems and security standards based on the T-Mobile infrastructure for payment card processing in the first quarter of 2013. However, payments processed for products and services through the Guarantor under the Orange brand are currently not PCI-DSS compliant.

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

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

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

The Information Commissioner can impose fines of up to £500,000 when businesses “knew or ought to have known that there was a risk that the contravention would occur, and that such a contravention would be of a kind likely to cause substantial distress or damage, but failed to take reasonable steps to prevent the contravention”.

However, on 25 January 2012, the European Commission published new legislative proposals for data protection. The proposals contain a Regulation (for general and commercial data protection). The draft Regulation is intended to repeal and replace the 1995 Data Protection Directive (95/46/EC), which is implemented into UK law by the Data Protection Act 1998 (DPA).

One of the key proposals is that national supervisory authorities (such as the Office of the Information Commissioner) will have the power to take action against organisations in other EU Member States in certain situations. It is also proposed that supervisory authorities will be able to sanction specified breaches of the Regulation and will be able to issue fines of up to €1 million or up to 2 per cent. of a company’s annual turnover in some cases.

Whilst steps are taken to protect the data held within the Group, any material loss, theft or unauthorised disclosure of customer data may adversely affect the Group’s reputation in the eyes of its customers, which may adversely affect the business and operations of the Group and, if the proposed new legislation is enacted, may result in significant sanctions being imposed on the Group.

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

It is critical for the Group to maintain and develop its brands so as to maintain effectively its customer base (both retail and business to business) and to secure or grow its revenue. Since the Group operates in a highly competitive market where brand recognition is a key driver of customers' selection of their preferred mobile telecommunications provider, maintaining and enhancing the Group's brands directly affects its ability to maintain market position, revenues and profitability. The Group's main competitors have established successful brands and are continuing to take steps to increase their brand recognition and, as such, the Group must continue to maintain and enhance the recognition and value of its brands in the highly competitive market in which it operates. In October 2012, the Group introduced a new customer brand, “**EE**”, and continues to operate the Orange and T-Mobile brands. The Group will continue to review its brand strategy to ensure it is maximising its market share potential. The EE brand may continue to be complementary to the Orange and T-Mobile brands or may substitute one or both brands in the future. However, if as a result of the implementation of its branding strategy the Group fails to develop, maintain and enhance brand recognition and secure growth in its revenues, its business, results of operations or prospects could be materially and adversely affected.

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

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

The Group may not be able to adequately manage its cash liquidity requirements

It is important for the Group that it is able to adequately manage and raise the cash that it requires to operate the business. The Group has raised long-term debt funding pursuant to the Programme, a syndicated bank facility and a loan from the European Investment Bank. The main sources of short-term liquidity for the Group are cash generated from operations, a committed

revolving credit facility provided by a consortium of seven banks and a working capital facility provided by FT and DT. The continued volatility of worldwide financial markets may make it more difficult for the Group to negotiate or renew its existing sources of debt finance or to secure additional debt funding (either externally or through its shareholders) if additional cash is required from time to time. This could adversely affect the cost of borrowing for the Group and/or the business and operations of the Group.

The Issuer is a special purpose vehicle

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

The Group is exposed to interest rate risk, foreign exchange risk and hedging risk

The Group, through its activities, is exposed to market risks which can generate losses as a result of adverse variations in interest rates and/or foreign exchange rates. Failure to hedge effectively against potential adverse variations in interest rates and/or foreign exchange rates could negatively affect the Group's financial results.

The Group is exposed to interest rate risk arising from borrowing on a variable interest rate basis. The Group is financed through long term loans from banks and bond issuances. The interest on its floating rate debt is calculated based on LIBOR and the Group also has cash assets and loans receivables from joint ventures which are charged at a variable rate. In order to manage its interest rate risk, the Group has a treasury policy of setting a target ratio of fixed to floating rate debt and this target ratio is managed by entering into appropriate interest rate swap contracts with the Group's banks.

The Group is exposed to foreign exchange risk arising when assets and liabilities, including trade receivables and payables, are denominated in a currency other than the Group's functional currency. As at 31 December 2012 the Group had £899 million of long term loans denominated in Euros. The foreign currency risk attached to these loans is managed using cross currency interest rate swaps, effectively swapping the currency denominated principal and interest exposures to the Group's functional currency.

The Group manages and mitigates its exposure to short term foreign currency risk by applying its treasury policy of hedging transactions that are expected to occur within a 12 month period (for example, purchases of inventories for resale and capital equipment).

The Group's financial results may be adversely affected if its hedges do not effectively mitigate interest rate risks or foreign exchange risks, if the Group is under hedged or if a hedge provider defaults on its obligations under the Group's hedging agreements. There can be no assurance that the Group's interest rate hedging arrangements or hedging policy will be effective.

The Group is exposed to counterparty credit risk

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 derivative transactions. Credit risk is the risk of loss resulting from counterparty default arising on all credit exposures. 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. In the case of default by a counterparty, the Group could suffer financial loss and the Group's operational results may be adversely affected.

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

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the Issuer

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

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

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

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

Modification, waivers and substitution

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders or Couponholders, agree to: (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error; or (ii) any other modification (except as mentioned in the Trust Deed), and any

waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

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

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), EU member states are required to provide to the tax authorities of another EU member state details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other member state, or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, although the Directive also provides that no withholding tax should be levied where the beneficial owner of the payment authorises an exchange of information and/or presents a certificate from a tax authority of the member state in which the beneficial owner is resident. The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

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

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

Although Notes are required under the Programme to have a minimum Specified Denomination of €100,000 (or its equivalent in any other currency), it is possible that the Notes may be traded in the clearing systems in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case, should Definitive Notes be required to be issued, Noteholders who, as a result of trading such amounts, hold Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Notes such that their holding is equal to or an integral multiple of a Specified Denomination, otherwise such Noteholders may not receive all of their entitlements in the form of Definitive Notes.

Change of law

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

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

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

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

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

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

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

Summary of Provisions Relating to the Notes While in Global Form

1. Initial Issue of Notes

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

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

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

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

2. Relationship of Accountholders with Clearing Systems

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

3. Exchange

3.1 Temporary Global Notes

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

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

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

If the relevant Final Terms indicate that the temporary Global Note may be exchanged for Definitive Notes, trading of such Notes in Euroclear and Clearstream, Luxembourg will only be permitted in amounts which are an integral multiple of the minimum Specified Denomination.

3.2 Permanent Global Notes

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

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

3.3 Global Certificates

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

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

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

(ii) with the consent of the Issuer,

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

3.4 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and

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

3.5 Exchange Date

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

4. Amendment to Conditions

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

4.1 Payments

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

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately

prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

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

4.3 Meetings

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

4.4 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, then:

(A) approval of a resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of any such clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum (as defined in the Trust Deed) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

(B) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantor and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the Guarantor and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Note or Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer, the Guarantor and/or the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any

such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer, the Guarantor and/or the Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

4.5 Cancellation

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

4.6 Purchase

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

4.7 Issuer's Option

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

4.8 Noteholders' Options

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

4.9 NGN nominal amount

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be

entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.10 Trustee's Powers

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

4.11 Events of Default

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

4.12 Notices

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

Form of Final Terms

Final Terms dated [●]

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

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) contained in the Trust Deed dated 28 March 2013 and set forth in the Prospectus dated 28 March 2013 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) contained in the Trust Deed dated [**original date**] and set forth in the Prospectus dated [**original date**] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated [●] 2013 and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated [●] 2013 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus] are available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address].]]

1.	(i)	Issuer:	Everything Everywhere Finance PLC
	(ii)	Guarantor:	Everything Everywhere Limited
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
3.	Specified Currency:		[●]
4.	Aggregate Nominal Amount of Notes:		[●]
	[(i)	Series:	[●]]

	[(ii)	Tranche:	[●]]
5.	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6.	(i)	Specified Denominations:	[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●].]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[[●]/Issue Date/Not Applicable]
8.	Maturity Date:		[[●]/[Interest Payment Date falling in or nearest to [●]]
9.	Interest Basis:		[[●] per cent. Fixed Rate] [[LIBOR]/[EURIBOR] +/– [●] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
10.	Redemption Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
11.	Change of Interest or Redemption Basis:		[[●]/[Not Applicable]]
12.	Put/Call Options:		[Put Option] [Call Option] (further particulars specified below)
13.	Date Board approval for issuance of Notes and Guarantee obtained:		[[●] [and [●],respectively]/[Not Applicable]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/[●]] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]/[not adjusted]
	(iii)	Fixed Coupon Amount(s):	[●] per Calculation Amount

	(iv)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]]
	(v)	Day Count Fraction:	[30/360 / 360/360 / Bond Basis / Actual/Actual / Actual/Actual - ISDA / Actual/365 (Fixed) / Actual/360 / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual-ICMA]
	(vi)	Determination Dates:	[[●] in each year/[Not Applicable]]
15.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	First Interest Payment Date:	[●]
	(iv)	Interest Period Date:	[[●]/[Not Applicable]]
	(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/[●]]
	(vi)	Business Centre(s):	[●]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[●]
	(ix)	Screen Rate Determination:	
		– Reference Rate:	[LIBOR/EURIBOR]
		– Interest Determination Date(s):	[●]
		– Relevant Screen Page:	[●]
	(x)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]

		– Reset Date:	[●]
		– ISDA Definitions:	[2000/2006]
	(xi)	Margin(s):	[+/-][●] per cent. per annum
	(xii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiv)	Day Count Fraction:	[●]
16.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	Amortisation Yield:		[●] per cent. per annum

PROVISIONS RELATING TO REDEMPTION

17.	**Call Option**		[Applicable – The provisions in Condition 6(d) apply/Not Applicable]
	(i)	Optional Redemption Amount(s) of each Note:	[[●] per Calculation Amount]/[See Make Whole Optional Redemption Amount]
	(ii)	Make Whole Optional Redemption Amount:	[Applicable – The provisions in Condition 6(d) apply/Not Applicable]
	(iii)	Make Whole Margin:	[●]
	(iv)	Benchmark Stock:	[●]
	(v)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(vi)	Notice period:	[●]
18.	**Put Option**		[Applicable – The provisions in Condition 6(e) apply/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii)	Notice period:	[●]

19.	**Change of Control Put Event**	[Applicable – the provisions in Conditions 6(f) and 6(g) apply/Not Applicable]
	(i) Redemption at the Option of the Issuer - Condition 6(f)):	
	- Notice period:	[Not less than 15 nor more than 30 days' notice]/[●]
	(ii) Redemption upon a Change of Control - Condition 6(g)):	
	- Rating Agency:	[Moody's Investors Service España, S.A.] [and/,][Standard & Poor's Credit Market Services Europe Limited] [and] [●]
20.	**Final Redemption Amount of each Note**	[●] per Calculation Amount
21.	**Early Redemption Amount**	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	**Form of Notes:**	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** Global Certificate (U.S.$/€/£ [●] nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)
23.	New Global Note:	[Yes]/[No]
24.	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/[●]]

25.	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]
26.	Consolidation provisions:	[Not Applicable/The provisions in Condition [15] apply]

DISTRIBUTION

27.	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/ TEFRA D/ TEFRA not applicable]

THIRD PARTY INFORMATION

[[●]has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Everything Everywhere Finance PLC:

By: ....
Duly authorised

Signed on behalf of Everything Everywhere Limited:

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING**

(i)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange plc's Regulated Market with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange plc's Regulated Market with effect from [●].]
(ii)	Estimate of total expenses related to admission to trading:	[●]

2. **RATINGS**

Ratings: The Notes to be issued have been rated:

[S & P: [ ]]

[Moody's: [ ]]

[[Fitch: [ ]]

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

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

4. **[Fixed Rate Notes only – YIELD**

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

5. **OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/[●]]

Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]

Terms and Conditions of the Notes

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

The Notes are constituted by an amended and restated Trust Deed (as further amended or supplemented as at the date of issue of the Notes (the **"Issue Date"**), the **"Trust Deed"**) dated 28 March 2013 between Everything Everywhere Finance PLC (the **"Issuer"**), Everything Everywhere Limited (the **"Guarantor"**) and HSBC Corporate Trustee Company (UK) Limited (the **"Trustee"**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the **"Conditions"**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated Agency Agreement (as further amended or supplemented as at the Issue Date, the **"Agency Agreement"**) dated 28 March 2013 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, HSBC Bank plc as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **"Issuing and Paying Agent"**, the **"Paying Agents"** (which expression shall include the Issuing and Paying Agent), the **"Registrar"**, the **"Transfer Agents"** (which expression shall include the Registrar) and the **"Calculation Agent(s)"**. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and at the specified offices of the Paying Agents and the Transfer Agents.

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

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

1. Form, Denomination and Title

The Notes are issued in bearer form (**"Bearer Notes"**) or in registered form (**"Registered Notes"**) in each case in the Specified Denomination(s) shown hereon provided that the minimum Specified Denomination of any Notes shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, depending upon the Interest and Redemption Basis shown hereon.

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

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

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

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

2. No Exchange of Notes and Transfers of Registered Notes

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

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

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

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be provided by the Issuer to the Transfer Agent and the Registrar and shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise

and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

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

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

3. Guarantee and Status

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

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

4. Negative Pledge

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

In these Conditions:

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

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

(a) whose turnover (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 15 per cent. of the consolidated turnover, or, as the case may be, the consolidated total

assets of the Guarantor's Group taken as a whole, all as calculated respectively by reference to the latest financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated financial statements of the Guarantor; provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Guarantor relate for the purpose of applying each of the foregoing tests, the reference to the Guarantor's latest audited consolidated financial statements shall be deemed to be a reference to such financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant financial statements, adjusted as deemed appropriate by the statutory auditors of the Guarantor for the time being after consultation with the Guarantor; or

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

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

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

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

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

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

5. Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the

Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).

(b) **Interest on Floating Rate Notes:**

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

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

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

(z) the relevant Reset Date is the day specified hereon.

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

(B) Screen Rate Determination for Floating Rate Notes

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified

Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

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

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

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

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

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

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

(f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount

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

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

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

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

"Business Day" means:

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

“Interest Amount” means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken

Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

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

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

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

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

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

"ISDA Definitions" means the 2000 ISDA Definitions or the 2006 ISDA Definitions, (in each case as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the First Tranche of the Notes of the relevant Series), as specified hereon.

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

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

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

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

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

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

(j) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding

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

6. Redemption, Purchase and Options

(a) **Final Redemption:**

Unless previously redeemed or purchased and in each case cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount).

(b) **Early Redemption:**

(i) Zero Coupon Notes:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, upon redemption of such Note pursuant to Condition 6(c), 6(d) or 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

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

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

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

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

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or at any time (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders and the Trustee shall not be responsible for any loss occasioned by acting on such certificate.

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

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' (or such other notice period as may be specified hereon) notice to the Trustee and the Issuing and Paying Agent and to Noteholders in accordance with Condition 16 (which notice shall be irrevocable and shall specify the date fixed for redemption) redeem all or, if so provided, some of the Notes. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above), or, if so specified hereon, shall be at the Make Whole Optional Redemption Amount, in each case, together with interest accrued up to (but excluding) the date of redemption of the Notes. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

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

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such

place and in such manner as the Trustee may approve, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

The **"Make Whole Optional Redemption Amount"** shall be the higher of (a) the principal amount outstanding of the Notes and (b) the principal amount outstanding of the Notes multiplied by the price (as reported in writing to the Issuer, the Guarantor and the Trustee by an independent and internationally recognised financial adviser appointed by the Issuer and the Guarantor and approved by the Trustee) at which the Gross Redemption Yield on the Notes on the Calculation Date is equal to the Gross Redemption Yield at (i) if the Specified Currency is Sterling, 11.00 a.m. (London time) on the Calculation Date of the Benchmark Stock specified hereon or (ii) if the Specified Currency is euro, 11.00 a.m. (Central European time) on the Calculation Date of the Benchmark Stock specified hereon or (iii) if the Specified Currency is neither Sterling nor euro, 11.00 a.m. in the principal financial centre of the Specified Currency on the Calculation Date of the Benchmark Stock specified hereon, (or, where such financial adviser advises the Issuer, the Guarantor and the Trustee that, for reasons of illiquidity or otherwise, such Benchmark Stock is not appropriate for such purpose, such other government stock as such financial adviser may recommend) plus the Make Whole Margin specified hereon. For such purposes, **"Calculation Date"** means the date which is the second Business Day (where the Specified Currency is euro, such Business Day also being a Business Day in Frankfurt) prior to the date fixed for redemption of the Notes and **"Gross Redemption Yield"** means a yield calculated in accordance with generally accepted market practice at such time, as advised to Issuer, the Guarantor and the Trustee by such financial adviser.

(e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above) together with interest accrued to the date fixed for redemption.

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

(f) **Redemption at the Option of the Issuer upon a Change of Control**: If Change of Control Put Event is specified hereon and 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to Condition 6(g), the Issuer may, on giving not less than 15 nor more than 30 days' (or such other notice period as may be specified hereon) notice to the Trustee and the Issuing and Paying Agent and to Noteholders in accordance with Condition 16 (which notice shall be irrevocable and shall specify the date fixed for redemption) and such notice being given on or after, and by no later than 30 days following, the Change of Control Put Date, redeem all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued up to (but excluding) the date fixed for redemption.

(g) **Redemption at the Option of Noteholders upon a Change of Control:**

If Change of Control Put Event is specified hereon and a Change of Control Put Event occurs, the holder of any Note will have the option (a "**Change of Control Put Option**") (unless prior to the giving of the relevant

Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 6(c) or 6(d)) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Note on the Change of Control Put Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Change of Control Put Date.

A "**Change of Control Put Event**" will be deemed to occur if:

(i) (a) at any time any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than the Guarantor or any holding company (as defined in Section 1159 of the Companies Act 2006 as amended) of the Guarantor whose shareholders are, or are to be, substantially the same as the pre-existing shareholders of the Guarantor, acquires control of the Guarantor (where "**control**" means the acquisition or holding beneficially by any person or persons of more than 50 per cent. of the issued share capital of the Guarantor, excluding any part thereof that does not carry the right generally to vote at a general meeting of shareholders of the Guarantor); or

(b) Deutsche Telekom AG and France Telecom SA cease to be the beneficial owners, directly or indirectly through subsidiaries which they control (where "control" has the meaning set out in condition 6(g)(i)(a)), of (in aggregate) more than 30 per cent. of the issued share capital of the Guarantor, excluding any part thereof that does not carry the right generally to vote at a general meeting of shareholders of the Guarantor (each of (a) and (b) being a "**Change of Control**"); and

(ii) on the date of the first public announcement of the relevant Change of Control (if any) (the "**Relevant Announcement Date**"), the Notes carry:

(A) an investment grade credit rating (Baa3/BBB-, or their respective equivalents, or better), from any Rating Agency at the invitation of the Issuer or the Guarantor and such rating is, within the Change of Control Period, either downgraded to a non-investment grade credit rating (Ba1/BB+, or their respective equivalents, or worse) (a "**Non-Investment Grade Rating**") or withdrawn by each such Rating Agency and is not, within the Change of Control Period, subsequently reinstated or (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency; or

(B) a Non-Investment Grade Rating from any Rating Agency at the invitation of the Issuer or the Guarantor and such rating is, within the Change of Control Period, either downgraded by one or more rating categories (from Ba1 to Ba2 or such similar lowering) or withdrawn by each such Rating Agency and is not, within the Change of Control Period, subsequently reinstated or (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency; or

(C) no credit rating and a Negative Rating Event also occurs within the Change of Control Period,

provided that if at the time of the Relevant Announcement Date the Notes carry a credit rating from more than one Rating Agency at the invitation of the Issuer or the Guarantor, at least one of which is investment grade, then sub-paragraph (A) will apply and sub-paragraph (B) will not apply; and

(iii) in making any decision to downgrade or withdraw a credit rating pursuant to paragraph (A) or (B) above or not to award a credit rating as described in paragraph (ii) of the definition of Negative

Rating Event, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Guarantor that such decision(s) resulted to a significant extent from the occurrence of the Change of Control.

Promptly upon the Guarantor becoming aware that a Change of Control Put Event has occurred the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall, (subject in each case to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction) give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 16 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed change of control put option exercise notice ("**Change of Control Put Option Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the period (the "**Change of Control Put Period**") of 30 days after a Change of Control Put Event Notice is given. No Note or Certificate so deposited or Change of Control Put Option Exercise Notice may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

If the rating designations employed by any Rating Agency are changed from those which are described in paragraph (ii) of the definition of "Change of Control Put Event" above, the Issuer and the Guarantor shall determine, with the agreement of the Trustee (not to be unreasonably withheld or delayed), the rating designations of that Rating Agency as are most equivalent to the prior rating designations of that Rating Agency, and this Condition 6(g) shall be construed accordingly.

The Trustee is under no obligation to ascertain whether a Change of Control Put Event or Change of Control or any event which could lead to the occurrence of or could constitute a Change of Control Put Event or Change of Control has occurred, or to seek any confirmation from any Rating Agency pursuant to paragraph (iii) above or pursuant to the definition of Negative Rating Event below, and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Change of Control Put Event or Change of Control or other such event has occurred.

In this Condition 6(g):

"**Change of Control Period**" means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

"**Change of Control Put Date**" means the date which is seven days after the expiration of the Change of Control Put Period;

a "**Negative Rating Event**" shall be deemed to have occurred if at such time as there is no credit rating assigned to the Notes by a Rating Agency (i) the Guarantor does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a credit rating of the Notes, or any other unsecured and

unsubordinated debt of the Guarantor or of the Issuer or of any subsidiary of the Guarantor which is guaranteed on an unsecured and unsubordinated basis by the Guarantor and which has an original maturity of at least the same tenor as the Notes or (ii) if the Guarantor does so seek and use such endeavours, it is unable to obtain such a rating of at least investment grade by the end of the Change of Control Period; and

"**Rating Agency**" means each rating agency as specified hereon and their successors and assigns.

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

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

7. Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank. **"Bank"** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the **"Record Date"**). Payments of interest on each Registered Note shall be made in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a Bank.

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

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

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

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

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

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

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

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

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

(iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any

unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

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

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

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

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

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

8. Taxation

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

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

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

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

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

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

9. Prescription

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

10. Events of Default

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

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

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

(c) **Cross-Default:** (A) any other present or future indebtedness of the Issuer or the Guarantor or any Subsidiary of the Guarantor for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described), or (B) any such

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

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

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

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

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

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

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

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

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

11. Meetings of Noteholders, Modification, Waiver and Substitution

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

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

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

(c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business

or any Subsidiary as defined in the Trust Deed of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

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

12. Enforcement

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

13. Indemnification of the Trustee

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

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

14. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate,

Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15. Further Issues

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

16. Notices

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

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

17. Contracts (Rights of Third Parties) Act 1999

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

18. Governing Law and Jurisdiction

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

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

Use of Proceeds

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

Description of the Issuer and the Group

Background

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

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

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

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

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

- the amendment of the Guarantor's joint venture agreement with Hutchison; and
- the divestment of one quarter of the combined network spectrum of the Orange and T-Mobile businesses in the 1800 MHz frequency band (one of the three frequency bands used in UK mobile telecommunications) prior to the auction and release of new spectrum by Ofcom,

as discussed further below.

On 1 July 2010, TMUK was renamed Everything Everywhere Limited and all of the assets, liabilities, undertaking and employees of FT's and DT's UK mobile businesses were, to the extent not already transferred, transferred to the Guarantor. The Guarantor trades under the brand names EE, Orange and T-Mobile. As at 31 December 2012, the Group employed 15,443 people.

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

In October 2012 the Group introduced a new customer brand, EE, which was combined with the launch of 4G mobile telecommunications services utilising its 1800 MHz spectrum. The Group continues to operate the Orange and T-Mobile brands in addition to EE.

Introduction to Principal Activities

The Group, which operates exclusively in the UK, is the UK's largest mobile communications provider with c.27 million customers and mobile subscriber market share of approximately 33 per cent. as at 30 September 2012, according to Enders' UK mobile market Q3 2012 report published by Enders in December 2012. The Group offers mobile services (consisting of voice, messaging and data services) and fixed broadband services to retail and wholesale customers as well as to businesses through multiple telecommunications technologies and across the UK's largest mobile network. The Issuer acts as a financing vehicle for the Group and has no other operations or subsidiaries.

The Group's total revenues in 2012 were £6.7 billion (source: Group Consolidated Financial Statements as at 31 December 2012), of which its mobile service revenues were £6.0 billion (source: Group Consolidated Financial Statements as at 31 December 2012). This includes the impact of the reduction in mobile termination rates ("**MTR**") as a result of Ofcom's decision on 15 March 2011, which provided for a staged reduction in MTRs. As a result of the MTR appeals against Ofcom's decision the MTR was reduced to 1.5 pence per minute, further reducing in stages to 0.835 pence per minute between 1 April 2014 and 31 March 2015. There are no outstanding appeals against the Ofcom decision (See: "*Risk Factors – Regulatory decisions and changes in the regulatory environment could adversely affect the Group's business*"). Including the impact of the reduction in mobile termination rates following Ofcom's decision, the Group's mobile service revenues were down 2.6 per cent. in the full year 2012 as compared to the full year 2011. Adjusted EBITDA in the full year 2012 was £1,410 million and the adjusted EBITDA profit margin was 21.2 per cent. (source: Group Consolidated Financial Statements as at 31 December 2012).

Business overview

Competitive landscape

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

According to the "Communications Market Report", published in July 2012 by the UK communications regulator Ofcom, the number of UK mobile connections continued to increase in 2011, growing by 0.5 per cent. year-on-year to 81.6 million, although population growth meant that the number of active connections per 100 people was unchanged at 129.8 (based on the number of active SIM cards). According to the report, the percentage of subscribers on post-pay tariffs (as opposed to pre-pay) has risen steadily since 2006, reaching 49 per cent. in 2011. The report highlights that UK mobile retail revenue increased for the first time in three years in 2011, growing by 1 per cent. year-on-year to £15.1 billion, driven by rapidly-increasing data use.

Ofcom estimated that 32.6 million UK subscribers accessed the internet via their mobile phones in 2011, an increase of nearly 10 million since 2010. Growth in smartphone take-up was reflected in consumers' use of mobile data, as the volume of data consumed more than doubled in the 18 months to January 2012, based on sources quoted by Ofcom.

Investment in mobile networks has continued and all four UK mobile network operators ("**MNOs**") have deployed so called "3.5G services". In October 2012, the Group was the first UK MNO to launch 4G services commercially in the UK, using its existing 1800 MHz spectrum to deliver 4G services. The other three MNOs are expected to launch commercial 4G services in 2013 following the completion of the auction of radio spectrum on 1 March 2013. The additional spectrum acquired by the Group (2 x 5 MHz of 800MHz and 2 x 35 MHz of 2,600 MHz) added to the Group's existing 2 x 45 MHz of 1,800 MHz and 2 x 20MHz of 2,100 spectrum makes the Group's spectrum holdings for mobile telecommunications services the largest in the UK (according to Enders' UK 4G spectrum auction report published by Enders on 21 February 2013).

The first major customer proposition of the Group after its formation was launched in October 2010, with the introduction of 2G national roaming across both brands' networks. This allowed customers to utilise the network coverage of either the Orange or T-Mobile brands. Subsequently, in October 2012, the Group launched a new mobile brand "EE" and deployed the first 4G network in the UK providing superfast services across, as at the date of this Prospectus, more than 37 towns and cities in the UK, including London, Manchester Birmingham, Bristol, Belfast and Edinburgh, with a plan to add further towns and cities during 2013, aiming for 98 per cent. of the UK population to be covered by the end of 2014.

Mobile services

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

The Group continues to focus on improving customer loyalty and reducing "churn" (the number of customers leaving the customer base divided by the average customer base) and there was a 5.9 per cent. increase in the PAYM customer base over the course of the 2012 calendar year. PAYM customer churn was maintained at a low 1.2 per cent. (monthly average in the quarter) throughout 2012. The low level of "churn" was assisted by a number of initiatives in 2012 which were aimed to improve customer mobile experience. These initiatives included the launch of the 4G network, the UK's first mobile 4G network, and 3G signal sharing to enable seamless cross network roaming.

As at 31 December 2012, the Group had 12.6 million PAYG subscribers and 13.6 million PAYM subscribers, with average monthly revenues per customer of £5.7 and £30.7 respectively. PAYM customers at 31 December 2012 represented 52 per cent. of the Group's mobile customer base, up from 48 per cent. as at 31 December 2011.

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

The Group's 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. The Group's 4G service was also launched for business customers to enable technology, improve their efficiency and deliver their business solutions. The 4G plans are available on a range of smartphones from the leading manufacturers, including Apple, Nokia and Samsung.

In 2012, the Group also launched its so called "T-Mobile Full Monty" service plan, which provides unlimited voice, texts and data and promoted the so called "Orange The Works" service plan, a high value package for smartphone users, with many value-added extras such as WiFi and unlimited push email.

Mobile virtual networks

The Group's network provides mobile services to additional subscribers by making its network available to a number of MVNOs. Under the Group's arrangements with MVNOs, the Group permits other mobile telecommunications operators to use the Group's network to route calls to and from their customers. The Group has the UK's largest MVNO portfolio by number of subscribers, which currently enables 24 MVNO brands.

Among the Group's MVNO partners is the largest MVNO in the UK market, Virgin Mobile. The Group's MVNO arrangements with Virgin Mobile have been in place since 2004 and the exclusive provision of such services was extended on a long term basis on 30 December 2010. Virgin Mobile purchases a fixed bundle of voice call, text message and data capability from the Group as well as using the Group's retail billing services. The number of active Virgin Mobile customers (being those that have made a telephone call in the last 30 days) as at December 2012 was around 3 million.

Fixed broadband

The Group's fixed broadband service is now marketed under the EE brand and from October 2012 the service "superfast" fibre broadband was made available to EE customers in certain areas. The Group has made a considerable investment in its fixed broadband business and is aiming to increase its market share. The Group has outsourced the operation and management of the IT and network functions for fixed broadband to BT.

As at 31 December 2012, the Group's fixed broadband service had approximately 693,200 subscribers.

Other business areas

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

The Group offers a wide range of mobile and value added services to business customers who range from small business to multi-national corporations. Following the launch of the new EE brand, the Group markets to small businesses with the EE, T-Mobile and Orange brands, and markets to larger businesses exclusively with the EE brand. The Group has grown its portfolio of services to businesses and added fixed line and broadband, secure mobility services and mobile payment solutions in 2012.

The Group has built a strong partnering network and has access to FT and DT's global roaming relationships, putting the Group in a position to benefit from international growth in machine to machine communications. Having adopted a multi-channel approach utilising both direct (through the Group's own sales channels) and indirect (through so called "aggregators") distribution, the Group has achieved approximately 40 per cent. year-on-year growth in 2012 to 1.4 million connections (as compared to 1 million connections in 2011). The Group's target markets include: utilities, health, consumer electronics, automotive and insurance telematics. The Group has also developed managed service solutions to better target and serve the smart logistics and retail sectors with the end-to-end provision of network, devices and data services.

Recent developments include:

- building on the launch of the UK's first "near field communications" or NFC mobile transactions service ("**Quicktap**"), Quicktap has won the Best Innovation Technology Award at the Card & Payment Awards Ceremony and the Group has launched "Quicktap Treats" with a large UK high street food company. This is the first NFC loyalty application in the UK market;

- the commercial launch, in December 2012, of Weve, a joint venture with O2 and Vodafone Limited to participate in the mobile marketing and mobile transactions market in the UK; and

- following the successful launch of the UK's first contactless mobile payments service for customers (in partnership with Barclaycard in 2011), the Group followed up in March 2012 with a partnership agreement with MasterCard to promote contactless payment technologies.

Retail stores and customer service

The Group currently operates approximately 670 stores across the UK under the EE brand, selling products and services from the EE, Orange and T-Mobile brands and, following the EE brand launch in October 2012, is in the process of removing 78 duplicate stores.

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

At the end of December 2012, the Group employed 7,327 people in its customer services and telesales organisation and operates its centres domestically in Darlington, North Tyneside, Plymouth, Doxford, Greenock and Merthyr Tydfil. The Group also partners with recognised specialist companies in the provision of customer service onshore and internationally.

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

Branding

In October 2012, the Group introduced a new customer brand, EE, and continues to operate the Orange and T-Mobile brands. The Group will continue to review its brand strategy to ensure it is maximising its market share potential. The EE brand may continue to be complementary to the Orange and T-Mobile brands or may substitute one or both brands in the future.

Network information

The Group has the UK’s biggest mobile network with around 26,000 base stations in the UK, which includes 2G, 3G and 4G equipment supporting the EE, Orange and T-Mobile brands. The UK is one of the most advanced mobile data markets in Europe with data usage growing almost forty fold in the period from the final quarter of 2007 to the final quarter of 2010 (Communications Market Report dated August 2011), as more people use mobile devices to access the internet, use social networks and receive advertising. The Group continues to invest in its networks (2G, 3G and 4G) to meet this demand.

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

A key element of the integration of the Orange and T-Mobile businesses is the planned integration of the two networks. Work on this continues and the integration of the network is anticipated to drive considerable cost savings as part of the Group’s overall synergy plan. Orange and T-Mobile customers are able to pick up signal from either brand’s 2G and 3G networks in the UK at no extra charge (so called “2G and 3G roaming”).

On 30 October 2012, the Group launched the UK’s first 4G network using its existing 1800 MHz radio spectrum. As at 31 December 2012, the 4G network was provided from 2,000 modernised base stations delivering 2G and 4G services with 43 per cent. outdoor population coverage. The network solution employs single radio access network technology which shares the 1800 MHz spectrum band. With high speed Gigabit Ethernet backhaul connectivity, the network currently provides an average 8-12 Mbit/s speed for customers with peaks of up to 60Mbit/s.

The Group was successful in acquiring 2 x 5 MHz of 800 MHz and 2 x 35 MHz of 2,600 MHz spectrum and the licence for such spectrum was issued by Ofcom on 1 March 2013. The 4G spectrum bands are ideally suited for wide bandwidth data services, allowing for speeds of 4Mbit/s upwards. This additional spectrum will help support the continued rollout of the Group’s 4G services.

On 14 April 2010, Orange Personal Communications Services Limited ("**OPCS**") entered into a 6 year non-exclusive agreement with BT to outsource to BT: (i) the provision and operation of fixed telecommunications (i.e. land line services); (ii) broadband services to the Group's customers; and (iii) the migration of existing Orange broadband customers to a new broadband services platform operated by BT.

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

Under the terms of the agreement BT committed to launch next generation broadband services and as a result the Group launched fibre broadband services on 30 October 2012, so that the Group's customers can take advantage of the greater speed and capacity afforded by fibre optics. The agreement will enable the Group to operate a multiple brand strategy with separate services and pricing options.

IT Outsourcing Agreement with T-Systems

An agreement was signed by the Guarantor and T-Systems Ltd (a subsidiary of DT) on 18 March 2011 for the outsourcing of the IT data centre infrastructure operations, IT design and IT management operations that support both the Orange and T-Mobile brands of the Group's business to T-Systems Ltd. The agreement is for a total of eight years and includes a three year transformation programme of the Guarantor estate. The Group transferred 161 employees to T-Systems Ltd as a result of this agreement. Key licence ownership will remain with the Guarantor.

Synergies

As a result of the formation of the Group, synergies with a net present value which, according to the Guarantor's estimates, amounts to more than £3.5 billion were identified; £369 million of recurring annual operational expenditure synergies have been delivered by the end 2012 (as against the cost base in 2009 prior to the Group's formation). Annualised operational expenditure savings of £445 million have been identified for planned delivery by 2014. The key areas of cost savings identified are network costs, IT costs, distribution and marketing and other operational expenditure savings derived from the reduction of the number of suppliers as well as headcount restructuring.

Regulation

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

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

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

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

Non-Geographic Numbers

Since 2009, the Group has been in dispute with BT about termination charges introduced by BT for calls to numbers known as non-geographic numbers, including 080, 0845 and 0870 numbers. BT has since 2009 introduced a form of charging, described as ladder charges, whereby the termination rate increases with increases in the retail calling rate. The Group initially raised a number of disputes with Ofcom, together with other mobile operators, objecting to these ladder charges. Ofcom found for the

mobile operators and BT appealed to the Competition Appeal Tribunal. BT was successful before the Competition Appeal Tribunal and the mobile operators then appealed successfully to the Court of Appeal. In February 2013, BT was given leave to appeal against that decision by the Supreme Court. BT has also asked the Supreme Court to refer certain questions to the European Court of Justice. The appeal is unlikely to be heard until early 2014. In the meantime, BT has introduced further forms of ladder charging covering all non-geographic numbers and a number of other fixed operators have also introduced forms of ladder charging. The Group is currently not making payment in accordance with these ladder charges. The Group has provisioned financially for any payments due to BT and the other fixed operators taking into account legal advice received on BT's likelihood of success in its appeal. The amount which has been provisioned is not material to the financial position of the Group. Ofcom is likely to issue a statement during the first half of 2013, setting out new rules on charges for calls to all non-geographic numbers which are expected to come into force in 2014. The new rules are expected to introduce a new charging mechanism for such calls and it is expected that ladder charging will cease. Whilst the changes are expected to have an adverse effect on the Group's revenues from calls to these numbers, such change is not material to the financial position of the Group.

Joint Ventures

Weve is an incorporated joint venture between the Guarantor, Telefonica UK Limited and Vodafone Limited. The joint venture was incorporated on 14 August 2012. It was formed to create and accelerate the development of mobile marketing and payment services in the UK. Through Weve, the shareholders have created the ability for advertisers, retailers, banks and many other organisations to connect to a large-scale mobile commerce ("**m-commerce**") platform via a consistent set of technologies and standards, without having to duplicate effort. Each shareholder understands that any successful m-commerce business will need to work at scale, across millions of customers individually on a multitude of devices. Weve brings these unique components together and translates them into the m-commerce space as the core platform for its business.

Digital Mobile Spectrum Limited ("**DMSL**") is a joint venture between the Guarantor, Hutchison, Telefonica UK Limited and Vodafone Limited. The company was incorporated on 10 October 2012 with each shareholder subscribing to one £1 ordinary share. The company was set up to undertake activities to mitigate interference to digital terrestrial television reception which may arise as a consequence of the use of 800 MHz spectrum which was licensed following an auction in February 2013. It is a condition of the 800 MHz licences awarded in the auction that the licensees undertake these mitigation activities through this industry operated entity. For each 5 MHz paired block of 800 MHz spectrum awarded, the licensees are required to commit to contribute up to £30 million to cover the costs of DMSL. The Group acquired 2 x 5 MHz of 800 MHz spectrum in the auction and consequently will be required to contribute a total of £30 million by means of an initial payment in March 2013 and subsequent stage payments, the timing of which is to be agreed.

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

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

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

Costs are generally shared between the parties on a 50:50 basis, however, the Guarantor does pay some additional costs for its 2G radio access network. The operating costs of the network include rent, rates, electricity and annual site maintenance. However, each party bears its own costs directly attributable to any non-shared sites. Transmission costs are provided on a lowest cost basis. In addition, MBNL charges the Group fees in relation to the management and use of the shared network. Charges from MBNL during the period 1 January 2012 to 31 December 2012 totalled £28 million.

MBNL does not own the network assets, other than the transmission assets and the microwave backhaul licences. MBNL holds microwave spectrum licences at 10GHz, 28GHz and 40GHz for the backhaul transmission network (being the transport network which carries traffic between the mobile base stations and the control and switching elements located deeper in the network) and there is currently no other commitment to acquire or deploy any spectrum on a joint basis. At the end of 2012 MBNL's 2G network covered more than 99.7 per cent. of the UK population and for 3G coverage, the percentage is 99 per cent.

MBNL is a small organisation with approximately 140 employees which manages the legacy T-Mobile and Hutchison network estate and outsourced suppliers for the maintenance and support of the networks. MBNL passes to the Guarantor and Hutchison substantially all network operating costs according to agreed cost sharing rules.

MBNL is funded by £20 million share capital, fully paid, and a revolving shareholder loan facility. Interest is based on LIBOR plus a margin of 1.75 per cent., paid quarterly. The loan facility has been extended for a further 5 years to 18 December 2017 and the amount that may be drawn down from each of the Guarantor and Hutchison was increased to £186 million in September 2012. The total amount drawn down against the Guarantor shareholder loan as at 31 December 2012 is £110 million.

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

Merger clearance requirements

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

- Disposal of a 2 x 15MHz blocks of 1800 MHz spectrum; and

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

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

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

During 2012, the Guarantor divested to Hutchison 3G UK Limited, the 2x15 MHz block of 1800 MHz spectrum that it was required to sell in order to secure merger clearance from the EC. The Guarantor is able to continue using such spectrum, in the

case of 2 x 10 MHz until the end of September 2013 and in the case of the final 2 x 5 MHz until the end of September 2015. Once it has ceased using all such spectrum all conditions placed on FT and DT by the EC to secure merger clearance will have been satisfied.

Share Capital

The Issuer

As at 31 December 2012, the issued share capital of the Issuer comprised 50,000 ordinary shares of £1.00 each, all of which are fully paid. All shares in the Issuer are held by the Guarantor. The Issuer knows of no arrangements, the operation of which may at a subsequent date result in a change of control of the Issuer.

The Guarantor

As at 31 December 2012, the issued share capital of the Guarantor comprised 11,025,153 ordinary A shares of £1.00 each, all of which are fully paid and all of which were held by T-Mobile Holdings Limited and 11,025,153 ordinary B shares of £1 each, all of which are fully paid and all of which were held by Orange Telecommunications Group Limited.

Financial and dividend policies

The Guarantor's financial policy includes aiming to achieve, in the medium term, a leverage ratio below 1.75-2.0 times Net Debt to EBITDA (based on its consolidated statutory accounts). The Guarantor's general dividend distribution policy is to pay to its shareholders, Orange Telecommunications Group Limited ("**OTGL**"), the UK subsidiary of FT, and T-Mobile Holdings Limited, the UK subsidiary of DT, 90 per cent. of free cash flow. An interim dividend of £191 million paid in September 2012 and the payment of a further dividend of £189 million in March 2013 was approved by the Board of Directors.

Related party transactions with FT and DT

FT and DT both charge the Group for a series of services, including information technology and network ("**IT&N**") support and licences, management fees, and international roaming charges. In addition, royalty fees are charged for the use of the T-Mobile and Orange brands. Total related party transaction charges with FT and DT in the period 1 January 2012 to 31 December 2012 amounted to £429 million.

In 2012, FT and DT announced the creation of a procurement joint venture (called Buyin) that manages the procurement of terminals and mobile network equipment for both companies and their subsidiaries as well as the Group. The Group has benefited from the purchasing scale of the joint venture.

During the first quarter of 2012 the Guarantor repaid the remaining £374 million left outstanding under the £1.25bn Floating Rate Unsecured Notes due 2016 (the "**Eurobond**"), that was issued by the Guarantor and listed on the Channel Islands Stock Exchange. The Eurobond replaced two loans of £625 million each provided by DT and FT respectively on 1 April 2010. The Eurobond was issued to and held equally by DT and Atlas Services Belgium SA, a subsidiary of FT.

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 2012 amounted to £140 million (and total charges for 2011 amounted to £141 million).

Working capital funds deposited with FT totalled £340 million at 31 December 2012 (and at 31 December 2011 totalled £117 million). Interest is received from FT on an arm's length basis and totalled £0.2 million for the year (and interest received in 2011 totalled £0.5 million).

DT charges the Group for a series of services including information and communications technology ("**ICT**") outsource fees (the Group entered into a new ICT contract in 2012 with T-Systems Limited), IT&N support, network services, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the T-Mobile brand. Total charges for the year ended 31 December 2012 amounted to £289 million (and for the year ended 31 December 2011 amounted to £215 million).

Working capital funds deposited with DT totalled £340 million at 31 December 2012 (and at 31 December 2011 totalled £117 million). Interest is received on an arm's length basis and totalled £0.2 million for the year ended 31 December 2012 (and interest received in 2011 totalled £0.5 million).

Material Contracts

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

Board and management of the Guarantor and the Issuer

Board and management of the Guarantor

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

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

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

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

Board biographies

Olaf Swantee

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

Neal Milsom

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

Timotheus Höttges

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

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

Claudia Nemat

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

Gervais Pellissier

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

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

Benoit Scheen

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

Board Committees

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

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

Senior Management

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

Pippa Dunn: Chief Marketing Officer – Consumer

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

Gerry McQuade: Chief Marketing Officer – Non-Consumer Mobile

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

Ralf Brandmeier: Chief Performance Officer

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

Fotis Karonis: Chief Technology Officer

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

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

There are no existing or potential conflicts of interest between the duties of the members of the board of directors of the Guarantor or the senior management identified above to the company and their private interests or other duties. As at 28 March 2013, none of the directors of the Guarantor had any interests in the company's share capital.

Board and management of the Issuer

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

- Olaf Swantee, Director.
- Neal Milsom, Director.

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

There are no existing or potential conflicts of interest between the duties of the members of the board of directors of the Issuer to the company and their private interests or other duties. As at 28 March 2013, none of the directors of the Issuer had any interests in the company's share capital.

Financial Information

The Issuer was incorporated on 11 November 2011 and its first accounting year began on its date of incorporation and ended on 31 December 2012. Going forward, the financial year of the Issuer will be from 1 January to 31 December.

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

Page

1. Statutory audited financial statements for the Guarantor for the period 1 January 2012 to 31 December 2012 comprising:

   (A) Consolidated audited financial statements of the Guarantor for the period 1 January 2012 to 31 December 2012 prepared in accordance with International Accounting Standards, as adopted by Regulation (EC) No 1606/2002 ("**IFRS**") and the auditor's report thereon and the notes thereto; and — 82

   (B) Audited financial statements of the Guarantor for the period 1 January 2012 to 31 December 2012 prepared in accordance with United Kingdom generally accepted accounting practice ("**UK GAAP**") and the auditor's report thereon and the notes thereto; — 156

2. Statutory audited financial statements for the Guarantor for the period 1 January 2011 to 31 December 2011 comprising:

   (A) Consolidated audited IFRS financial statements of the Guarantor for the period 1 January 2011 to 31 December 2011 and the auditor's report thereon and the notes thereto; and — 181

   (B) Audited UK GAAP financial statements of the Guarantor for the period 1 January 2011 to 31 December 2011 and the auditor's report thereon and the notes thereto; and — 251

3. The audited IFRS financial statements of the Issuer for the period 11 November 2011 to 31 December 2012 and the auditor's report thereon and the notes thereto. — 282

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

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

1. STATUTORY AUDITED FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2012 TO 31 DECEMBER 2012

(A) CONSOLIDATED AUDITED IFRS FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2012 TO 31 DECEMBER 2012

In this set of accounts the terms “EE”, “the Group” and the “Company” refer to the Guarantor.

Directors and advisers

Directors

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

Secretary

James Blendis

Registered office

Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

Auditors

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

Business Review

Introduction

Everything Everywhere Limited ("EE" or "the Group") is the UK's largest mobile communications provider with nearly 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.

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.

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.

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.

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 83 to 87.

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 94.

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 82.

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.

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.

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 91, 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.

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.

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)**

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
	-	-	-	-	(119)	(16)	(135)
Other comprehensive income & expense							
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)
	-	-	-	-	(216)	16	(200)
Other comprehensive income & expense							
Dividends declared and paid	-	-	-	-	(734)	-	(734)
At 31 December 2012	**22**	**1,638**	**196**	**11,063**	**(2,604)**	**2**	**10,317**

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 88.

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 156 to 180, and the accounting policies in respect of the Company are set out on pages 161 to 165.

Going concern

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

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.

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.

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.

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.

(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.

(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.

Equipment rental

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

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

Revenue share arrangements

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

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

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

- gross when the Group has a reasonable latitude in setting prices and determining the key features of the content (service or product) sold to the end customer; and

- net of amounts due to the service provider when the latter is responsible for the service and for setting the price to be paid by subscribers.

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

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

- net of amounts due to the content provider when the latter is responsible for supplying the content to the end customer and for setting the price to subscribers.

Service revenues

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

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

Business contracts

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

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

Promotional offers

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

Penalties

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

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

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.

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.

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.

(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.

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:

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.

(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.

(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.

(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.

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.

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

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.

	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

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Other operating expense		
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).

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.

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)

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.

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.

	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.

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.

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).

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.

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.

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.

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.

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.

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

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 Telekom A.G.	LIBOR plus 0.6%	On demand	-	187
			-	374
Cash collateral received	SONIA		8	-
			8	374

	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.

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	-

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

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)

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	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	-	-	-	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)

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.

27. Provisions

	Restructuring Provision £m	Onerous Leases £m	ARO / WEEE £m	Network share and other network £m	Total £m
As 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 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.

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

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

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:

	Year ended 31 December 2012 £m	Year ended 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)

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.

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.

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).

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

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.

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.

	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) £m	Effect on equity £m	Income statement gain/(loss) £m	Effect on equity £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.

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.

As 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

As 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
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.

(B) AUDITED UK GAAP FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2012 TO 31 DECEMBER 2012

In this set of accounts the terms the "Company" and the "Parent Company" refer to the Guarantor.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; 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.

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.

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

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

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.

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.

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.

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.

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

	31 December 2012 £m	31 December 2011 £m
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:

	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.

(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 £m	Other timing differences £m	Tax losses £m	Total £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 2011 - recognised	(45)	106	386	447

	Accelerated depreciation £m	Other timing differences £m	Tax losses £m	Total £m
The deferred tax in the balance sheet is as follows:				
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 2011 - 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.

4. Intangible fixed assets

	Licence £m	Goodwill £m	Other intangibles £m	Total £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

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

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

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

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

12. Provisions for liabilities

	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
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.

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**

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.

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	31 December 2011
	Years	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.

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	31 December 2011
	£m	£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	31 December 2011
	£m	£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

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	31 December 2011
	£m	£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	31 December 2011
	£m	£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)

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

	31 December 2012	31 December 2011
	£m	£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%	4.9%
	£m	£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%	3.1%
	£m	£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%	2.4%
	£m	£m
Deficit in scheme at end of year	64	91

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

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

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).

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.

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.

2. STATUTORY AUDITED FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2011 TO 31 DECEMBER 2011

(A) CONSOLIDATED AUDITED IFRS FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2011 TO 31 DECEMBER 2011

In this set of accounts the terms “EE”, “the Group” and the “Company” refer to the Guarantor.

Directors and advisers

Directors

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

Secretary

James Blendis

Registered office

Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

Auditors

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

Business Review

Introduction

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

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

Strategy

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

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

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

Results

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

Operating Review

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

Driving Customer Loyalty

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

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

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

Ensuring Operational Excellence

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

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

Creating the platform for long term growth

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

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

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

Capital Structure

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

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

Outlook

Everything Everywhere's focus for the current year will be to deliver a further solid commercial performance, driving continued margin improvement, market leading customer retention, network leadership and enhanced customer service and experience.

Against a background of economic uncertainty and regulatory pressures, we remain well placed to make good progress towards delivering on our 2014 goals.

Risks and uncertainties

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

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

Level of competitive activity

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

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

Spectrum factors

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

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

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

Regulatory factors

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

In respect of international roaming charges, the European Commission is currently planning measures to be included in a new Regulation amending the existing international roaming regulations to be implemented from mid 2012 with significantly lower

price ceilings, an inclusion of a retail data tariff ceiling and structural measures to foster increased competition. This expansion of the existing regulation may have a negative effect on the Group's international roaming revenues.

With regard to call termination charges, in common with other UK operators, the Group has been found by Ofcom to have a dominant position, or significant market power, in the wholesale market for the termination of calls on its mobile phone networks. As such, Ofcom has imposed various conditions; including a ceiling on the amount the Group is able to charge other operators when calls from their customers terminate on its networks. Such regulated charges have been reduced over a number of years as Ofcom has sought to ensure that such charges are cost related.

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

Brand risk

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

Liquidity risk

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

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

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

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

Interest rate risk

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

Other financial statement risks

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

Directors' Report

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

Principal activities

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

Business review

A review of the Group's operations, key performance indicators, principal business risks and future developments are detailed in the Business Review on pages 182 to 186.

Results for the financial year, dividends and transfer to reserves

The loss after tax for the year ended 31 December 2011 was £104 million (9 months ended 31 December 2010: £84 million) on revenues of £6,784 million (9 months ended 31 December 2010: £5,298 million) and has been deducted from reserves. Detailed results for this year are shown in the consolidated income statement on page 193.

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

Financial position of the Group as at 31 December 2011

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

Directors

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

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

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

Research and development

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

Political and charitable donations

The Group has made charitable donations during the year of £44,709 (9 months ended 31 December 2010: £147,261).

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

Going concern

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

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

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

The Directors have made enquiries of the Group's investors FT and DT to confirm their intention to support the business as a going concern. Following the positive confirmations of continued support received from FT and DT, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the 12 months Group and Company annual financial statements.

Supplier payments policy

It is the Group's policy to pay its suppliers within the agreed terms of payment. Supplier payment days at the year end was 45 days (31 December 2010: 34 days).

Events since the balance sheet date

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

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

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

Employee involvement

Everything Everywhere ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during 2011, including a monthly employee magazine, regular email updates, an intranet site and regular meetings held between local management and their teams. Employee feedback and opinion is actively canvassed in such meetings and also via employee opinion surveys. Structured improvement plans are developed after each survey as a means of continual enhancement of the process of informing, involving and engaging employees in the future.

During 2011, comprehensive consultative arrangements were operated throughout the organisations. These comprised local employee consultation forums and an overarching national employee consultation forum. Each body is characterised by elected employee representatives regularly meeting with senior managers to discuss items of employee interest and issues arising from business proposals and changes.

Equal opportunities and disabled employees

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

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

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

Disclosure of information to the auditor

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

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

Appointment of the auditor

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

By order of the Board

Neal Milsom
Director
2 March 2012

Group Statement of Directors' responsibilities

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

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

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

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

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

We have audited the Group financial statements of Everything Everywhere Limited for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 190, 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.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

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

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

Consolidated income statement

For the year ended 31 December 2011

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

Consolidated statement of comprehensive income

For the year ended 31 December 2011

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

Consolidated statement of financial position

As at 31 December 2011

Company number: 2382161

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

Consolidated statement of financial position (continued)

As at 31 December 2011

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

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

Neal Milsom

Director

Consolidated statement of changes in equity

For the year ended 31 December 2011

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

Consolidated statement of cash flows

For the year ended 31 December 2011

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

Consolidated statement of cash flows (continued)

For the year ended 31 December 2011

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

Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 2 March 2012. The consolidated statement of financial position was signed on behalf of the board by Neal Milsom. The Group is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

2.1 Basis of preparation

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

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

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

The Group has elected to prepare the Company financial statements in accordance with United Kingdom Accounting Standards. These are presented on pages 251 to 281, and the accounting policies in respect of the Company are set out on pages 256 to 263.

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

Going Concern

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

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

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

The Directors have made enquiries of the Group's investors FT and DT to confirm their intention to support the business as a going concern. Following the positive confirmations of continued support received from FT and DT, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the 12 months Group annual financial statements.

New basis reserve

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

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

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

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

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

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

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

Significant estimates and judgements

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

Management revises these estimates if the underlying circumstances evolve or in light of new information or experience. Consequently, estimates made at 31 December 2011 may subsequently be changed. The following are the most critical judgements, estimates and assumptions.

Provisions

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

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

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

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

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

Deferred tax assets

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

Goodwill impairment

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

2.2 Basis of consolidation

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

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

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

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

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

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

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

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

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

2.3 Summary of significant accounting policies

(A) Goodwill and business combinations

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

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

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

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

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

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

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

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

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

(ii) revenue and EBITDA for comparable transactions.

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

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

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

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

(B) Cash generating unit ("CGU")

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

(C) Interests in joint ventures

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

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

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

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

(D) Interests in associates

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

(E) Foreign currency translation

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

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

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

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

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

(F) Revenue recognition

Revenue includes:

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

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

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

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

Separable components of packaged and bundled offers

Numerous service offers by the Group include two components: equipment (e.g. a mobile handset) and a service (e.g. a talk plan). For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting using the framework of the emerging issues task force no. 00-81 'Accounting for Revenue Arrangements with Multiple Deliverables' (EITF 00-81) as permitted by IAS 8.12.

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

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

Sales of bundled offers in the mobile business frequently include a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount attributable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognised for the handset sale is generally limited to the amount of the

arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

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

Equipment sales

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

Equipment rental

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

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

Revenue share arrangements

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

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

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

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

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

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

- net of amounts due to the content provider when the latter is responsible for supplying the content to the end customer and for setting the price to subscribers.

Service revenues

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

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

Business contracts

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

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

Promotional offers

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

Penalties

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

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

Subscriber acquisition and retention costs

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

Loyalty programs

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

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

(G) Advertising and related costs

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

(H) Borrowing costs

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

(I) Operating and finance leases

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

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

(J) Intangible assets

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

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

Customer relationships

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

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

- Pre-pay relationships 4 years
- Post-pay relationships 9 years

- Mobile Virtual Network Operator relationships ("MVNO") — 6 to 14 years (based upon contract period)

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

Spectrum

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

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

Other - Software and research and development costs

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

The Group's research and development projects mainly concern:

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

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

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

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

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

Other - development costs

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

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

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

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

Other - Licences

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

Other – rights to use

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

(K) Property, plant and equipment

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

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

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

Cost

The cost of tangible assets corresponds to their purchase or production cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and

removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

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

Network share assets

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

Finance leases

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

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

Government grants

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

Depreciation

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

- Freehold land: Not depreciated
- Freehold buildings: 50 years

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

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

(L) Impairment of non-current assets other than goodwill

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

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

(M) Financial assets and liabilities

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are:

- assets held for trading that the Group acquired principally for the purpose of selling them in the near term

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

Recognition and measurement of financial liabilities

Financial liabilities at amortised cost

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

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

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

Financial liabilities at fair value through profit or loss

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

Recognition and measurement of derivative instruments

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

Hedge accounting is applicable when:

- at the inception of the hedge, there is a formal designation and documentation of the hedging relationship;

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

Cash flow hedge accounting is performed as follows:

- the cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular interest rate and/or currency risk associated with a recognised asset or liability or a highly probable forecast transaction (such as a future purchase or sale) and could affect the consolidated income statement; and

- for the hedged item not yet recognised, the effective portion of change in fair value of the hedging instrument is booked in equity. The amounts recorded in equity are reclassified from equity to the income statement when the hedged item affects profit or loss.

Hedge accounting can be terminated in the following circumstances:

- hedged item derecognition: amounts booked in equity are reclassified to the income statement;

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

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

(N) Equipment inventories

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

(O) Provisions

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

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

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

- possible obligations that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control; or

- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

(P) Employee benefits

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

Defined Contribution Scheme

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

Defined Benefit Scheme

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

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

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

(Q) Share capital

Ordinary shares are classified as equity.

(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.

(T) Cash and cash equivalents

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

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

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

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

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

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

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

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

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

Consolidation

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

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable

returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Segment Information

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

6. EBITDA

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

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

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

7. Revenue

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

8. External purchases

External purchases comprise:

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

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

9. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

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

10. Other operating income / expense

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

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

11. Employees

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

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

The costs incurred in respect of these employees are:

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

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

12. Directors emoluments

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

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

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

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

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

Gervais Pellissier and Benoit Scheen represent France Telecom S.A. on the board and do not receive any emoluments for their services as non-executive Directors. Timotheus Höttges, Claudia Nemat and Guido Kerkhoff represent(ed) Deutsche Telekom A.G. on the board and also do not receive any emoluments for their services as non-

executive Directors. Olaf Swantee represented France Telecom S.A. as a non-executive director until 1 September 2011 when he became an executive and started receiving emoluments for his services.

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

13. Restructuring expenses

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

14. Finance income

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

15. Finance expense

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

16. Taxation

(a) Income tax charged in the consolidated income statement

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

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

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

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

(c) Reconciliation of the total income tax expense

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

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

(d) Change in Corporation Tax rate

Announcements were made during 2010 and 2011 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Group. The change in the corporation tax rate, effective 1 April 2011, from 28% to 26% was substantively enacted in two steps, initially to 27% on 20 July 2010, and then subsequently to 26% on 29 March 2011. A reduction to 25%, effective 1 April 2012, was substantively enacted on 5 July 2011. The further reductions to 23%, expected to be at a rate of 1% per annum, have been announced but not substantively enacted at the consolidated statement of financial position date.

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

(e) Deferred tax asset / (liability)

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

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

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

income taxes levied by the same tax authority. The deferred tax assets and liabilities listed above relate to income tax levied by HM Revenue & Customs in the UK.

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

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

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

At 31 December 2010 there were unrecognised tax losses not yet agreed with the tax authorities. These tax losses related, in the main, to the amortisation of the goodwill arising on the reorganisation of the former T-Mobile business undertaken on 31 December 2002 to collapse the partnership structure in operation at that time. During 2011, the Group agreed with HMRC that it would withdraw its claims for these tax losses, and as a result, at 31 December 2011 no longer has any unrecognised deferred tax. As no deferred tax asset had been recognised for the uncertain tax losses, the withdrawal of the claim has had no impact on the consolidated statement of financial position.

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

17. Intangible assets

	Goodwill	Customer relationships	Spectrum	Other	Total
	£m	£m	£m	£m	£m
Cost:					
At 1 April 2010	5,692	2,600	3,682	603	12,577
Additions	-	-	-	59	59
Transfer in	-	-	-	1	1
Disposals	-	-	-	(1)	(1)
At 31 December 2010	5,692	2,600	3,682	662	12,636
Additions	-	-	-	138	138
At 31 December 2011	5,692	2,600	3,682	800	12,774
Amortisation:					
At 1 April 2010	-	-	-	-	
Charge during the period	-	(277)	(251)	(118)	(646)
At 31 December 2010	-	(277)	(251)	(118)	(646)
Charge during the year	-	(369)	(335)	(175)	(879)
At 31 December 2011	-	(646)	(586)	(293)	(1,525)
Net book value at 31 December 2011	5,692	1,954	3,096	507	11,249
Net book value at 31 December 2010	5,692	2,323	3,431	544	11,990

Goodwill

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

Impairment test for goodwill

Goodwill is not ascribed a useful economic life, but, as required by IAS 36: Impairment of Assets, is subject to an annual impairment review. The impairment review was performed as at 31 October 2011, and resulted in no impairment to the carrying value of Goodwill.

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

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

The projections used a long term growth rate of 1% (2010: 1%), and a post tax discount rate of 7.58% (2010: 8.56%). The discount rate used was based upon an estimated cost of capital (calculated using the capital asset pricing model) for a willing purchaser, taking into account relevant sector information.

There were a number of key assumptions which affected the cash flow forecast of the business. These included assumptions about the synergies to be achieved following the formation of the Group in 2010, the development of the UK market and the market size, the Group's share of the market, customer revenues, operating margins and capital expenditure.

The Group also applied the following sensitivities to the calculation:

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

In each case, no indication of impairment was identified.

Customer Relationships

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

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

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

Spectrum

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

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

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

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

Other

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

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

18. Property, plant and equipment

	Freehold land & buildings £m	Short term leasehold improvements £m	Network £m	Fixtures & fittings £m	Total £m
Cost:					
At 1 April 2010	53	100	1,723	85	1,961
Additions	-	11	250	9	270
Disposals	-	(1)	(18)	(3)	(22)
At 31 December 2010	53	110	1,955	91	2,209
Additions	-	12	399	8	419
Disposals	-	(1)	(33)	(3)	(37)
At 31 December 2011	53	121	2,321	96	2,591
Depreciation:					
At 1 April 2010	-	-	-	-	-
Charge during the period	(1)	(9)	(206)	(16)	(232)
Disposals	-	1	18	3	22
At 31 December 2010	(1)	(8)	(188)	(13)	(210)
Charge during the year	(1)	(13)	(326)	(20)	(360)
Disposals	-	1	33	3	37
At 31 December 2011	(2)	(20)	(481)	(30)	(533)
Net book value at 31 December 2011	51	101	1,840	66	2,058
Net book value at 31 December 2010	52	102	1,767	78	1,999

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

Network Assets

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

Network Share Arrangement

As part of a shared network agreement (see note 19), selected network assets are jointly controlled with Hutchison. At the commencement of this agreement, both parties contributed selected network assets of equal value. These jointly controlled assets are of a similar nature and will be consumed in a manner similar to those given up. Therefore the shared network assets now reflect 50% of the original shared network assets, and the fair value of 50% of the assets received. The fair value of the assets held by Hutchison could not be reliably determined; therefore Hutchison's cost of the shared assets is deemed to be based on the fair value of the Group's assets shared. Network assets acquired jointly with Hutchison following the joint venture agreement are treated as jointly controlled assets. As part of the formation of the Group, under new basis accounting, these assets were fair valued.

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

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

Sale of rights

The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International by the former T-Mobile business from prior to the formation of the Group. Due to the fact that the Group still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the plant, property and equipment of the Group. The net book amount of these assets as at 31 December 2011 was £21 million (31 December 2010: £22 million).

Fully depreciated assets

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

19. Principal subsidiaries, associates and joint venture investments

(a) Interests in subsidiaries

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

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

Name	**Country of incorporation**	**Year end**	**Principal activities**	**Percentage shareholding**
Orange Services India Private Limited	India	31 March	Management support	100%
Orange Personal Communications Services Limited	UK	31 December	Dormant	100%
Orange Retail Limited	UK	31 December	Dormant	100%
Orange Home UK Limited	UK	31 December	Dormant	100%
Orange Jersey Limited	Jersey	31 December	Dormant	100%
Everything Everywhere Pension Trustee Limited	UK	31 December	Pension Trustee	100%
Orange Pension Trustees Limited	UK	5 April	Pension Trustee	100%
Orange FURBS Trustees Limited	UK	31 December	Pension Trustee	100%
Everything Everywhere Finance Plc	UK	31 December	Finance Company	100%

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

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

(b) Interests in associates and joint ventures

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

The Group’s share as at	**Year ended 31 December 2011 £m**	**9 months ended 31 December 2010 £m**
Investment at start of year	12	12
Share of profit and loss for the year	-	-
Dividends received	-	-
	12	12

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

Associates

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

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

The Group’s share of the aggregated financial information of the equity accounted associates at 31 December 2011 and 31 December 2010 was in aggregate £1 million. In consequence, there is no significant share of profits to be recorded.

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

Joint venture

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

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

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

20. Inventories

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

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

21. Non-current loans

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

Non-current loans to joint ventures of £90 million (31 December 2010: £60 million) are unsecured, with an interest rate of 1 month LIBOR with a margin based on a leverage cover ratio, and are to be repaid on the 5th anniversary of the agreement or by giving prior notice.

22. Trade receivables

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

Included within trade receivables is £4 million (31 December 2010: £9 million) due from joint ventures. These trading balances

are unsecured, interest free and have no fixed date of repayment. The remaining balance relates to receivables that are non-interest bearing, are generally on 15 or 30 days' terms, and are shown net of a provision for impairment.

As at 31 December 2011, trade receivables at nominal value of £135 million (31 December 2010: £174 million) were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for.

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

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

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

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

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

23. Financial assets at fair value through consolidated income statement

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

24. Other assets and prepaid expenses

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

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

25. Cash and cash equivalents

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

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

26. Financial liabilities and net financial debt

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

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

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

The carrying amounts for financial liabilities approximate their fair value.

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

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

The loans are unsecured.

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

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

Net financial debt

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

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

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

27. Other liabilities and deferred income

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

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

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

28. Derivative financial instruments

	31 December 2011 £m	31 December 2010 £m
Forward foreign currency contracts		
- Asset	-	5
- Liability	(18)	(3)
Total contracts	(18)	2

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

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

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

29. Provisions

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

Restructuring provision

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

Onerous lease provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under the lease contracts, being the difference between rentals paid and the sub lease rentals received relates to the period up to 2015 and has been provided for at its net present value.

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

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

- obligations relating to collection, treatment and recovery of waste electrical and electronic equipment related to the professional use are accrued for. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled and an average cost per ton, and discounted as it will be settled at a future date;

- obligations relating to waste of electrical and electronic equipment related to the private households have been considered as immaterial by the Group and have therefore not been accrued for.

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

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

Network share and other network

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

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

- Leases for 90% of the sites identified for decommissioning will be terminated and remaining 10% of the sites will be sublet;

- Cost of decommissioning sites based on experience and adjusted for expected economies of scale; and

- Restructuring will be completed in 2012; however, costs in relation to vacant site rentals will now continue to be incurred until 2024.

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

30. Pensions

Defined contribution pension scheme

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

The following summarises the movement in the Everything Everywhere Pension Trustee Limited pension scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2011. The DB pension scheme was established on 1 March 2000 with benefits based on final remuneration and length of service. Assets are held in separately administered trusts. A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out as at 31 December 2009 and updated to 31 December 2011 by actuaries AON Hewitt Associates Limited.

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

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

The mortality assumptions used were as follows:

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

The Group employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied, and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the benchmark asset allocation for the DB pension scheme at 31 December 2011 rounded to the nearest 0.1% per annum. The Group's share of the assets in the scheme and the expected rates of return were:

	31 December 2011		31 December 2010	
	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	7.2	119	8.1	103
Property	7.2	50	8.1	47
Hedge funds	8.9	21	8.0	21
Index linked gilts	2.8	79	4.1	34
Bonds	4.9	75	5.2	83
Cash / net current assets	n/a	12	n/a	34
Fair value of the scheme assets		356		322
Present value of scheme obligations		(408)		(365)
Liability in the consolidated statement of financial position		(52)		(43)

Reconciliation of present value of scheme obligations:

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

Reconciliation of fair value of scheme assets:

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

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

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

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

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

Movement in the deficit in the year:

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

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

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

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

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

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

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

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

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

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

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

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

31. Share capital and reserves

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

Share capital

Issued and fully paid	31 December 2011 £m	31 December 2010 £m
11,025,153 Ordinary 'A' shares of £1 each	11	11
11,025, 153 Ordinary 'B' shares of £1 each	11	11
	22	22

Capital contribution reserve

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

New basis reserve

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

Cash flow hedge reserve

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

32. Dividends paid

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

33. Related party transactions

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

Related party transactions with joint ventures

MBNL charges the Group fees in relation to the management and use of the shared network. Charges from MBNL during the year totalled £18 million (9 months ended 31 December 2010: £8 million).The Group recharged MBNL for certain costs including staff and commitment fees. Charges to MBNL during the period totalled £nil (9 months ended 31 December 2010: £nil).

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

Related party transactions with companies within the France Telecom SA group

FT charges the Group for a series of services including IT&N support and licences, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the Orange brand. Total charges for the year amounted to £141 million (9 months ended 31 December 2010: £111 million), and the balance outstanding at 31 December 2011 was £30 million (31 December 2010: £66 million).

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

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

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

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

Related party transactions with companies within the Deutsche Telekom AG group

DT charges the Group for a series of services including ICT outsource fees (see note 17, the Group entered into a new ICT contract in 2012 with T-Systems Limited), IT&N support, network services, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the T-Mobile brand. Total charges for the year amounted to £215 million (9 months ended 31 December 2010 £156 million), and the balance outstanding at 31 December 2011 was £97 million (31 December 2010: £112 million). Included within the outstanding balance of £97 million was £60 million relating to transition and transformation costs due to T-Systems Limited.

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

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

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

Key management personnel

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

Defined benefit pension scheme

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

There were no material transactions with any other related parties.

34. Capital and financial commitments

Finance leases

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

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

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

	31 December 2011 £m	31 December 2010 £m
Not later than one year	1	1
After one year but not more than five years	2	-
After five years	-	-
Present value of minimum lease payments	3	1

Operating leases

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

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

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

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

Capital commitments

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

Contingent liabilities

The Group had no significant contingent liabilities at 31 December 2011 (31 December 2010: £nil).

The annual financial commitments shown above include the Group's share of the MBNL joint venture's annual financial commitments under operating leases, which is £nil (31 December 2010: £nil). In addition, the Group's share of the MBNL joint venture's capital commitments is £7 million (31 December 2010: £13 million).

35. Financial risk management, objectives and policies

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

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 31 December 2011 and 31 December 2010.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate interest rates, and the proportion of financial instruments in foreign currencies are constant on the hedge designations in place at 31 December 2011 and 31 December 2010.

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

- The statement of financial position sensitivity relates to derivatives;
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risk. This is based upon the financial assets and financial liabilities held at 31 December 2011, and 31 December 2010 including the effect of hedge accounting;
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 31 December 2011 for the effects of the assumed changes in the underlying items.

Interest rate risk

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

	Change in interest rate	Effect on loss before tax £m	Effect on equity £m
31 December 2011	+1%	(13)	-
	-1%	13	-
31 December 2010	+1%	(10)	-
	-1%	10	-

Foreign currency risk

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

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

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

Equity price risk

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

Credit risk

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

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

Credit risk related to the derivatives held for trading that are fair valued through the consolidated income statement are subject to the maximum exposure amount shown in note 28 and in the liquidity table below.

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

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

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

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due owing to insufficient financial resources. The Group manages liquidity risk through a combination of sourcing current funding requirements from its shareholders and obtaining long term financing from financial institutions in a manner to ensure the Group has sufficient funds for operations and planned growth.

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

At 31 December 2011

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

At 31 December 2010

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

Capital management

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

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

Hedges

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

36. Events after the balance sheet date

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

On 6 February 2012, the Group raised €500 million under the programme with a 5 year bond issuance with a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was EEF's inaugural issue of a corporate bond under the

Group's Euro Medium Term Note programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

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

(B) AUDITED UK GAAP FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE LIMITED FOR THE PERIOD 1 JANUARY 2011 TO 31 DECEMBER 2011

In this set of accounts the terms the "Company" and the "Parent Company" refer to the Guarantor.

Company statement of Directors' responsibilities

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

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

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

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

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

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

We have audited the Parent Company financial statements of Everything Everywhere Limited for the year ended 31 December 2011 which comprise the Company balance sheet, the reconciliation of movements in shareholders' funds and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 251, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

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

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

Company balance sheet
As at 31 December 2011

Company number: 2382161

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

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

Neal Milsom

Director

Reconciliation of movements in shareholders' funds
For the year ended 31 December 2011

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

Notes to the Company financial statements

1. Accounting policies

1.1 Basis of preparation

The financial statements of the Company were approved for issue on 2 March 2012, and are presented in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice.

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

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

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

The Company's functional currency is British Pounds.

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

Going Concern

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

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

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

The Directors have made enquiries of the Company's investors FT and DT to confirm their intention to support the business as a going concern. Following the positive confirmations of continued support received from FT and DT, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

On the basis of the assessment of the Company's financial position, the Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the 12 months Company annual financial statements.

1.2 Turnover

Turnover includes:

- amounts invoiced for airtime and related services supplied to subscribers, together with airtime income earned but not invoiced;

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

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

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

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

Separable components of packaged and bundled offers

Numerous service offers by the Company include two components: equipment (e.g. a mobile handset) and a service (e.g. a talk plan). For the sale of multiple products or services, the Company evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting.

A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis, and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s).

Separable components of packaged and bundled offers (continued)

The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on their relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount.

Sales of bundled offers in the mobile business frequently include a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount attributable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, turnover recognised for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated into identifiable components, turnover is recognised in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognised over the average expected life of the contractual relationship.

Equipment sales

Income from equipment sales are recognised when the significant risks and rewards of ownership are transferred to the buyer.

Equipment rental

Equipment for which a right of use is granted is analysed in accordance with SSAP 21: Accounting for leases and hire purchase contracts.

Equipment lease income is recognised on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

Revenue share arrangements

The accounting for revenue sharing arrangements and supply depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the income must be recognised on a gross or a net basis, an analysis is performed using the following criteria:

- the Company is the primary obligor of the arrangement;
- the Company bears inventory risk;
- the Company has a reasonable latitude in establishing price with the customer for the service;
- the Company has discretion in supplier selection;
- the Company is involved in the determination of service specifications; and
- the Company bears the credit risk.

Therefore, revenue-sharing arrangements (premium rate number, special numbers, etc.) are recognised:

- gross when the Company has a reasonable latitude in setting prices and determining the key features of the content (service or product) sold to the end customer; and
- net of amounts due to the service provider when the latter is responsible for the service and for setting the price to be paid by subscribers.

Similarly, income from the sale or supply of content (audio, video, games, etc.) via the Company's various communications systems (mobile, PC, etc.) are recognised:

- gross when the Company is deemed to be the primary obligor in the transaction with respect to the end customer (i.e. when the customer has no specific recourse against the content provider), when the Company bears the inventory risk and has a reasonable latitude in the selection of content providers and in setting prices charged to the end customer; and
- net of amounts due to the content provider when the latter is responsible for supplying the content to the end customer and for setting the price to subscribers.

Service income

Income from telephone service and internet access subscription fees as well as income from the wholesale access is recognised on a straight-line basis over the subscription period.

Income from charges for incoming and outgoing telephone calls as well as those from the wholesale of traffic is recognised in turnover when the service is rendered.

Business contracts

The Company offers customised solutions to its business customers. Commercial discounts may be granted under the related contracts, if certain conditions are fulfilled, and are usually recorded as a deduction from turnover based upon the specific terms of each contract.

Costs associated with migrating business customers from other networks onto the Company network are recognised in expenses when they are incurred, except in the case of contracts that include an early termination compensation clause.

Promotional offers

Turnover is stated net of discounts. For certain commercial offers where customers are offered a free service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total turnover generated under the contract is spread over the fixed, non-cancellable period.

Penalties

All the Company's commercial contracts contain service level commitments (delivery time, service reinstatement time). These service level agreements cover commitments given by the Company on the order process, the delivery process, and after sales services.

If the Company fails to comply with one of these commitments, it pays compensation to the end-customer, usually in the form of a price reduction which is deducted from turnover. Such penalties are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

Subscriber acquisition and retention costs

Subscriber acquisition and retention costs, other than loyalty programs costs, are recognised as an expense for the period in which they are incurred, that is to say on acquisition or renewal. In some cases, contractual clauses with retailers provide for a profit-sharing based on the recognised and paid income: this profit-sharing is expensed when the related income is recognised.

Loyalty programs

Credits awarded to customers are treated as a separable component to be delivered of the transaction that triggered the acquisition of credit.

An element of the invoiced turnover is allocated to the credit based on its value taking into account an estimated utilisation rate, and deferred until the date on which the credits are definitively converted into benefits. The credit's value is defined as the excess discount over the sales incentive that would be granted to any new customer.

1.3 Cost of sales

Cost of sales comprises the cost of network operations (including interconnect cost), the cost of equipment sold through intermediaries or directly to customers and customer acquisition and retention costs, which include the commission costs and other incremental costs of acquiring and retaining subscribers.

Customer acquisition costs

The difference between the purchase costs of handsets to the Company and the amount recoverable from sales to intermediaries, if any, together with any additional commission payments or bonuses related to the acquisition of the customer are recorded as customer acquisition costs. These costs are expensed as they are incurred.

1.4 Advertising costs

All advertising costs are charged to selling and distribution costs in the profit and loss account as incurred.

1.5 Operating and finance leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease, are similarly spread on a straight-line basis over the lease term, except where the period to the review date, at which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Assets acquired under leases that transfer the risks and rewards of ownership to the Company (finance leases) are recorded as assets and an obligation in the same amount is recorded in liabilities.

1.6 Derivative instruments

The Company uses forward currency contracts to reduce exposure to foreign exchange rate exposures.

Forward foreign currency contracts

Forward foreign currency contracts are not revalued to fair value, or recognised on the Balance Sheet. Gains and losses are recognised in the Profit and Loss Account when the contracts mature.

1.7 Intangible fixed assets and goodwill

Licences and similar rights are valued at the cost of acquisition less any provision for impairment. Costs include interest incurred on amounts borrowed in order to place the deposit required as part of the conditions for entrance into the licence auction process, less interest received on that deposit as a result of the successful bid in the auction. Amortisation is charged on a straight-line basis over a period of 17 to 18 years.

Goodwill represents the difference between the cost of an acquisition and the share of net assets or liabilities acquired. Goodwill is capitalised as an intangible fixed asset and amortised over a period of 15 years on a straight line basis.

The Company evaluates the carrying value of goodwill in each financial year to determine if there has been impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

Other intangibles represent an Information Communication and Telecommunications outsourcing contract with T-Systems Limited. Transition costs have been capitalised representing a ‘right to use’ and are being amortised over a period of 7 years.

1.8 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of accumulated depreciation and any provision for impairment. The cost of fixed assets includes all costs incurred in bringing the assets to their present condition and location including, where appropriate, external consultancy fees together with directly attributable internal labour and overhead.

The cost attributed to network assets includes capital equipment and external professional fees and expenses incurred in the acquisition of sites, engineering labour and directly attributable overhead, together with the payroll and directly attributable overheads relating to employees whose time, prior to commissioning, is spent wholly on network development.

Network maintenance stocks are included within tangible fixed assets. Network maintenance consumables are charged to the profit and loss account as incurred. The cost of computer systems includes the cost of external consultants and external software development costs.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. Depreciation commences on the date the assets are brought into service and is charged on a straight-line basis.

The useful economic lives used for this purpose are:

- Freehold buildings: 50 years
- Short-term leasehold improvements: shorter of 10 years or lease team
- Network: 5 to 20 years
- Fixtures, fittings and equipment: 3 to 6 years
- Computer software and development costs 3 to 5 years

Tangible fixed assets in the course of construction and freehold land are not depreciated.

Accelerated depreciation is provided where an asset is expected to become obsolete before the end of its useful economic life, or if events or circumstances indicate that the carrying amount of the asset may not be recoverable.

1.9 Investments

Investments, including subsidiaries, associates and jointly controlled entities are stated individually at cost less any provision for impairment, which is determined as the higher of net realisable value and value in use.

1.10 Impairment of fixed assets and goodwill

The Company's tangible and intangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the future cash flows of the relevant group of assets, or their disposal value if higher. When it is determined that the carrying value exceeds the recoverable amount the excess is written off to the profit and loss account.

1.11 Foreign currencies

Transactions denominated in foreign currencies are initially recorded in the Company's functional currency by applying the spot exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the Company's functional currency rate of exchange ruling at the balance sheet date.

Any gain or loss arising from a movement in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

1.12 Stocks

Stocks comprise equipment for sale to customers, and are stated at the lower of cost and net realisable value on a first in, first out basis. Cost includes all costs incurred in bringing the stock to its present condition and location, including appropriate overheads. Net realisable value takes account of excess stock, deterioration, obsolescence, disposal costs and also revenue margin expected to be earned subsequent to customer acquisition.

1.13 Loans

All loans are stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings, and represent a constant proportion of the balance of capital repayments outstanding.

1.14 Provisions for liabilities

Provisions are recognised by the Company when three criteria are met: (i) the Company has a constructive or legal obligation as a result of a past event; (ii) it is probable that a transfer of economic benefits will be required to settle the obligation; and (iii) a reliable estimate of the obligation can be made.

1.15 Pensions

The Company operates both a defined benefit scheme, and a defined contribution scheme. Both schemes are accounted for in accordance with FRS 17: Retirement benefits.

Defined Contribution Scheme

This scheme is open to all employees.

The contributions payable are expensed to the profit and loss account when service is rendered.

Defined Benefit Scheme

This scheme is closed to new members, but continues to operate for existing members.

The Company's net obligation in respect of the defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service to date. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate used is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified

actuary using the projected unit method. The net obligation recognised in the balance sheet is the present value of the defined benefit obligation less the fair value of the scheme assets.

The profit and loss account charge is split between an operating charge and a net finance charge. The operating charge reflects the service costs which are spread systematically over the working lives of the employees. The net finance charge relates to the unwinding of the discount applied to the liabilities of the scheme offset by the expected return on plan assets of the scheme, based on conditions prevailing at the start of the year. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the statement of total recognised gains and losses.

1.16 Taxation

The charge for tax is based on the result for the year and takes into account deferred tax.

Deferred tax is recognised in respect of all timing differences that have originated but not been reversed by the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings.

A net deferred tax asset is regarded as recoverable, and therefore recognised, only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates or laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non discounted basis.

1.17 Network share assets

Certain assets have been contributed to the network share arrangement by both the Company and Hutchison 3G UK Limited (“Hutchison”), with legal title remaining with the contributor. This is considered to be a reciprocal arrangement, and the Company's share of the assets are initially recognised at cost within tangible assets, and depreciated according to Company policy.

1.18 Grants

The company may receive non-repayable government grants in the form of direct or indirect funding of capital projects, mainly provided by local and regional authorities. These grants are deducted from the cost of the related assets and recognised in the income statement, based on the pattern in which the related asset’s expected future economic benefits are consumed.

2. (Loss) / profit attributable to the Company

The loss dealt with in the financial statements of the Company is £180 million (2010: profit £2,609 million).

3. Taxation

(a) Tax on profit / (loss) on ordinary activities

	31 December 2011 £m	31 December 2010 £m
Current tax		
Current tax (expense) / income for the year	(1)	31
Current tax (expense) / income for previous years	57	(1)
	56	30
Deferred tax		
Origination and reversal of timing differences	(58)	69
Recognition of deferred tax previously treated as irrecoverable	-	408
Impact of tax rate change on deferred tax	(35)	(14)
	(93)	463
Tax income / (expense) on profit on ordinary activities	**(37)**	**493**

(b) Tax included directly in shareholders' funds

	31 December 2011 £m	31 December 2010 £m
Deferred tax		
Origination and reversal of timing differences	6	122
Recognition of deferred tax previously treated as irrecoverable	-	15
Impact of tax rate change on deferred tax	-	(5)
Tax income included directly in shareholders' funds	**6**	**132**

(c) Factors affecting the current tax credit

The tax assessed for the year was lower (2010 lower) than the average standard rate of corporation tax in the UK applicable to the Company of 26.5% (2010: 28%). The differences are explained below:

	31 December 2011 £m	31 December 2010 £m
Profit / (loss) on ordinary activities before tax	(143)	2,116
Profit / (loss) on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 26.5% (2010: 28%)	38	(593)
Effects of:		
Expenses not deductible for tax purposes	(76)	(103)
Non taxable UK dividend income	-	801
Investment impairments not deductible for tax purposes	-	(3)
Capital allowances in excess of depreciation	(44)	(38)
Other timing differences	19	(20)
Tax losses utilised / (carried forward)	62	(13)
Adjustment in respect of previous years	57	(1)
Current tax income for the year	**56**	**30**

(d) Factors that may affect future tax charges

Announcements were made during 2010 and 2011 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Company. The change in the corporation tax rate, effective 1 April 2011, from 28% to 26% was substantively enacted in two steps, initially to 27% on 20 July 2010 and then subsequently to 26% on 29 March 2011. A reduction to 25%, effective 1 April 2012, was substantively enacted on 5 July 2011. The further reductions to 23%, expected to be at a rate of 1% per annum, have been announced but not substantively enacted at the balance sheet date.

During 2010, the tax rate reduction to 27% resulted in a decrease in the Company's net deferred tax asset of £19 million, £14 million of which was expensed through the profit and loss account, and the remaining £5m was expensed directly to shareholders' funds. During 2011, the reductions to 26% and 25% resulted in a further decrease in the Company's net deferred tax asset of £35 million all of which has been expensed through the profit and loss account. The Company estimates that the future tax rate reductions to 23% would result in up to an additional £34 million decrease in the net deferred tax asset.

(e) Deferred tax

The Company's gross deferred tax assets and (liabilities), measured on a non discounted basis using a tax rate of 25% (2010: 27%), are analysed as follows:

	Accelerated depreciation £m	Other timing differences £m	Tax losses £m	Total £m
At 1 January 2011 – recognised	(145)	99	554	508
Deferred tax (expense) / income in the profit and loss account	37	(26)	(104)	(93)
Deferred tax income recognised directly in shareholders' funds	-	6	-	6
At 31 December 2011 - recognised	(108)	79	450	421

The deferred tax in the balance sheet is as follows:	Accelerated depreciation £m	Other timing differences £m	Tax losses £m	Total £m
Deferred tax asset	(145)	87	554	496
Included within pension deficit (note 16)	-	12	-	12
At 31 December 2010 – recognised	(145)	99	554	508
Deferred tax asset	(108)	66	450	408
Included within pension deficit (note 16)	-	13	-	13
At 31 December 2011 - recognised	(108)	79	450	421

The trading tax losses are available for indefinite carry forward and may only be offset against taxable profits arising from the same trade.

Although the Company was loss making in the year ended 31 December 2011, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

At 31 December 2010 there were unrecognised tax losses not yet agreed with the tax authorities. These tax losses related, in the main, to the amortisation of the goodwill arising on the reorganisation of the former T-Mobile business undertaken on 31 December 2002 to collapse the partnership structure in operation at that time. During 2011, the Company agreed with HMRC that it would withdraw its claims for these tax losses, and as a result, at 31 December 2011 it no longer has any unrecognised deferred tax. As no deferred tax asset had been recognised for the uncertain tax losses, the withdrawal of the claim has had no impact on the results of the Company.

4. Intangible fixed assets

	Licence £m	Goodwill £m	Other intangibles £m	Total £m
Cost				
At 1 January 2011	8,101	2,729	-	10,830
Additions	-	-	51	51
At 31 December 2011	8,101	2,729	51	10,881
Accumulated amortisation				
At 1 January 2011	(4,035)	(1,986)	-	(6,021)
Charge for the year	(370)	(106)	(4)	(480)
At 31 December 2011	(4,405)	(2,092)	(4)	(6,501)
Net book value				
At 31 December 2011	3,696	637	47	4,380
At 31 December 2010	4,066	743	-	4,809

During the year the Company entered into a new 7 year outsourcing contract with T-Systems Limited, for Information Communication and Telecommunications services. Transformation costs of £51 million were capitalised as intangibles, representing a ‘right to use’. These costs are being amortised on a straight life basis over the life of the contract.

5. Tangible fixed assets

	Land & buildings	Fixtures & fittings	Computer & software development costs	Network assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2011	250	153	1,599	8,027	10,029
Additions	12	5	20	362	399
Disposals	(3)	(17)	(8)	(277)	(305)
At 31 December 2011	259	141	1,611	8,112	10,123
Accumulated depreciation					
At 1 January 2011	(129)	(111)	(1,204)	(5,673)	(7,117)
Charge for the year	(18)	(9)	(98)	(555)	(680)
Disposals	3	17	8	277	305
At 31 December 2011	(144)	(103)	(1,294)	(5,951)	(7,492)
Net book value					
At 31 December 2011	115	38	317	2,161	2,631
At 31 December 2010	121	42	395	2,354	2,912

a) The net book value of land and buildings includes £39 million (2010: £41 million) of freehold land and buildings and £76 million (2010: £80 million) of short leaseholds.

b) As part of a shared network agreement, selected network assets are jointly controlled with Hutchison. At the commencement of this agreement, both parties contributed selected network assets of equal value. These jointly controlled assets are of a similar nature and will be consumed in a manner similar to those given up. Therefore the shared network assets now reflect 50% of the original shared network assets, and the fair value of 50% of the assets received. The fair value of the assets held by Hutchison could not be reliably determined; therefore Hutchison's cost of the shared assets is deemed to be based on the fair value of the Company's assets shared. Network assets acquired jointly with Hutchison following the joint venture agreement are treated as jointly controlled assets.

The Company's share of the jointly controlled assets is £796 million at 31 December 2011 (31 December 2010: £896 million) and is shown within network assets.

Additionally, the Company is recognising cost of £111 million (31 December 2010: £66 million) as its share of jointly controlled network assets in the course of construction.

c) The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International. Due to the fact that the Company still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the tangible assets of the Company. The net book amount of these assets as at 31 December 2010 was £21 million (2010: £25 million).

d) Included above are fully depreciated assets with an original cost of £4,579 million (2010: £3,963 million), which are still in use. The net book amount of own labour and overheads capitalised within the cost of network assets at 31 December 2011 is £163 million (2010: £183 million).

6. Investments

	Shares in subsidiaries and joint ventures £m
Cost	
At 1 January 2011	21
Additions	-
At 31 December 2011	21
Impairment	
At 1 January 2011	(11)
Charge for the year	-
At 31 December 2011	(11)
Net book value	
Net book value at 31 December 2011	10
Net book value at 31 December 2010	10

Subsidiary undertakings

The Company's directly held subsidiary undertakings throughout the year are as follows:

Name	**Country of incorporation**	**Principal activities**	**Percentage shareholding**
Subsidiaries			
Everything Everywhere Pension Trustee Limited	UK	Pension trustee	100%
Orange Jersey Limited	Jersey	Dormant	100%
Everything Everywhere Finance Plc	UK	Finance Company	100%
Joint venture			
Mobile Broadband Network Limited	UK	Network communications	50%

During the year, a new entity, Everything Everywhere Finance Plc ("EEF") was incorporated. EE has a 100% shareholding in EEF. The new entity is used as a financing entity for the Company and on 30th November it received a loan of £875 million from a number of financial institutions which it then subsequently loaned to EE.

Joint venture

The Company has a 50% share of the ordinary share capital of MBNL, which was created as part of the network sharing contract with Hutchison.

7. Stocks

	31 December 2011 £m	31 December 2010 £m
Equipment for sale to customers	130	144

8. Debtors amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Trade debtors	866	711
Amounts due from group undertakings	12	103
Amounts due from joint ventures	4	12
Other debtors	28	13
Prepayments and accrued income	358	475
	1,268	1,314

Amounts due from group undertakings are unsecured and have no fixed date of repayment. Amounts due from joint ventures relate to trading balances and are unsecured, interest free and have no fixed date of repayment.

9. Debtors amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Amounts due from joint ventures	90	60
Prepayments and accrued income	50	59
	140	119

Amounts due from joint ventures are unsecured with an interest rate of 1 month LIBOR with a margin based on a leverage cover ratio, and are to be repaid on the 5th anniversary of the agreement or by giving prior notice.

10. Creditors amounts falling due within one year

	31 December 2011 £m	31 December 2010 £m
Trade creditors	756	392
Amounts owed to group undertakings	4	177
Tax and social security	191	169
Other creditors	17	27
Amounts owing to France Telecom S.A. and Deutsche Telekom A.G.	374	1,250
Loan payable to subsidiary	875	-
Corporation tax	7	12
Accruals and deferred income	1,144	1,284
	3,368	3,311

In the financial statements for the period ended 31 December 2010, £137 million of provisions falling due within one year was included as accruals and deferred income. For the purposes of these financial statements, these have been reclassified to provisions (see note 12).

On 16 November 2011, a newly formed 100% owned subsidiary company Everything Everywhere Finance Plc ("EEF") entered into a bank financing facility of £875 million provided by a consortium of banks. The funds were drawn down on 30 November 2011 and comprise a term loan and a multicurrency revolving credit facility with maturities of 3 and 5 years respectively. The

Company has guaranteed this loan. EEF then loaned these funds to the Company. The Company has classified this loan as short term as there is no agreement in place between the Company and EEF. However the funds are expected to be repaid in line with the borrowings external to the Group. The funds, along with other funds were then used to pay back £876 million of the £1,250 million Eurobond loan issued to EE by FT and DT which matured on 30 November 2011.

The remainder of the Eurobond loan £374 million remained in place with FT and DT with a revised redemption date of 16 November 2012. In addition, the Company has signed an amendment to its treasury borrowing facility with FT and DT, increasing the facility to £450 million. Under this facility each of FT and DT have agreed to fund the Company with up to £225 million each. The treasury borrowing facility will continue for the period up to and including 14 November 2012 and thereafter the term will be tacitly renewed each time for successive periods of 12 months.

During the year, a non-recurring operating gain of £35 million arose from the settlement of certain historical operational accruals.

On 4 October 2011 the Company and Arqiva, its network provider, settled the litigation between them and have mutually agreed the Company's network evolution plans.

11. Creditors amounts falling due after more than one year

	31 December 2011 £m	31 December 2010 £m
Other creditors	18	27
	18	27

The maturity profile of creditors falling due in more than one year is analysed as follows:

	31 December 2011 £m	31 December 2010 £m
In more than one year but not more than two years	2	27
In more than two years but not more than five years	7	-
In more than five years	9	-
	18	27

12. Provisions for liabilities

	Restructuring Provision	Onerous Leases	ARO / WEEE / dilaps	Network share and other network	Total
At 31 December 2010	89	102	274	155	620
Increase in year	32	-	-	69	101
Decrease in year	-	(4)	(44)	-	(48)
Transfer in from accruals	-	-	-	13	13
Impact of change in discount rate	-	(5)	1	14	10
Utilisation	(94)	(3)	(32)	(30)	(159)
Discount unwind	-	3	10	5	18
At 31 December 2011	27	93	209	226	555

Analysis of provisions by maturity:

At 31 December 2011

	Restructuring Provision	Onerous Leases	ARO / WEEE / dilaps	Network share and other network	Total
Short term	27	25	17	123	192
Long term	-	68	192	103	363
	27	93	209	226	555
At 31 December 2010					
Short term	89	12	28	8	137
Long term	-	90	246	147	483
	89	102	274	155	620

In the financial statements for the period ended 31 December 2010, £137 million of provisions falling due within one year was presented within creditors due in less than one year. For the purposes of these financial statements, these have been reclassified to provisions.

Restructuring provision

This relates to the costs of employee redundancy or one off costs following restructuring within the Company. These costs are expected to be incurred within 12 months of recognition of the provision. Provisions for restructuring costs are recognised only when restructuring has been announced and the Company has started to implement a detailed formal plan.

Onerous lease provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations under the lease contracts, being the difference between rentals paid and the sub lease rentals received relates to the period up to 2015 and has been provided for at its net present value.

Asset Retirement Obligation (ARO) and Waste Electrical and Electronic Equipment provision (WEEE)

European Directive 2002/96/EC as amended by Directive 2003/108/EC distinguishes the waste of electrical and electronic equipment between the users (private households or professional) and between the responsibilities of the market participants. The Company believes that its obligations principally involve equipment used for its own needs (network equipment, information systems equipment, etc.) In accordance with this Directive, the Company has adopted the following principles:

- obligations relating to collection, treatment and recovery of waste electrical and electronic equipment related to the professional use are accrued for. The related liability is booked against the recognition of a tangible asset and is valued using an estimated volume to be recycled and an average cost per ton, and discounted as it will be settled at a future date;

- obligations relating to waste of electrical and electronic equipment related to the private households have been considered as immaterial by the Company and have therefore not been accrued for.

The Company is also required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time. This estimate is revised annually and adjusted against the asset to which it relates, which is then subject to an impairment assessment.

Given the long term nature of this provision discount rates are based upon rates provided by the Company's actuaries and inflation is based assumptions based upon RPI. These costs are expected to be incurred over a period of up to 20 years.

Network share and other network

This represents the liabilities arising from restructuring obligations relating to historic network share agreements, prior to the combination of the T-Mobile and Orange businesses.

The major assumptions used for estimating the restructuring provision for the network share arrangements with Hutchison are:

- Leases for 90% of the sites identified for decommissioning will be terminated and remaining 10% of the sites will be sublet;

- Cost of decommissioning sites based on experience and adjusted for expected economies of scale; and

- Restructuring will be completed in 2012; however, costs in relation to vacant site rentals will now continue to be incurred until 2024.

The provision also includes an amount to cover ongoing disputes with other network operators.

13. Called up share capital

	31 December 2011 £m	31 December 2010 £m
Allotted and fully paid		
11,025,153 ordinary 'A' shares of £1 each	11	11
11,025,153 ordinary 'B' shares of £1 each	11	11
	22	22

On 24 March 2010 the Company's articles of association were amended, and in line with the Companies Act 2006 the authorised share capital was removed as it is no longer required.

On 24 March 2010 the 5,923,500 £1 ordinary shares were converted to 5,923,500 £1 ordinary 'A' shares. On the same date a special resolution was passed to convert the 5,101,652 £1 redeemable shares into 5,101,652 £1 ordinary 'A' shares. Finally on the same date 1 £1 ordinary 'A' share was issued to T-Mobile Holdings Limited for £1,637,449,839.55 which has been fully paid.

On 1 April 2010 the Company issued 11,025,153 new £1 ordinary 'B' shares to Orange Telecommunications Group Limited in return for the investment in Orange Jersey Limited.

14. Reserves

	Capital contribution £m	**Share premium Account £m**	**Profit and loss account £m**
At 1 January 2010	**196**	**5,143**	**(2,323)**
Profit for the financial year	-	-	2,609
Actuarial loss on pension schemes net of taxes	-	-	76
Policy alignment net of taxes	-	-	(377)
Dividends declared and paid	-	-	
Share premium reduction	-	(5,143)	5,143
Share premium on issue of shares	-	1,638	
Dividends declared and paid	-	-	(646)
At 31 December 2010	**196**	**1,638**	**4,482**
Loss for the financial year	-	-	(180)
Actuarial loss on pension schemes net of taxes	-	-	(15)
Dividends declared and paid	-	-	(866)
At 31 December 2011	**196**	**1,638**	**3,421**

On 23 March 2010 a special resolution was passed to reduce the share premium account at that time. On 24 March 2010 a share premium of £1,637,449,838.55 was recognised along with the issue of the £1 ordinary 'A' share as detailed above.

15. Capital and financial commitments

Annual commitments under non cancellable operating leases are as follows:

	Land & building		Other	
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	31 December 2010 £m
Expiring within 1 year	11	12	1	2
Expiring between 2 to 5 years	52	43	19	50
Expiring in over 5 years	170	111	5	41
	233	166	25	93

The net obligation under finance leases is analysed as follows:

	31 December 2011 £m	31 December 2011 £m
Not later than one year	1	1
After one year but not more than five years	2	-
After five years	-	-
Present value of minimum lease payments	3	1

Capital commitments

The Group has £161 million of capital commitments at 31 December 2011 (31 December 2010: £159 million). The Group has £222 million of handset commitments (31 December 2010: £125 million).

Other

The Company has no guarantees or contingent liabilities at 31 December 2011 (2010; £nil).

The Company's share of MBNL's annual financial commitments under operating leases is £nil (2010: £nil). In addition the company's share of MBNL's capital commitments is £7 million (2010: £13 million).

16. Pension commitments

Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Company, amounted to £12 million during the year (2010: £17 million). Included in other creditors is £3 million (31 December 2010: £3 million) in respect of contributions payable to the scheme.

Defined benefit pension scheme

The following summarises the movement in the Everything Everywhere Pension Trustee Limited pension scheme ("the DB pension scheme") – a defined benefit scheme – for the twelve months ended 31 December 2011. The DB pension scheme was established on 1 March 2000 with benefits are based on final remuneration and length of service. Assets are held in separately administered trusts. A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out as at 31 December 2009 and updated to 31 December 2011 by actuaries AON Hewitt Associates Limited.

The main financial assumptions used in the actuarial valuation of the pension scheme were as follows:

	31 December 2011 %	31 December 2010 %
Inflation assumptions – RPI	3.1	3.4
Inflation assumptions – CPI	2.1	2.6
Expected return on plan assets	5.8	6.6
Rate of increase in salaries	4.1	4.4
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.0	3.2
Rate of increase for pensions in payment – accrued post 6 April 2006	2.1	2.2
Discount rate	4.9	5.4

The mortality assumptions used were as follows:

	31 December 2011 Years	31 December 2010 Years
Longevity at age 65 for current pensioners:		
- Men	22.3	22.1
- Women	23.1	23.0
Longevity at age 65 for future pensioners:		
- Men	24.1	24.0
- Women	25.0	24.9

The Company employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied, and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the benchmark asset allocation for the DB pension scheme at 31 December 2011 rounded to the nearest 0.1% per annum.

The Company's share of the assets in the scheme and the expected rates of return were:

	31 December 2011		31 December 2010	
	Long-term rate of return expected %p.a	Value £m	Long-term rate of return expected %p.a	Value £m
UK equity and unit trusts	7.2	119	8.1	103
Property	7.2	50	8.1	47
Hedge funds	8.9	21	8.0	21
Index linked gilts	2.8	79	4.1	34
Bonds	4.9	75	5.2	83
Cash / net current assets	n/a	12	n/a	34
Fair value of the scheme assets		356		322
Present value of scheme obligations		(408)		(365)
Deficit in the scheme		(52)		(43)
Related deferred tax asset (see note 3)		13		12
		(39)		(31)

Reconciliation of present value of scheme obligations:

	31 December 2011 £m	31 December 2010 £m
At 1 January	365	404
Current service cost	16	18
Interest cost	20	24
Benefits paid	(5)	(7)
Actuarial loss / (gain)	16	(73)
Curtailments	(4)	(1)
At 31 December	408	365

Reconciliation of fair value of scheme assets:

	31 December 2011 £m	31 December 2010 £m
At 1 January	322	274
Expected return on pension scheme assets	22	20
Actuarial (loss) / gain	(5)	11
Benefits paid	(5)	(7)
Contributions	22	24
At 31 December	356	322

The scheme assets do not include any of the Company's own financial instruments, or any property occupied by the Company. The expected long term rate of return on assets is determined by considering the current level of expected returns on equities, property, corporate bonds and cash and the expectations for future returns of these asset classes.

The following amounts were recognised in the Company's performance statements:

	31 December 2011 £m	31 December 2010 £m
Operating loss		
Current service cost	16	18
Gain on curtailment	(4)	(1)
Pension costs	12	17
Other income / (expense)		
Expected return on pension scheme assets	22	20
Interest on pension scheme liabilities	(20)	(24)
Net return	2	(4)

The actual return on plan assets was a £17 million gain (2010: £31 million gain).

Movement in the deficit in the year:

	31 December 2011	31 December 2010
Opening deficit in the scheme at 1 January	(43)	(130)
Current year service cost	(16)	(18)
Contributions	22	24
Other finance income / (loss)	2	(4)
Curtailments	4	1
Actuarial (loss) / gain	(21)	84
Closing deficit in scheme at 31 December	(52)	(43)

Analysis of the amounts that are recognised in the statement of total gains and losses:

	31 December 2011 £m	31 December 2010 £m
Actual return less expected return on pension scheme assets	(5)	11
Experience gains and losses arising on the scheme liabilities	(1)	50
Changes in assumptions underlying the present value of the scheme liabilities	(15)	23
Actuarial gain recognised in the statement of gains and losses	(21)	84
Less: deferred tax impact	6	(8)
Total amount recognised in statement of gains and losses	(15)	76

The cumulative amount of actuarial gains recognised in shareholder funds is a £9 million gain (2010: £30 million gain).

Under the current schedule of contributions the Company is expected to contribute £25 million to the schemes in the twelve months to 31 December 2012.

The effect of a 0.1% movement in the discount rate used of 4.9% would be as follows:

Discount rate	4.8% £m	5.0% £m
Deficit in scheme at end of year	(64)	(41)

The effect of a 0.1% movement in the inflation rate (RPI) assumption of 3.1% would be as follows:

Inflation rate	3.0% £m	3.2% £m
Deficit in scheme at end of year	(47)	(58)

The effect of a 0.1% movement in the inflation rate (CPI) assumption of 2.1% would be as follows:

Inflation rate	2.1% £m	2.2% £m
Deficit in scheme at end of year	(47)	(58)

History of gains and losses in the scheme

	2011	2010	2009	2008	2007
Defined benefit obligations (£m)	(408)	(365)	(404)	(327)	(320)
Plan assets (£m)	356	322	274	312	227
Deficit (£m)	(52)	(43)	(130)	(15)	(93)
Difference between the expected and actual return on scheme assets:					
Amount (£m)	(5)	11	(82)	47	(7)
Percentage of scheme assets	(1.4)%	3.4%	(29.9)%	14.9%	(2.9)%
Experience gains and losses on scheme liabilities:					
Amount (£m)	(1)	50	7	3	(1)
Percentage of the present value of the scheme liabilities	(0.2)%	13.7%	1.8%	1.0%	(0.4)%
Total amount recognised in shareholders' funds:					
Amount (£m)	(21)	84	(121)	84	34
Percentage of the present value of the scheme liabilities	(5.1)%	23.0%	(30.0)%	25.8%	10.6%

Assets values are at bid prices except for the year ended 2007.

17. Derivative financial instruments

Derivatives are held on the balance sheet at cost. The fair value of these derivatives is as follows:

	31 December 2011 £m	31 December 2010 £m
Forward foreign currency contracts	(18)	2
Total contracts	(18)	2

To hedge the exposure of some of its operating cash flows in foreign currencies, the Company has set up risk hedging policies.

Currency	*Hedged nominal amount (£m)*	*Maturity date of hedged item*	*Hedging instrument*	*Hedged risk*
EUR	505	2012	Forward FX contracts	Purchases in Euros
USD	43	2012	Forward FX contracts	Purchases in Dollars

18. Related Party Transactions

Under FRS8; 'Related Party Disclosures', the Company is exempt from the requirement to disclose transactions with entities that are wholly owned within the Everything Everywhere Limited Group.

Related party transactions with joint ventures

MBNL charges the Company fees in relation to the management and use of the shared network. Charges from MBNL during the year totalled £18 million (2010: £10 million).The Company recharged MBNL for certain costs including staff and commitment fees. Charges to MBNL during the period totalled £nil (2010: £nil).

At 31 December 2011 MBNL was holding £10 million (2010: £2 million) of restricted cash on behalf of the Company. The net amount owed to the Company at the end of the year was £4 million (2010: £9 million). Formal loan funding was provided by the Company to MBNL. As at 31 December 2011 the outstanding balance receivable in respect of this loan amounted to £90 million (2010: £60 million), there was additional accrued interest of £nil (2010: £nil). The loan was provided on an arms length basis and attracts interest at a rate of LIBOR plus1.75%. Interest paid in the year totalled £2 million (2010: £nil).

Related party transactions with companies within the France Telecom SA Company

FT charges the Company for a series of services including IT&N support and licences, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the Orange brand. Total charges for the year amounted to £141 million (2010: £149 million), and the balance outstanding at 31 December 2011 was £30 million (31 December 2010: £66 million).

FT provided a loan to the Company through its subsidiary, Atlas Services Belgium. The outstanding balance at 31 December 2011 was £187 million (31 December 2010: £625 million), during the year £438 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £12 million (2010: £14 million) and the outstanding interest balance payable was £nil (31 December 2010 – £nil). A guarantee fee was payable to FT of 0.25% of the loan per annum.

Working capital funds deposited with FT totalled £117 million at 31 December 2011 (31 December 2010: £246 million). Interest is received at overnight LIBOR minus 0.15% and totalled £nil for the year (2010: £1 million).

FT undertook a series of foreign exchange trades on behalf of the Company. These were conducted as arm's length transactions.

Related party transactions with companies within the Deutsche Telekom AG Group

DT charges the Company for a series of services including ICT outsource fees, IT&N support, network services, management fees, and international roaming charges. In addition a royalty fee is charged for the use of the T-Mobile brand. Total charges for the year amounted to £215 million (2010: £195 million), and the balance outstanding at 31 December 2011 was £97 million (2010: £112 million). Included within the outstanding balance of £97 million was £60 million relating to transition and transformation costs due to T-Systems Limited.

DT provided a loan to the Company. The outstanding balance at 31 December 2011 was £187 million (31 December 2010: £625 million), during the year £438 million was repaid. The loan was provided on an arm's length basis. Interest paid in the year totalled £12 million (2011: £14 million) and the outstanding interest balance payable was £nil (31 December 2010 – £nil). A guarantee fee was payable to FT of 0.25% of the loan per annum.

Working capital funds deposited with DT totalled £117million at 31 December 2011 (31 December 2010: £246 million). Interest is received at overnight LIBOR minus 0.15% and totalled £nil for the year (2010: £1 million).

DT undertook a series of foreign exchange trades on behalf of the Company. These were conducted as arm's length transactions.

Defined benefit pension scheme

Transactions with the defined benefit scheme Everything Everywhere Pension Trustee Limited are disclosed in note 16.

Key management personnel

The Directors, deemed to be key management, received the following remuneration in respect of services rendered to the Company:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Remuneration	2,258	2,235
Pension costs	46	47
Amounts accrued under long term incentive schemes	253	-
	2,557	2,282

During the year payments of £1,967,000 (31 December 2010: £603,000) were made in respect of compensation for loss of office.

The emoluments in relation to the highest paid Director are as follows:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Total emoluments	936	884
Pension costs	-	-
	936	884

Gervais Pellissier and Benoit Scheen represent France Telecom S.A. on the board and do not receive any emoluments for their services as Directors. Timotheus Höttges, Claudia Nemat and Guido Kerkhoff represent(ed) Deutsche Telekom A.G. on the board and also do not receive any emoluments for their services as Directors. Olaf Swantee represented France Telecom S.A. as a non-executive director until 1 September 2011 when he became an executive and started receiving emoluments for his services.

No retirement benefits in the form of defined benefit schemes are accruing for Directors at 31 December 2011 (31 December 2010: one). Retirement benefits in the form of defined contributions schemes are accruing for one director at 31 December 2011 (31 December 2010: one)

Other

There were no material transactions with any other related parties.

19. Post Balance Sheet Events

On 11 January 2012, EEF set up a £3,000 million Euro Medium Term Note programme to enable it to issue debt securities in the form of corporate bonds to the capital markets. This programme is guaranteed by the Company.

On 6 February 2012, EEF raised €500 million under the programme with a 5 year bond issuance with a fixed rate 3.5% coupon and a maturity date of 6 February 2017. This transaction was EEF's inaugural issue of a corporate bond under the Company's Euro Medium Term Note programme. On 6 February 2012 the bonds were listed for trading on the London Stock Exchange (Main Market).

On 29 February 2012, the £374 million Eurobond loan with the Shareholders was repaid completing the Eurobond agreement.

20. Ultimate Parent Shareholders

At 31 December 2011 the Company's immediate shareholders each with a 50% shareholding were:

T-Mobile Holdings Limited (“TMH”). The registered office for TMH is Hatfield Business Park, Hatfield, Hertfordshire AL10 9BW, and its ultimate shareholder is Deutsche Telekom A.G., a company incorporated in Germany. A copy of Deutsche Telekom A.G.'s published consolidated financial statements can be obtained from The Press and Corporate Communication Department, Postfach 20 00, D 53 105 Bonn, Germany.

Orange Telecommunications Group Limited (“OTGL”). The registered office for OTGL is St. James Court, Great Park Road, Almondsbury Park, Bradley Stoke, Bristol BS32 4QJ, and its ultimate shareholder is France Telecom S.A, a company incorporated in France. Copies of France Telecom S.A.’s consolidated financial statements can be obtained from the General Counsel at 6 Place d'Alleray, 75505 Paris, Cedex 15, France.

3. AUDITED FINANCIAL STATEMENTS OF EVERYTHING EVERYWHERE FINANCE PLC FOR THE PERIOD 11 NOVEMBER 2011 TO 31 DECEMBER 2012

In this set of accounts the terms "Company" and "EEF plc" refer to the Issuer.

Directors and advisers

Directors

Olaf Swantee
Neal Milsom

Secretary

James Blendis
Charles Mowat

Registered office

Hatfield Business Park
Hatfield
Hertfordshire
AL10 9BW

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Directors' report

The Directors present their first annual report and the financial statements of the Company for the period from incorporation on 11 November 2011 to 31 December 2012.

Principal activities and review of the business

Everything Everywhere Finance plc ("EEF plc", "the Company") was incorporated on 11 November 2011 as a directly held, 100% owned subsidiary of Everything Everywhere Limited ("EE Limited"). The Company's function is to raise finance for the consolidated Group of Everything Everywhere Limited ("EE Group") via a number of financing arrangements. All cash proceeds received under these arrangements are passed onto EE Limited.

During the period, the Company has raised over £2.0 billion from the issuance of bonds under its Euro Medium Term Note ("EMTN") programme, from the receipt of a Term Loan and Revolving Credit Facility provided by a consortium of banks and a loan from the European Investment Bank. Full details are set out in note 13.

A business review describing the issues affecting the EE Group, of which the Company is a part, is set out in the consolidated financial statements of EE Limited.

Key performance indicators ("KPIs")

The Directors do not believe that KPIs for EEF plc are necessary or appropriate for an understanding of the development, performance or position of the Company.

Future developments

The Company will continue to raise finance on behalf of EE Group as appropriate.

Results for the financial period, dividends and transfers to reserves

All interest incurred by the Company has been recharged to EE Limited and therefore the Company has made nil profit or loss for the period. All other costs are borne by EE Limited.

No dividend has been proposed by the Directors.

Principal risks and uncertainties

Liquidity risk

The principal risk the Directors have identified is liquidity risk.

Long-term funding for the EE Group is provided by Euro and Sterling denominated bonds issued by EEF 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.

EE Limited has guaranteed the loans and bonds issued by EEF plc and therefore bears responsibility for their repayment. The Directors of EEF plc have assessed the ability of EE Limited to repay the financing and have not identified any issues.

The main sources of liquidity are: cash generated from the EE Group's operations and raising further capital funds. The business risks and uncertainties relating to the EE Group's activities are described in EE Limited's consolidated financial statements.

The continued volatility of worldwide financial markets may make it more difficult for EEF plc to raise capital externally on behalf of the EE Group in the future, if the need arises.

Foreign exchange risk

The Company is not susceptible to foreign exchange risk. Full details are set out in note 15.

Going concern review

The Company's ability to continue as a going concern is dependent upon that of EE Limited. The Directors of EE Limited have stated in that company's financial statements, that they have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of EE Limited to continue as a going concern.

Directors

The Directors who held office during the period, and up to the date of approval of the financial statements, are listed on page 282.

Employees

The Company does not have any employees. All services are provided by employees of EE Limited.

Supplier payment policy

The Company does not have any suppliers.

Political and charitable donations

The Company has not made any political or charitable donations during the period.

Corporate Governance Statement

The Directors are responsible for internal controls in EEF plc and for reviewing the effectiveness of these controls. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. The procedures enable EEF plc to comply with its regulatory obligations. In addition, the EE Limited Finance Committee meets regularly with EE Limited's senior finance, risk, internal audit, legal and compliance management teams and the external auditor to consider its subsidiary EEF plc's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control, compliance and risk management.

Subsequent material events

Subsequent to the period end, EEF plc has drawn down the available revolving credit facility of £437.5 million. This has been paid to EE Limited and is a receivable from EE Limited.

Disclosure of information to the auditor

In the case of each person who was a Director at the date this report was 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 Company'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 Company's auditor is aware of that information.

Appointment of the auditor

Ernst & Young LLP were appointed as auditor during the period ended 31 December 2012. In accordance with S487(2) of the Companies Act 2006 the Company allows the deemed reappointment of Ernst & Young LLP as auditor.

By order of the board

……………………………..

Neal Milsom
Director

11 March 2013

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the 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 financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the 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 Company's financial position and financial performance;
- state that the Company 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 Company's financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Everything Everywhere Finance plc

We have audited the financial statements of Everything Everywhere Finance plc for the period from incorporation on 11 November 2011 to 31 December 2012 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 286, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its result for the period 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 period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 March 2013

Income statement
For the period from 11 November 2011 to 31 December 2012

	Note	11 November 2011 to 31 December 2012 £000
Revenue	6	53,117
Finance expense	7	(53,117)
Operating profit		**-**
Profit before tax		**-**
Income tax		-
Profit for the period		**-**

There was no other comprehensive income in the period.

Statement of financial position
As at 31 December 2012

	Note	31 December 2012 £000
Current assets		
Amounts receivable from parent	11	2,160,970
Cash and cash equivalents	12	50
Total current assets		**2,161,020**
Total assets		**2,161,020**
Current liabilities		
Accrued interest		(39,091)
Total current liabilities		**(39,091)**
Non current liabilities		
Financial liabilities held at amortised cost	13	(2,121,879)
Total non current liabilities		**(2,121,879)**
Total liabilities		**(2,160,970)**
Total net assets		**50**
Capital and reserves		
Share capital	14	50
Total equity		**50**

These financial statements were approved by the board of Directors on 8 March 2013 and were signed on its behalf by

Neal Milsom

Director

Statement of changes in equity
For the period from 11 November 2011 to 31 December 2012

	Share capital	Retained earnings	Total
	£000	£000	£000
At 11 November 2011	**-**	**-**	**-**
Incorporation of company	50	-	50
Total comprehensive income for the period	-	-	-
At 31 December 2012	**50**	**-**	**50**

Statement of cash flows
For the period from 11 November 2011 to 31 December 2012

	11 November 2011 to 31 December 2012 £000
Operating activities	
Profit for the period	-
Interest received	10,736
Interest paid	(10,736)
Net cash used in operating activities	**-**
Investing activities	
Loans advanced to parent company	(2,561,710)
Receipts from parent company	458,080
Net cash used in investing activities	**(2,103,630)**
Financing activities	
Share capital introduced	50
Proceeds from new borrowings	
Non-current borrowings	2,561,710
Transaction costs paid	(20,580)
Redemptions and repayments	
Non-current borrowings	(437,500)
Net cash provided by financing activities	**2,103,680**
Net change in cash and cash equivalents	**50**
Cash and cash equivalents at 11 November 2011	-
Cash and cash equivalents at the end of the period	**50**

Notes to the financial statements

1. General information

The Company was incorporated on 11 November 2011 and the first reporting date for preparing financial statements is 31 December 2012. As such, there have been no previous statutory accounts prepared within the meaning of the Companies Act 2006 and these accounts cover the period from 11 November 2011 to 31 December 2012.

The financial statements of the Company for the period ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 8 March 2013. The statement of financial position was signed on behalf of the board by Neal Milsom. EEF plc is a public limited company incorporated and domiciled in the United Kingdom. The registered office is located at Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW.

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as adopted by the European Union.

The financial statements are prepared in British Pounds and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Going concern

EEF plc's ability to continue as a going concern is dependent upon EE Limited.

The business activities of EE Limited and its group, the factors likely to affect its future development and position, and the principal risks and uncertainties it faces, are set out in the Business review in EE Limited's consolidated financial statements. The Directors of EE Limited have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of EE Limited to continue as a going concern. EE Limited has guaranteed the debt held by EEF plc.

EE Group is expected to continue to generate positive operating cash flows for the foreseeable future.

On the basis of the assessment of EE Group's financial position, the Directors of EEF plc have a reasonable expectation that EEF plc 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 EEF plc annual financial statements.

2.2 Significant estimates and judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these estimates and assumptions could result in outcomes which require material adjustment in future periods, to the carrying values of assets and liabilities.

Recoverability of amounts due from the parent company

The principal issue requiring the judgement of the Directors is the recoverability of the amounts due from the parent company. The Directors have considered the recoverability of the amounts due from the parent company and consider these to be fully recoverable.

2.3 Summary of significant accounting policies

(A) Revenue

The Company receives interest income from its financial assets. Interest is calculated at the effective interest rate.

(B) 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 includes the amounts receivable from EE Limited. These receivables are recognised at fair value upon origination and are subsequently measured at amortised cost by the effective interest method.

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 liabilities at amortised cost

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. The interest incurred is recognised in the income statement during the period.

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.

(C) Foreign currency translation

Transactions in foreign currencies are converted into the functional currency at the exchange rate prevailing at the transaction date.

Monetary assets and liabilities are remeasured at the date of each statement of financial position at the prevailing functional currency exchange rate and the resulting translation differences are recorded in the income statement.

(D) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

(E) Taxation

Current tax is measured at the amounts expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date.

Current and deferred tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax is recognised in respect of all temporary differences that have originated but not been reversed by the statement of financial position 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 statement of financial position date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements.

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 temporary differences can be deducted.

3. New and revised IFRSs applied

The following revised IFRSs have been adopted in these 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 Company has no assets with these characteristics and there has been no effect on the presentation of its financial statements.

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 January 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.

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 Company’s financial position or performance. The effective date is 1 January 2013.

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.

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 Company will normally adopt new standards at the effective date.

5. Operating segments

The Company’s sole purpose is to raise finance for EE Limited. As such, there are not considered to be separable identifiable operating segments for which financial information can be presented.

6. Revenue

Total revenue for the period is interest receivable from the parent.

7. Finance expenses

Finance expenses represent interest payable on the Company’s financial liabilities.

8. Auditor’s remuneration

Audit fees of £40,000 in respect of EEF plc are borne on its behalf by EE Limited.

9. Employee information

The Company does not have any employees. All services are provided by employees of the ultimate parent undertaking.

10. Directors' remuneration

The directors are also directors of EE Limited and their remuneration is paid by that company and disclosed in its financial statements. The directors do not believe that it is practicable to apportion their remuneration between remuneration for services as directors of EE Limited and remuneration for services as directors of other EE Group companies.

11. Amounts receivable from the parent company

	31 December 2012 £'000
Loans to parent company at amortised cost	2,121,879
Accrued interest	39,091
	2,160,970

All proceeds from financing have been paid on to EE Limited, and EEF plc recognises a receivable for the amounts due from EE Limited. This is repayable on demand and mirrors the external borrowing in currency and amount. Please see notes 13 and 15 for details on the external borrowing.

The Directors consider that the carrying amount of the loans to the parent company approximates to its fair value. No allowances have been recorded against amounts receivable from the parent company because they have been assessed to be fully recoverable.

12. Cash and cash equivalents

Cash and cash equivalents comprises cash at the bank.

13. Financial liabilities and net financial debt

	Interest rate %	Maturity	31 December 2012 £'000
Non-current			
European medium term note programme			
Euro medium term notes – five year bond	3.5	6 February 2017	408,079
Euro medium term note – seven year bond	4.375	28 March 2019	444,456
Euro medium term note – six year bond	3.25	3 August 2018	486,242
Total EMTN			1,338,777
Revolving credit facility	LIBOR plus 1.05%	November 2016	-
Syndicated loan facilities	LIBOR plus 1.3%	November 2014	433,365
European Investment Bank loan	2.21%	December 2017	349,737
Total other			783,102
Total non-current financial liabilities			2,121,879

Revolving credit facility ("RCF")

The RCF was drawn down in November 2011 and repaid during 2012.

Syndicated loan facility

The syndicated loan facility is provided by a consortium of banks and was drawn down in November 2011.

Euro Medium Term Note Programme

On 11 January 2012, EEF plc established a £3,000 million Euro Medium Term Note ("EMTN") programme guaranteed by EE Limited, 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 Company has capitalised £20 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.

European Investment Bank (EIB) Loan

On 5 December 2012, the Company signed a £350 million loan agreement with the European Investment Bank (EIB) to fund investment by the EE Group 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 Company is defined within the Company's bank covenant agreements. It corresponds to financial liabilities excluding unamortised transaction costs (translated at the period-end closing rate), less:

i. cash collateral paid on derivative instruments;

ii. cash and cash equivalents and financial assets at fair value:

	31 December 2012 £'000
Euro 500m 3.5% notes due 2017	408,784
Euro 600m 3.25% notes due 2018	490,540
£450m 4.375% notes due 2019	450,000
Syndicated bank loans (nominal amount)	437,500
European Investment Bank Loan	350,000
Financial liabilities	2,136,824
Cash	(50)
Net financial debt	2,136,774

14. Share capital

Allotted, called up and fully paid	31 December 2012 £'000
50,000 ordinary shares of £1 each	50

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment.

15. Financial risk management objectives and policies

The Company and its transactions are set up in such a way that all significant risks have been transferred to EE Limited.

Credit risk

Credit risk is the risk of loss from counterparty default on credit exposures. The Company has £2,137 million of financial liabilities outstanding at 31 December 2012. It is solely reliant on EE Limited to be able to repay these liabilities. EE Limited has guaranteed the loans and bonds issued by EEF plc and therefore bears responsibility for this repayment. The Directors of EEF plc have assessed the ability of EE Limited to repay the financing and have not identified any issues which would cause them to doubt EE Limited's ability to satisfy its obligations to EEF plc.

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. All interest payments are recharged to EE Limited so EEF plc is not susceptible to changes in interest rates. EE Limited's management of the EE Group's interest rate risk is described in its consolidated financial statements.

Financial liabilities and assets

The interest rate profiles of financial liabilities were as follows:

	31 December 2012		
	Fixed	Floating	Total
Financial liabilities	£'000	£'000	£'000
Sterling	800,000	437,500	1,237,500
Euro	899,324	-	899,324
	1,699,324	437,500	2,136,824

The weighted average interest rate on fixed rate borrowings at 31 December 2012 was 3.396% with the weighted average time for which rates are fixed being 5.23 years. Floating rate borrowings are based upon LIBOR.

	31 December 2012			
	Fixed	Floating	Non-interest bearing	Total
Financial assets	£'000	£'000	£'000	£'000
Sterling	800,000	437,500	50	1,237,550
Euro	899,324	-	-	899,324
	1,699,324	437,500	50	2,136,874

Foreign exchange rate 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 Company has issued bonds in Euro and it is therefore susceptible to foreign exchange rate movements. However, the receivable from EE Limited is also measured in Euro and this minimises the Company's exposure to foreign exchange rate risk. Therefore, no foreign exchange gain or loss has been recognised in the income statement.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due owing to insufficient financial resources. It has an obligation to repay the interest and principal on the loans and bonds it has issued. As stated above, the Company is solely reliant on EE Limited for its liquidity. EE Limited's liquidity risks are described in its financial statements.

The table below summarises the Company'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 period end.

At 31 December 2012	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000
Interest bearing loans and borrowings					
EMTN	-	34,545	99,875	508,659	974,268
Other	-	4,546	461,723	365,470	-
	-	39,091	561,598	874,129	974,268

The Company has a receivable from EE Limited that is short term and that can be used to match these repayments as they fall due.

16. Related party transactions

During the period, EEF plc has had a number of transactions with its parent company EE Limited:

	31 December 2012 £000
Income and expense	
Recharge of interest to EE Limited	53,117
Cash transactions	
Payments to EE Limited	2,561,710
Receipts from EE Limited	468,816
At period end	
Amounts receivable from EE Limited	2,160,970

17. Subsequent material events

Subsequent to the period end, EEF plc has drawn down the available RCF of £437.5 million. This has been paid to EE Limited and is a receivable from EE Limited.

18. Ultimate Parent Shareholders

The Company is a 100% subsidiary of Everything Everywhere Limited, a company incorporated in England & Wales. The consolidated accounts of EE Limited is the only group within which the results of EEF plc are consolidated. The registered office of EE Limited is Hatfield Business Park, Hatfield, Hertfordshire, AL10 9BW. Copies of the EE Limited's consolidated financial statements can be obtained from the Company Secretary at the Company's registered office, or on its website www.ee.co.uk.

At 31 December 2012 the Company's ultimate shareholders each with a 50% shareholding in EE Limited 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.

Taxation

United Kingdom Taxation

The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) describe only the United Kingdom withholding tax treatment of payments in respect of the Notes and (certain information reporting requirements). They are not intended to be exhaustive. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The Notes issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Notes may be paid without withholding or deduction for or on account of United Kingdom income tax where the Notes have a maturity date less than one year from the date of issue provided the Notes are not issued under arrangements the intention or effect of which is to render such Notes part of a borrowing with a total term of a year or more.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where at the time the payment is made, the Issuer reasonably believes that the beneficial owner of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In other cases, absent any other relief or exemption (such as a direction by HM Revenue & Customs that interest may be paid without withholding or deduction for or on account of United Kingdom income tax to a specified Noteholder following an application by that Noteholder under an applicable double tax treaty), an amount must generally be withheld on account of United Kingdom income tax at the basic rate (currently 20 per cent.) from payments of interest on the Notes.

Where Notes are issued on terms that a premium is or may be payable on redemption, as opposed to being issued at a discount, then it is possible that any such element of premium may constitute a payment of interest and be subject to withholding on account of United Kingdom income tax as outlined in the preceding paragraphs.

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount element on any such Notes will not be made subject to any withholding or deduction for or on account of United Kingdom income tax.

If the Guarantor makes any payments under the Guarantee in respect of the Notes or the Coupons (other than the repayment of amounts subscribed for the Notes), such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.), subject to any applicable exemptions or reliefs. Such payments by the Guarantor may not be eligible for the exemptions from United Kingdom withholding tax described above.

As set out in Condition 8 of the Terms and Conditions of the Notes, if the Issuer or the Guarantor is at any time required by law to deduct or withhold an amount in respect of any United Kingdom withholding taxes in respect of payments under the Notes

and the Coupons or the Guarantee (as applicable), the Issuer or the Guarantor (as the case may be) must, subject to certain exemptions, pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such deductions or withholding been required.

Noteholders may wish to note that certain information (including the name and address of the recipient or the beneficial owner of the payments under the Notes) may be obtained by, or be required to be reported to, certain tax authorities, including the tax authorities of (i) the Noteholder, (ii) the beneficial owner of payments under the Notes and/or (iii) any person who either pays or credits such payments to, or receives such payments for the benefit of, the Noteholder or the beneficial owner of such payments. Any information so reported or obtained may, in certain circumstances, be exchanged by such tax authority with the tax authorities of other jurisdictions. Certain jurisdictions operate a withholding system in place of, or in addition to, such reporting requirements.

EU Savings Directive

Under the Directive, EU member states are required to provide to the tax authorities of another EU member state details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other member state, or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, although the Directive also provides that no withholding tax should be levied where the beneficial owner of the payment authorises an exchange of information and/or presents a certificate from the tax authority of the member state in which the beneficial owner is resident. The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Subscription and Sale

The Dealers have in the Dealer Agreement agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, as amended and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the regulations promulgated thereunder.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of such Tranche, as determined and certified to the Issuer by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act. In addition, until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purpose of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or as agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21 (1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

General

No representation is made by the Issuer, the Guarantor, the Trustee or the Dealers that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will comply, to the best of its knowledge, with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Persons into whose hands this Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s), or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "General" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer, the Guarantor and the Dealers following a change in applicable laws and regulations. Any such supplement or modification may be set out in a supplement to this Prospectus.

General Information

Authorisation

The establishment and update of the Programme was duly authorised by resolutions of the Board of Directors of the Issuer dated 9 January 2012 and 28 March 2013 and resolutions of the Board of Directors of the Guarantor dated 9 January 2012 and 28 March 2013. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment and update of the Programme and the Guarantee relating to the Programme.

Listing of Notes

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. The listing of the Programme in respect of Notes is expected to be granted on or about 3 April 2013.

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Global Certificate, as the case may be, initially representing the Notes of such Tranche.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Issuing and Paying Agent for the time being in London:

(i) the Articles of Association of the Issuer; and

(ii) the Dealer Agreement, the Agency Agreement, the Trust Deed which incorporates the forms of the Global Notes, the Notes in definitive form, the Certificates, the Coupons and the Talons.

In addition, copies of (a) the financial statements of the Issuer and the Guarantor as set out in the section headed "*Financial Information*", (b) this Prospectus, (c) any future prospectuses, information memoranda and supplements (and any documents incorporated by reference therein) and (d) each Final Terms relating to Notes will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Clearing Systems

The Bearer Notes and Registered Notes represented by a Global Certificate have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. The entities in charge of keeping the records in relation to each Tranche of Notes shall be Euroclear and/or Clearstream, Luxembourg, as applicable. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

Issue Price

The issue price and amount of the Notes of any Tranche will be determined at the time of the offering of such Tranche in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Guarantor or the Group since 31 December 2012 and there has been no material adverse change in the prospects of the Guarantor or the Group since 31 December 2012. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer since 31 December 2012.

Legal Proceedings

Neither the Issuer nor the Guarantor is involved nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Group.

Auditors

The Auditors of the Issuer and Guarantor are Ernst & Young LLP, of 1 More London Place, London SE1 2AF, who have audited the financial statements set out in the section entitled "*Financial Information*" above, without qualification, in accordance with applicable law and International Standards on Auditing (UK and Ireland). The Auditors of the Issuer and the Guarantor have no material interest in the Issuer or the Guarantor. No other information referred to in this Prospectus has been audited by Ernst & Young LLP. Ernst & Young LLP is authorised and regulated by the Financial Services Authority.

All of the financial statements set out in the section entitled "*Financial Information*" above constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

Certificates and Reports

Any certificate or report of the auditors or any other expert or other person called for by or provided to the Trustee in accordance with or for the purposes of the Notes may be relied upon by the Trustee as sufficient evidence of the facts stated therein whether or not such certificate or report is addressed to the Trustee and whether or not such certificate or report and/or any engagement letter or other document entered in to by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors (or such other expert or other person) in respect thereof.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates, including parent companies, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, and its affiliates in the ordinary course of business.

Definitions

"**Adjusted EBITDA**" means EBITDA excluding management fees, brand fees and restructuring costs,

"**Agency Agreement**" is defined in the "*Terms and Conditions of the Notes*",

"**Alternative Clearing System**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Arranger**" is defined on the second page of this Prospectus,

"**Auditors**" means Ernst & Young LLP,

"**Bearer Notes**" is defined in the "*Terms and Conditions of the Notes*",

"**BT**" is defined in the "*Risk Factors*",

"**C Rules**" means the U.S. Treas. Reg. §1.163-5(c)(2)(i)(C),

"**Calculation Agent**" is defined in the "*Terms and Conditions of the Notes*",

"**Certificates**" is defined in the "*Terms and Conditions of the Notes*",

"**CGN**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January,

"**Common Depositary**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Common Safekeeper**" means, in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes,

"**Communications Market Report**" is defined in the "*Description of the Issuer and the Group*",

"**Conditions**" is defined in the "*Terms and Conditions of the Notes*",

"**Couponholders**" are defined in the "*Terms and Conditions of the Notes*",

"**Coupons**" are defined in the "*Terms and Conditions of the Notes*",

"**CRA Regulation**" is defined on the front page of this Prospectus,

"**Dealer**" is defined on the front page of this Prospectus,

"**Dealer Agreement**" means the dealer agreement between the Dealers and the Issuer dated 11 January 2012, as amended and restated on 28 March 2013,

"**Definitive Note**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Directive**" is defined in the "*Risk Factors*",

"**DT**" is defined in the "*Description of the Issuer and the Group*",

"**EBITDA**" means adjusted earnings before interest, tax, depreciation and amortisation,

"**EC**" means the European Commission,

"**EE**" is defined in the "*Risk Factors*",

"**EEA**" means the European Economic Area,

"**Enders**" means Enders Analysis Limited the subscription research service covering the media, entertainment, mobile and fixed telecommunications industries in Europe, with a special focus on new technologies and media;

"**EURIBOR**" means the Euro Interbank Offered Rate,

"**euro**" and "**€**" is defined on the fifth page of this Prospectus,

"**Exchange Date**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**Extraordinary Resolution**" means a resolution passed at a meeting duly convened and held in accordance with the Trust

Deed by a majority of at least 75 per cent of the votes cast,

"**Final Terms**" is defined on the front page of this Prospectus,

"**Financial Instruments and Exchange Act**" is defined in the "*Subscription and Sale*",

"**FSMA**" means the Financial Services and Markets Act 2000,

"**FT**" is defined in the "*Description of the Issuer and the Group*",

"**Global Certificates**" means a Certificate representing Registered Notes of one or more Tranches of the same Series,

"**Global Note**" means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require,

"**Group**" is defined on the third page of this Prospectus,

"**Guarantee**" is defined in the "*Terms and Conditions of the Notes*",

"**Guarantor**" is defined on the front page of this Prospectus,

"**holder**" is defined in the "*Terms and Conditions of the Notes*",

"**Hutchison**" is defined in the "*Risk Factors*",

"**ICT**" is defined in the "*Description of the Issuer and the Group*",

"**Investor's Currency**" is defined in the "*Risk Factors*",

"**Issue Date**" is defined in the "*Terms and Conditions of the Note*",

"**Issuer**" is defined on the front page of this Prospectus,

"**Issuing and Paying Agent**" is defined in the "*Terms and Conditions of the Notes*",

"**IT&N**" is defined in the "*Description of the Issuer and the Group*",

"**LIBOR**" means the London Interbank Offered Rate,

"**listed**" is defined on the front page of this Prospectus,

"**London Stock Exchange**" is defined on the front page of this Prospectus,

"**Market**" is defined on the front page of this Prospectus,

"**Material Subsidiary**" is defined in the "*Terms and Conditions of the Notes*",

"**MBNL**" is defined in the "*Description of the Issuer and the Group*",

"**m-commerce**" is defined in the "*Description of the Issuer and the Group*",

"**Moody's**" is defined on the front page of this Prospectus,

"**MTR**" is defined in the "*Description of the Issuer and the Group*",

"**MVNOs**" is defined in the "*Risk Factors*",

"**NFC**" is a short-range wireless technology that enables the communication between devices over a distance of less than 10 cm,

"**NGN**" is defined in the "*Summary of Provisions Relating to the Notes While in Global Form*",

"**NIA**" is defined in the "*Description of the Issuer and the Group*",

"**Noteholder**" is defined in the "*Terms and Conditions of the Notes*",

"**Notes**" is defined on the front page of this Prospectus,

"**NSS**" is defined in the "*Summary of the Provisions Relating to the Notes While in Global Form*",

"**Ofcom**" is defined in the "*Risk Factors*",

"**offer of Notes to the public**" is defined in the "*Subscription and Sale*",

"**Official List**" is defined on the front page of this Prospectus,

"**OPCS**" is defined in the "*Description of the Issuer and the Group*",

"**OTGL**" is defined in the "*Description of the Issuer and the Group*"

"**O2**" means Telefonica UK Limited*,*

"**PAYG**" is defined in the "*Risk Factors*",

"**Paying Agents**" is defined in the "*Terms and Conditions of the Notes*",

"**PAYM**" is defined in the "*Risk Factors*",

"**PCI-DSS**" is defined in the "*Risk Factors*",

"**Programme**" is defined on the front page of this Prospectus,

"**Prospectus Directive**" is defined on the third page of this Prospectus,

"**Register**" is defined in the "*Terms and Conditions of the Notes*",

"**Registered Notes**" is defined in the "*Terms and Conditions of the Notes*",

"**Registrar**" is defined in the "*Terms and Conditions of the Notes*",

"**Regulation S**" is defined on the front page of this Prospectus,

"**relevant Dealer**" is defined on the front page of this Prospectus,

"**Relevant Implementation Date**" is defined in the "*Subscription and Sale*",

"**Relevant Member State**" is defined on the third page of this Prospectus,

"**Securities Act**" is defined on the second page of this Prospectus,

"**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms of issue and are expressed to have the same series number,

"**SMS**" is defined in the "*Risk Factors*",

"**Specified Currency**" is defined in the "*Terms and Conditions of the Notes*",

"**Stabilising Managers**" is defined on the fifth page of this Prospectus,

"**Standard & Poor's**" is defined on the front page of this Prospectus,

"**Sterling**", "**pence**" and "**£**" is defined on the fifth page of this Prospectus,

"**Talons**" is defined in the "*Terms and Conditions of the Notes*",

"**TEFRA**" means the Tax Equity and Fiscal Responsibility Act 1982,

"**TMUK**" is defined on the front page of this Prospectus,

"**Tranche**" is defined in the "*Terms and Conditions of the Notes*",

"**Transfer Agent**" is defined in the "*Terms and Conditions of the Notes*",

"**Trust Deed**" is defined in the "*Terms and Conditions of the Notes*",

"**Trustee**" is defined on the front page of this Prospectus,

"**UK Listing Authority**" is defined on the front page of this Prospectus,

"**U.S. dollars**" and "**U.S.$**" is defined on the fifth page of this Prospectus,

"**Virgin Mobile**" is defined in the "*Risk Factors*",

"**Vodafone**" means Vodafone UK Limited,

"**VoIP**" is defined in the "*Risk Factors*", and

"**2010 PD Amending Directive**" is defined in the "*Subscription and Sale*".

ISSUER

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Hertfordshire
AL10 9BW

GUARANTOR

Everything Everywhere Limited
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Hatfield
Hertfordshire
AL10 9BW

ARRANGER

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5 The North Colonnade
London E14 4BB

DEALERS

Barclays Bank PLC
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London E14 5HQ

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP

Lloyds TSB Bank plc
Lloyds Bank Corporate Markets
10 Gresham Street
London EC2V 7AE

Mitsubishi UFJ Securities International plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA

The Royal Bank of Scotland plc
135 Bishopsgate
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